<u>New Jersey Regional Coalition</u>

<u>Tax Reform Statement to the Joint Session of the Legislature</u>

My name is Rohn Hein, and I am speaking on behalf of the New Jersey Regional Coalition. The New Jersey Regional Coalition is a faith-based and grass roots coalition of organizations and policy advocates from throughout New Jersey devoted to the idea that everyone who lives here has a stake in the economic and social well being of our regions, our state and <u>all</u> the communities within it.

We are composed of three regional groups: the Jubilee Interfaith Organization in North Jersey (JIO), the Central Jersey Regional Equity Coalition (CJREC) and the South Jersey Regional Equity Organization Project (SJREOP). I am a member of the Unitarian Universalists Church in Cherry Hill and I am a resident of Pennsauken.

NJRC has dozens of member congregations and organizations with thousands of families in each region of the state. We coordinate our activity statewide and have a common issue agenda. The issues of fair housing, equitable school funding and property tax reform are issues that unify our membership throughout New Jersey.

Some of you may know first hand how we have mobilized thousands of people throughout each region to express their frustration with these problems and to propose specific solutions to the issues that divide our people, hurt our families, and destabilize our communities.

This summer, we've held public meetings with our legislators in the 4^{th}, 6^{th}, 7^{th} and 12^{th} legislative districts. These meetings ranged from 100 to over 200 people from each of those districts. In the coming weeks there will be meetings with residents in the 2^{nd} , 15^{th}, 27^{th}, 34^{th} and 40^{th} districts where legislators will see that there is broad support for real reform proposals aimed at creating fairness and stability.

Our organization's goal is to change social structures to promote equity, stability, and growth in our communities, within our regions and throughout our state.

We believe that the existence of distressed and impoverished communities within New Jersey affects all residents, through increased crime, rising taxes and reduced economic opportunities.

And the economic squeeze felt by middle class New Jersey residents – with soaring fuel prices, rising health care costs, mounting insurance rates, increased tuition and *crushing property taxes* - is threatening the very existence of middle and working class families in this state.

The problem of rising property taxes is not unique to New Jersey. While New Jersey's crisis is one of the nation's worst, the dilemma facing local government is receiving growing attention as a troubling national trend. It is the most unpopular and most regressive form of taxation there is. New Jersey has taken many bold first steps as a national leader in so many areas of public policy in this country. It can lead again by taking the necessary action needed to begin to fix our tax problem and by making our state and our regions more stable, unified and competitive.

One way for New Jersey to lead is through equitable and fundamental property tax reform.

Billions are being spent to support school districts in the most distressed and poverty-ridden towns, while most of the economically diverse suburban school districts are suffering from rising costs and mounting tax rates.

Our current tax structure is unfair. It allows a very small handful of towns to control huge tax revenues that are generated regionally through retail and business centers that disproportionately benefit only the towns and school districts they are built in.

Everyone agrees that the current system is broken and the people are demanding solutions. But real and lasting comprehensive reform will not occur if we only look at solutions that are quick fixes or sweet tonics that only respond to the symptoms. Consolidation and shared services; spending cuts or caps; rebates and grants may all be good ideas, but they will not address the structural reasons that continue pushing taxes higher and diminishing services. The failure to address these deeper causes will not only ruin your attempt to stem the rise in taxes, but you will also fail to slow the deterioration in the quality of life in New Jersey.

Those deeper, structural reasons have to do with:

- Our fragmentation as a state,
- Our over-reliance on local taxes to fund services and schools, and
- The increasing costs of pensions, salaries and social services that the state and federal government place on municipalities and school districts.

These three forces combine to not only cause our taxes to soar out of control, but together they intensify urban sprawl and regional segregation and encourage a general "fortress" mentality between communities.

We do not believe a constitutional convention will guarantee fundamental change. In fact, a convention is a huge gamble that will likely not yield results for several years, at the earliest. And when the smoke clears there is no guarantee that those results will lower our property taxes. A convention is too dangerous a gamble for the future of New Jersey.

