



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR

New Jersey Council of Economic Advisors

Council Meeting
Princeton University
June 14, 2010

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Former Chairman, National Venture Capital Association (NVCA)
Former Executive Associate Director, OMB and
Deputy Assistant to the President, The White House

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Former CFO, U.S. Dept of Housing and Urban Development
Former Director, New Jersey OMB

Dr. Carl Van Horn

Director, Heldrich Ctr. for Workforce Development, Rutgers Univ.
Former Chairman, NJ Economic Development Authority
Former Senior Economist, Joint Economic Committee, U.S. Congress

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Chairman, NJ Economic Development Authority
Executive Director, The Newark Alliance
Former President and COO, Public Service Enterprise Group (PSEG)

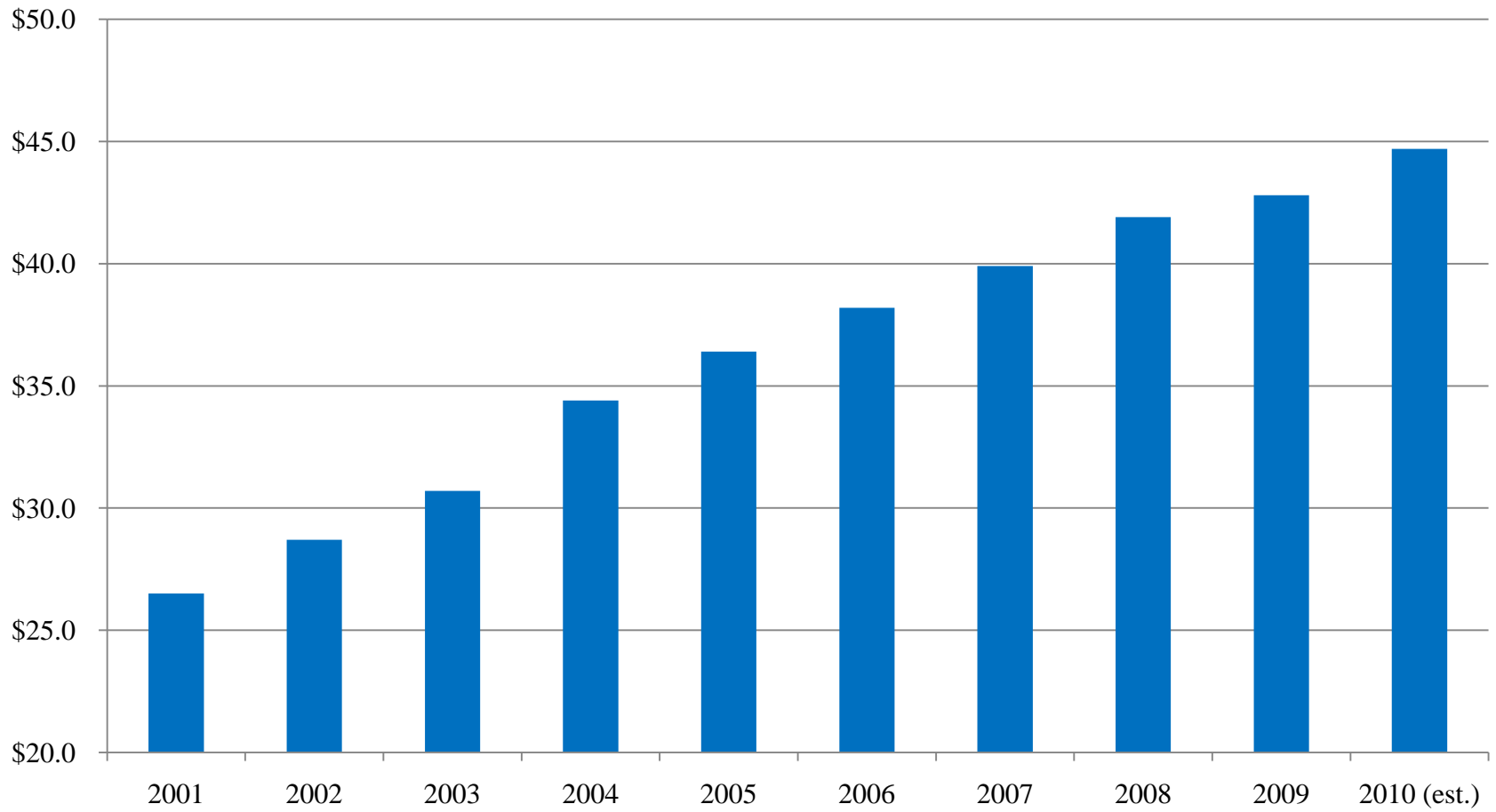
Arthur F. Ryan

Former Chairman and CEO, Prudential Insurance Company
Former President & Chief Operating Officer, Chase Manhattan



STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR

Municipal Spending Growth



Source: NJ Department of Community Affairs; Property Tax and Statewide Spending Summary

Today's Agenda

- **AGENDA:**
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- 1:30 pm **Welcome** *Robert E. Grady, Chairman, Council of Economic Advisors*
-
- 1:35 pm **Introduction & Overview** *The Honorable Lori Grifa*
Commissioner
New Jersey Department of Community Affairs
-
- 1:45 pm **Trends and Pressures
In Local Government
Spending** *Marc Pfeiffer*
Acting Director, Division of Local Government Services
Ernest Reock, Professor Emeritus, Rutgers University
Moderator: *Robert Peden, Deputy Director, New Jersey OMB*
John Megariotis, Deputy Director, NJ Division of Pensions
Richard F. Keevey, Jr, CEA
-
- 2:30 pm **Remarks and Comment** *The Honorable Christopher J. Christie*
Introduction: Governor
Dr. Carl Van Horn, CEA State of New Jersey
-
- 3:00pm **Options for Reform** *William Dressel, Executive Director,*
Moderator: *Brian Kronick, Labor Counsel, & Greg Fehrenbach,*
Andrew Eristoff Management Advisor, NJ League of Municipalities
Treasurer of New Jersey *Henry Coleman, Professor, Rutgers University*
-
- 3:45pm **The Property Tax Cap** *Gregg Edwards, Director, Governor's Office of Policy*
Moderator: *Josh Barro, The Manhattan Institute*
Andrew Eristoff
Treasurer of New Jersey
-
- 4:30pm **Adjournment**

Marc Pfeiffer

Acting Director, Division of Local Government
Services

New Jersey Department of Community Affairs

Statewide, we have...and spend...

- 566 municipalities - \$12 billion
- 21 counties - \$5.8 billion
- 180 fire districts - \$259 million
- 300 local authorities - \$700 million
- 590 +/- School districts - \$24.7 billion

Total: \$43.5 billion

Basis of Property Taxes

- We tax 2.9 million parcels
- Assessed vs. market value
 - Assessed = \$959.2 billion taxable;
 - Plus \$124 billion not taxable (churches, schools. Public, cemeteries and graveyards)
 - Market = \$1.370 trillion
 - Residential = 76.8%
 - Commercial, industrial, apartment, vacant - 23.2%

Municipal Revenue Structure

- Property tax – 55%
- State aid = 14.9%
- Local revenues - 10%
- Grants - 10%
- Surplus – 7.5%
- Misc. - 4.1%

Where the Municipal Portion Goes: 2009

- Total budgets: \$11.96 billion in 2009; \$5.425 billion in 1994 – doubled over 15 years
 - Salaries = \$4.85 billion = 40%
 - Pensions = \$717 million (6%)
 - Debt service = \$1.05 billion – (8.7%)
 - Bad debts (reserve for uncollected taxes = \$581 m – (4.8%)
 - Capital Improvements = \$120 m – (1%)
- Outstanding Debt = \$28 billion in 2008
- Services = \$4.7 b - 40%

Robert Peden

Deputy Director, Office of Management and
Budget

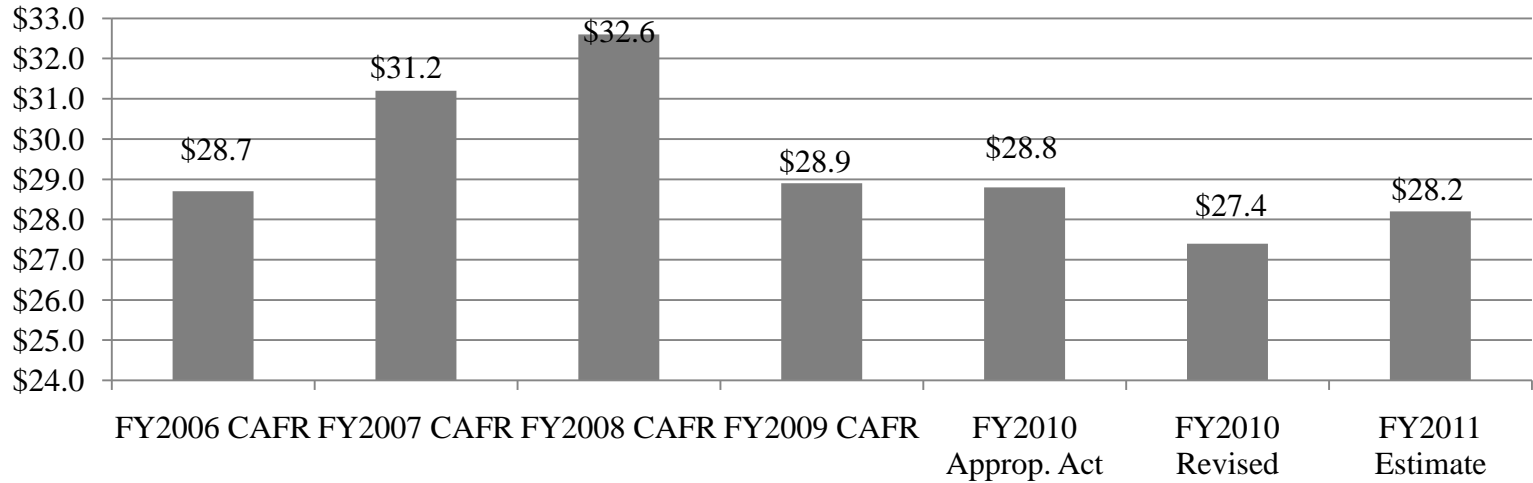
New Jersey Department of the Treasury

History of State Spending Expended Amount

<u>Fiscal Year</u>	(In Millions) <u>Spending</u>	<u>Annual Change</u>
1995	15,365.4	
1996	16,230.5	5.6%
1997	16,304.5	0.5%
1998	17,189.4	5.4%
1999	18,499.0	7.6%
2000	19,920.7	7.7%
2001	21,279.4	6.8%
2002	22,495.6	5.7%
2003	24,065.9	7.0%
2004	25,002.7	3.9%
2005	28,561.9	14.2%
2006	28,775.1	0.7%
2007	30,817.1	7.1%
2008	33,611.9	9.1%
2009	30,825.4	(8.3%)
2010 Adjusted	29,862.1	(3.1%)
2011 Recomm	28,267.3	(5.3%)
Cumulative % Change 1995-2011		84%
Average % Change		5.2%

NJ State Revenue History: FY 2011 Projected Revenue Below FY 2006 Actual Revenue

(In Billions)



CAFR – Comprehensive Annual Financial Report

History of State Spending By Category Expended Amount

(In Millions)

Fiscal Year	Direct State Services	% Change	Grants-in-Aid	% Change	State Aid	% Change	Capital	% Change	Debt	% Change	Total	% Change
1994	\$ 4,613.1		\$ 3,507.7		\$ 6,354.5		\$ 368.5		\$ 119.9		\$ 14,963.7	
1995	5,124.9	11%	3,759.0	7%	6,088.2	-4%	289.8	-21%	103.5	-14%	15,365.4	3%
1996	5,371.0	5%	3,793.1	1%	6,337.5	4%	275.5	-5%	453.4	338%	16,230.5	6%
1997	4,117.6	-23%	5,035.6	33%	6,331.1	0%	373.3	36%	446.9	-1%	16,304.5	0%
1998	4,521.4	10%	4,836.2	-4%	6,856.0	8%	497.0	33%	478.9	7%	17,189.4	5%
1999	4,244.4	-6%	5,573.6	15%	7,505.8	9%	679.6	37%	495.5	3%	18,499.0	8%
2000	4,611.1	9%	6,211.5	11%	7,866.4	5%	737.4	8%	494.2	0%	19,920.7	8%
2001	4,965.2	8%	6,209.9	0%	8,408.2	7%	1,171.0	59%	525.0	6%	21,279.4	7%
2002	4,914.9	-1%	7,282.6	17%	8,834.8	5%	1,012.2	-14%	451.2	-14%	22,495.6	6%
2003	5,369.8	9%	8,002.3	10%	9,188.0	4%	1,075.4	6%	430.4	-5%	24,065.9	7%
2004	5,596.6	4%	7,820.3	-2%	10,030.8	9%	1,117.0	4%	438.1	2%	25,002.7	4%
2005	6,073.5	9%	10,296.5	32%	10,825.4	8%	1,106.1	-1%	260.3	-41%	28,561.9	14%
2006	6,171.2	2%	10,019.6	-3%	11,312.7	5%	1,102.1	0%	169.3	-35%	28,775.1	1%
2007	6,614.4	7%	10,213.5	2%	12,320.3	9%	1,241.1	13%	427.8	153%	30,817.1	7%
2008	6,903.2	4%	12,095.6	18%	12,921.4	5%	1,263.2	2%	428.7	0%	33,611.9	9%
2009	6,274.9	-9%	10,910.6	-10%	12,141.7	-6%	1,227.4	-3%	270.7	-37%	30,825.4	-8%
2010 Adjusted	6,215.0	-1%	10,146.0	-7%	12,145.9	0%	1,091.7	-11%	263.6	-3%	29,862.1	-3%
2011 Recomm	6,308.3	2%	8,640.8	-15%	11,972.3	-1%	1,121.2	3%	224.7	-15%	28,267.3	-5%
Average % Change											5.2%	
Average % Change Last 3 years											-5.3%	
Average % Change Last 5 years											-0.4%	

Fiscal Year 2006-2011 Appropriations Act Municipal Aid, Other Local Aid, and School Aid

Municipal Aid	2006	2007	2008	2009	2010	2011 Budget	% Change 2010-2011	% Change 1995-2011
(In Millions)								
Broad-Based Municipal Aid								
Consolidated Municipal Property Tax Relief Aid ^(a)	835	835	835	809	777	505	-35%	-37%
Energy Tax Receipts / Public Utility Taxes ^(b)	789	789	789	789	789	789	0%	1%
Open Space - Payments in Lieu of Taxes (PILOT)	9	10	10	10	10	7	-35%	
Legislative Initiative Municipal Block Grant / Municipal Efficiency Promotion Aid	35	35	35	-	-	-		-100%
2008 Municipal Property Tax Assistance	-	-	33	-	-	-		
Municipal Homeland Security Assistance Aid	32	32	32	-	-	-		
Business Personal Property Tax Depreciation	-	-	-	-	-	-		
Subtotal Broad-Based Municipal Aid	1,700	1,700	1,733	1,607	1,575	1,300	-17%	-20%
Special Aid and Grants to Municipalities^(c)								
Special Municipal Aid	29	175	153	145	117	-	-100%	
Urban Enterprise Zones - Sales Tax Dedication ^(b)	84	84	85	87	88	-	-100%	-100%
Trenton Capital City Aid	17	17	38	36	35	-	-100%	
Extraordinary Aid / SMPTR Discretionary Aid	43	43	34	25	25	-	-100%	-100%
Highlands / Pinelands / Watershed Aid	12	12	12	12	12	4	-63%	
REDI / SHARE / Consolidation Fund	4	4	19	3	8	-	-100%	
Regional Efficiency Aid Program (REAP)	11	11	8	6	6	-	-100%	
Transitional Aid to Localities	-	-	-	-	-	159		
Taxpayer Hero Grants	-	-	-	-	-	-		
Aid to Densely Populated Municipalities	-	-	-	-	-	-		-100%
Subtotal Special Aid / Grants to Municipalities	200	345	349	314	291	163	-44%	93%
Subtotal Overall Municipal Aid	1,900	2,046	2,082	1,921	1,866	1,464	-22%	-14%
Other Local Aid^(d)								
TTF - Local Project Aid ^(b)	150	175	175	202	250	200	-20%	100%
County College Aid	224	218	233	222	227	207	-9%	68%
Aid to County Psychiatric Hospitals	105	108	122	124	115	145	26%	82%
Employee Benefits for Local Governments	73	93	94	97	46	47	2%	641%
General Assistance Administration	26	26	26	30	30	30	0%	
County Solid Waste Debt	57	40	35	30	27	11	-59%	
Library Aid	19	19	19	18	16	8	-54%	-43%
Housing and Neighborhood Assistance	17	17	17	14	14	-	-100%	-100%
SJPC Property Tax Reserve Fund (PILOT)	3	3	3	3	9	-	-100%	
County Prosecutors	8	8	8	8	8	-	-100%	
County Environmental Health Act	4	4	4	3	3	3	0%	170%
Enhanced 911 Grants	15	15	15	12	-	-		
Subtotal Other Local Aid	699	724	750	762	744	650	-13%	91%
Subtotal Municipal and Other Local Aid	2,598	2,770	2,832	2,683	2,611	2,113	-19%	3%
School Aid								
Direct School Aid	7,454	7,643	8,011	8,513	7,751	7,981	3%	110%
Pension Payments	181	789	796	806	218	168	-23%	206%
Health Benefits & Social Security	1,341	1,413	1,468	1,480	1,540	1,615	5%	277%
School Building Aid	380	482	625	663	565	547	-3%	545%
Subtotal School Aid	9,356	10,327	10,901	11,461	10,073	10,311	2%	136%
GRAND TOTAL AID TO LOCAL GOVERNMENTS	11,954	13,097	13,733	14,144	12,684	12,424	-2%	94%

(a) CMPTRA was created in Fiscal 1996 from combining various municipal aid programs. The Fiscal 1995 CMPTRA amount reflects the total of all those programs in that year.

(b) Funding for these programs are off-budget or revenue losses. Energy Tax Receipts includes supplemental amounts provided from Fiscal 1995 to Fiscal 1997.

(c) Special Aid and Grants to Municipalities does not include legislative "Christmas Tree" items and certain other discretionary municipal block grant programs.

(d) Other Local Aid includes programs that provide aid to municipalities, counties, and other local units of government.

Fiscal Year 2006-2011 Appropriations Act Direct Property Tax Relief

(In Millions)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 Budget</u>	<u>% Change 2010-2011</u>	<u>% Change 1995-2011</u>
Direct Property Tax Relief								
Homestead Rebates ^(a)	692	1,057	2,251	1,708	1,119	268	-76%	-16%
NJ SAVER Rebates	-	-	-	-	-	-		
Property Tax Deduction Act ^(b)	415	438	490	536	291	365	26%	
Senior/Disabled Property Tax Freeze	98	119	153	169	173	166	-4%	
Veterans' Tax Deductions	86	76	75	72	70	65	-6%	239%
Senior/Disabled Tax Deductions	23	23	22	21	20	18	-9%	-18%
Total Direct Property Tax Relief	1,314	1,713	2,991	2,505	1,671	882	-47%	145%

(a) For this chart, Homeowner and Tenant Homestead Rebates are combined because they were a single appropriation before Fiscal 2005. The Fiscal 2011 Budget recommends eliminating Homestead Rebates for Tenants.

(b) Funding for this program is counted as a revenue loss.

John Megariotis

Deputy Director, Division of Pensions

New Jersey Department of the Treasury

Local Employer Pension Contributions

1. Cost Components (Normal Cost, Unfunded Liability)
2. Cost is a % of Payroll
3. Historical Costs Impacted by Legislation
4. Historical View
 - Funded Ratios
 - Aggregate Contributions

Local Employer Actuarial Assets, Liabilities and Funded Ratios
Based on Actuarial Valuations as of June 30, 2000 through June 30, 2009
(in Billions)

	Fiscal Year									
PERS (1)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actuarial Value of Assets	14.38	16.62	16.50	16.40	16.41	16.48	16.70	17.69	18.22	18.16
Actuarial Accrued Liability	12.00	13.81	14.93	15.88	17.07	18.34	20.27	21.76	23.17	25.52
(Surplus)/Unfunded Liability	(2.38)	(2.81)	(1.57)	(0.52)	0.66	1.86	3.57	4.07	4.95	7.36
Funded ratio	119.8%	120.3%	110.5%	103.3%	96.1%	89.9%	82.4%	81.3%	78.6%	71.2%

	Fiscal Year									
PFRS (2)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actuarial Value of Assets	15.64	16.08	16.39	16.44	16.77	17.37	18.28	19.50	20.44	20.72
Actuarial Accrued Liability	14.92	16.05	17.18	18.26	19.77	21.39	22.91	24.56	26.87	28.45
(Surplus)/Unfunded Liability	(0.7)	(0.0)	0.8	1.8	3.0	4.0	4.6	5.1	6.4	7.7
Funded ratio	104.8%	100.2%	95.4%	90.0%	84.8%	81.2%	79.8%	79.4%	76.1%	72.8%

	Fiscal Year									
Total	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actuarial Value of Assets	30.02	32.70	32.89	32.84	33.18	33.85	34.98	37.19	38.66	38.88
Actuarial Accrued Liability	26.92	29.86	32.11	34.14	36.84	39.73	43.18	46.32	50.04	53.97
(Surplus)/Unfunded Liability	(3.10)	(2.84)	(0.78)	1.30	3.66	5.88	8.20	9.13	11.38	15.09
Funded ratio	111.5%	109.5%	102.4%	96.2%	90.1%	85.2%	81.0%	80.3%	77.3%	72.0%

Notes:

(1) For PERS there is two year lag between the valuation year and contribution year (for example - 2001 valuation determines the 2003 contribution).

(2) For PFRS there is two year lag between the valuation year and contribution year (for example - 2000 valuation determines the 2003 contribution).

State of New Jersey
Local Employer Pension Contribution Summary
FY 2003 - FY 2011
(in Millions)

PERS - Local (1)

Fiscal Year	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Phase-In Percentage		0%	20%	40%	60%	80%	100%	100%	100%
Normal	-	-	212.13	238.86	249.59	293.41	294.00	326.46	349.22
Unfunded Accrued Liability	-	-	-	65.70	129.61	226.14	268.17	318.54	464.94
Total Gross Contribution	-	-	212.13	304.56	379.20	519.55	562.17	645.00	814.16
Less: Phase-In or 50% Reduction	-	-	169.70	182.74	151.68	103.91	68.80		
Net Contribution	-	-	42.43	121.82	227.52	415.64	493.37	645.00	814.16
Year-to-Year % Increase				187.14%	86.76%	82.68%	18.70%	30.73%	26.23%
Contribution as a % of Payroll	-	-	0.73%	1.98%	3.55%	6.18%	8.05%	8.95%	10.41%

PFRS - Local (2)

Fiscal Year	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Phase-In Percentage		20%	40%	60%	80%	100%	100%	100%	100%
Normal	-	266.78	289.31	296.36	353.09	402.88	424.04	454.94	512.91
Unfunded Accrued Liability	-	0.21	42.54	90.54	175.34	236.88	272.43	296.45	379.26
Total Gross Contribution	-	267.19	331.85	386.90	528.43	639.76	696.47	751.39	892.17
Less: Phase-In or 50% Reduction	-	213.42	173.59	118.54	70.62		168.90		
Net Contribution	-	53.77	158.26	268.36	457.81	639.76	527.57	751.39	892.17
Year-to-Year % Increase			194.36%	69.56%	70.60%	39.74%	-17.54%	42.42%	18.74%
Contribution as a % of Payroll	-	2.53%	5.93%	11.08%	16.97%	24.73%	25.39%	25.88%	29.35%

Fiscal Year	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total PERS Employer Contributions	-	-	42.43	121.82	227.52	415.64	493.37	645.00	814.16
Total PFRS Employer Contributions	-	53.77	158.26	268.36	457.81	639.76	527.57	751.39	892.17
Total Local Employer Contributions	-	53.77	200.69	390.18	685.33	1,055.40	1,020.94	1,396.39	1,706.33
Year-to-Year % Increase			273.27%	94.42%	75.65%	54.00%	-3.27%	36.77%	22.20%

NOTES:

(1) No PERS local employer contributions were made in FY2003 & FY 2004 due to the availability of excess assets. From FY 2005 - FY 2008, local employers made phased-in contributions under Chapter 108 PL 2003. In FY 2009 under Ch 19 PL 2009, certain local employers elected to contribute only 50% of the full required contribution. Employers who elected to defer 50% will begin repaying that liability in FY12 over a 15 year period.

(1) No PFRS local employer contributions were made in FY2003 due to the availability of excess assets. From FY 2004 - FY 2007, local employers made phased-in contributions under Chapter 108 PL 2003. In FY 2009 under Ch 19 PL 2009, certain local employers elected to contribute only 50% of the full required contribution. Employers who elected to defer 50% will begin repaying that liability in FY12 over a 15 year period.

Local Employer Health Benefit Costs

- Historical view of local employer costs in the State Health Benefits Program
- Not all local employers participate

Participating Local Employer
Aggregate Health Benefit Costs
FY 2003 - FY 2010
(\$ in Millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Health Benefits								
Active	\$322.5	\$383.5	\$403.9	\$423.2	\$440.9	\$421.4	\$400.5	\$473.3
Retired	\$88.4	\$109.8	\$129.4	\$140.0	\$138.4	\$122.9	\$117.5	\$119.6
Totals	\$410.9	\$493.3	\$533.3	\$563.2	\$579.3	\$544.3	\$518.0	\$592.9
Prescription Drug								
Active	\$31.9	\$42.2	\$44.2	\$49.0	\$47.6	\$46.7	\$55.3	\$81.1
Retired								\$25.2
Totals	\$31.9	\$42.2	\$44.2	\$49.0	\$47.6	\$46.7	\$55.3	\$106.3
Dental Active			\$0.2	\$0.6	\$0.8	\$1.0	\$1.3	\$1.5
Grand Total Medical Costs	\$442.8	\$535.5	\$577.7	\$612.8	\$627.7	\$592.0	\$574.6	\$700.7
Participating Local Employers (1)(2)								
	616	627	629	636	622	624	662	676
Headcounts: Active and Retired Contracts								
Active	48,310	49,228	48,129	47,429	44,797	41,631	44,594	46,741
Retired	18,624	18,914	19,312	19,284	18,857	17,143	18,496	19,635
Totals	66,934	68,142	67,441	66,713	63,654	58,774	63,090	66,376

Notes:

1. Not all local employers participate in the State Health Benefit plans
2. Participating local employer counts includes authorities as well as municipalities and counties
3. NJ DIRECT plans were introduced effective April 1, 2008
4. Effective January 1, 2010 prescription drugs for retirees and certain active employees were no longer be paid through the health plans

Do Property Tax Caps Work?

Lessons from Massachusetts for New Jersey

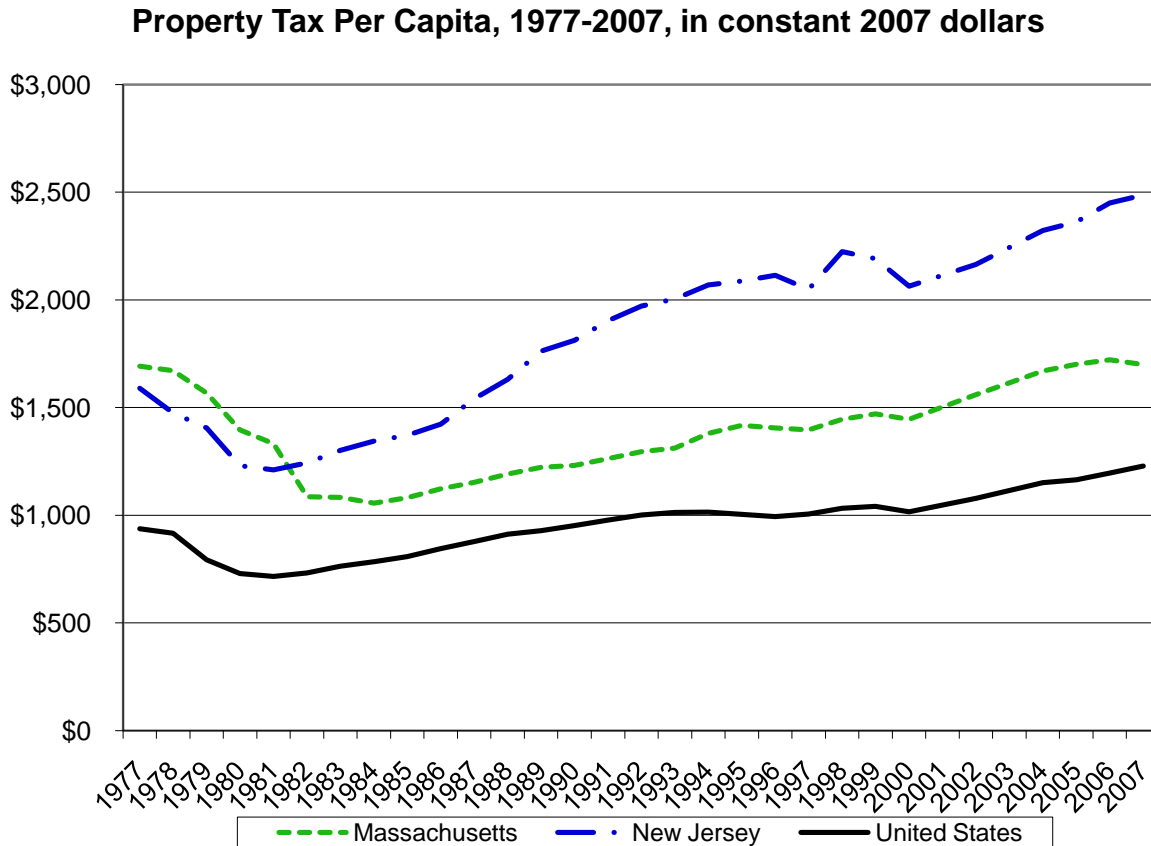
Josh Barro

Senior Fellow, Manhattan Institute

Cap 2.5 and Proposition 2.5

- Gov. Christie's proposed property tax reform
 - Property tax levy growth capped at 2.5% per year
 - Applies to overall levy on existing property
 - Voters may approve greater increases
- MA enacted similar Proposition 2.5 in 1980
 - Prop 2.5 controlled tax and spending growth
 - School outcomes lead the country

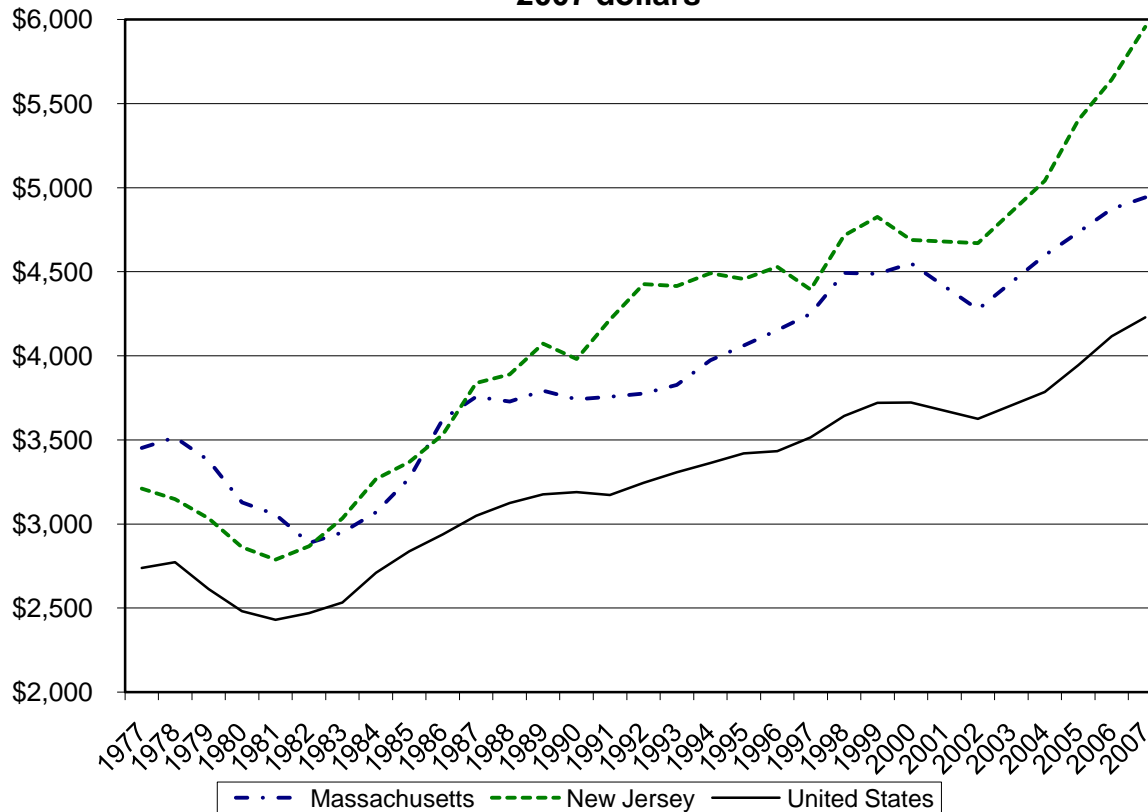
Prop 2.5 Controlled Property Taxes



- From 1980 to 2007:
 - MA up 22%
 - US up 68%
 - NJ up 102%

Prop 2.5 Controlled Overall Taxes

Total state and local taxes per capita, 1977-2007, constant 2007 dollars



- From 1980 to 2007:
 - MA up 58%
 - US up 70%
 - NJ up 108%

Prop 2.5 Controlled School Spending

- NJ went from spending 1% less than MA to spending 26% more

State	2007 Spending/Pupil	Growth Since 1980
Massachusetts	\$12,857	85%
New Jersey	\$16,163	139%
National average	\$9,669	95%

- MA spends less overall and in demographically similar districts.

What about the state aid explosion?

- MA experienced above-normal aid growth
 - But it's not close to offsetting property tax savings
- Real revenue growth per capita 1980-2007:

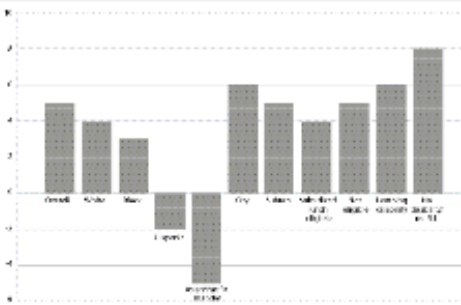
Revenue source	Massachusetts	New Jersey
Property tax	\$303 (22%)	\$1,257 (102%)
State aid to localities	\$722 (91%)	\$474 (57%)
Combined	\$1,025 (47%)	\$1,731 (84%)

Yet, MA has better educational outcomes

- MA is the clear national leader on the NAEP exams
- Outscores NJ on Grade 4 and 8 reading and math (though Grade 8 reading is within MoE)

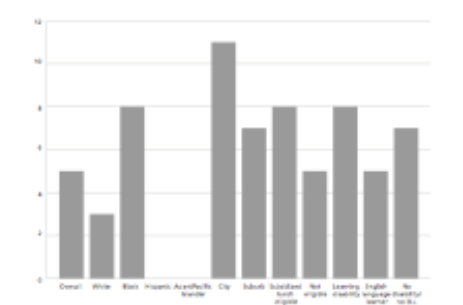
MA does better in most demographics

Chart 8. Grade 4 reading 2009, Massachusetts v. New Jersey score advantage by demographic



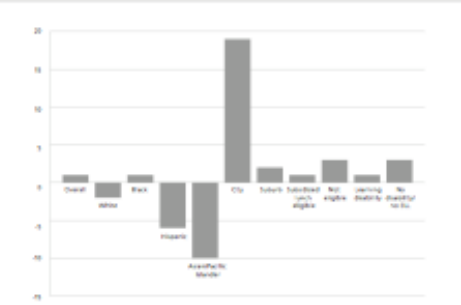
Source: U.S. Department of Education, National Assessment of Educational Progress

Chart 9. Grade 4 math 2009, Massachusetts v. New Jersey score advantage by demographic



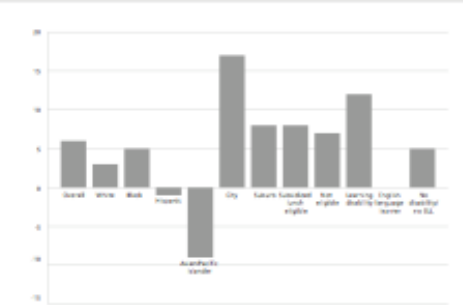
Source: U.S. Department of Education, National Assessment of Educational Progress

Chart 10. Grade 8 reading 2009, Massachusetts v. New Jersey score advantage by demographic



Source: U.S. Department of Education, National Assessment of Educational Progress

Chart 11. Grade 8 math 2009, Massachusetts v. New Jersey score advantage by demographic



Source: U.S. Department of Education, National Assessment of Educational Progress

- MA's score advantage persists within most groups
 - Black and white students
 - Low- and high-income
 - Urban and suburban
 - Disability/ELL status
- Key exceptions: Asians and Hispanics

Conclusions

- Proposition 2.5 has been highly effective in constraining property tax growth
- Fast-growing state aid did not offset this; MA saw reductions in overall taxes and spending
- MA schools are the country's top performers while spending \$3k less than NJ per pupil
- MA students outperform their NJ counterparts overall and within most demographics