Despite all of this, there *are* solutions. Solutions that can be acted on *now* that address the need for more equitable school funding and the need to reduce the regional disparities and the ruinous ratables chase that drive up property taxes and drive us apart. More importantly, there are solutions that can be acted on now that begin to significantly address the fundamental and underlying *causes* of our property tax crisis in this state.

We believe that fundamental tax reform must include:

1. **Changes that reduce our dependence on local property taxes for schools, and**
2. **Regional tax base sharing that allows all communities to capture the benefits of the growth of their region.**

Most people will agree that our school funding system is not working. But too much of the blame is put on the 30 poorest districts that receive special funding. While it is true that these districts have some of the highest per pupil funding in the state, it is also true that the richest districts are getting the biggest slice of the state's school funding pie. In fact, the 30 *wealthiest* districts (when we combine all sources of school funding – local, state and federal) have a per-pupil funding capacity that ranges anywhere from $25,000 to as high as $500,000 per pupil. Importantly, these are districts that are not educating any poor children. We are defining a school district's funding capacity as the sum of the revenues that the district would generate if it assessed an average property tax rate plus the actual state and federal aid it receives.

Most of our school districts have nowhere near that kind of school revenue capacity. The vast majority of our districts – over *80%* of New Jersey public school students – fall *below* $15,000 per student. And over *half* the New Jersey students are in districts with *less* than $10,000 per student capacity - as you can see on these maps showing total school district revenue capacity, per pupil in 2002. Red indicates the lowest level of revenue capacity, while dark blue indicates the greatest capacity.

Some of those *lowest* capacity school districts include:

CHERRY HILL

WOODBRIDGE

GLOUCESTER TOWNSHIP

VOORHEES

EAST WINDSOR REGIONAL

WASHINGTON TOWNSHIP (Gloucester County)

NUTLEY

SOUTH ORANGE-MAPLEWOOD

HAMILTON (Mercer County)

CLIFTON

WEST ORANGE

BAYONNE

FLEMINGTON-RARITAN

HACKETTSTOWN

HARRISON (Gloucester County)

LINDENWOLD

PAULSBOROUGH BORO

PITTSGROVE

SWEDESBORO and

WEST DEPTFORD (And there are 173 more)

Property tax reform must find ways to support communities and school districts like these that are caught in the middle. Some are admirably the most economically and racially diverse districts in the state today. Many are experiencing the challenges of a growing low income and special needs student population. They are neither all rich nor all poor, yet they are caught in this huge gap in our school funding system because so much of the funding comes from local property taxes.

A way to fill this gap is for the state to *expand, not eliminate* special funding, now dedicated to the 30 most distressed school districts. Funding should be provided to all districts that

- Fall below the current state median of per pupil funding capacity, and;
- Have significant numbers of low income and Special Ed students.

This kind of funding formula includes older built-out towns such as West Orange, Cherry Hill and Woodbridge, as well as poorer towns that are *not* *Abbott* districts but have sizeable low-income populations.

A funding formula like this would support diversity rather than encourage segregation as the current formula does.

However, funds for this formula should *not* be diverted from funds now going to the poorest districts. It *should* come from *expansion* of the Abbott District program. It also should come from *new* revenue, such as the recently imposed state sales tax. If this funding stream was dedicated specifically to reducing property taxes based on school district revenue capacity, it could lower property taxes significantly in hundreds of towns and for thousands of middle-income homeowners across the state. The next set of maps indicate how much property taxes could drop if state aid were used to partially even the district revenue playing field, also called "power equalizing aid." Tax reductions are percentage reductions from 2002 levels. The darkest blues indicate the greatest reduction in taxes.

This works very much like our simulations that show how the millionaire's tax could have been tied to bringing down tax rates in the lowest capacity school districts and districts with significant Special Ed populations. Through this simulation, large and widespread resources spread to New Jersey's children. Again using data from 2002, and again using power equalizing aid formulas, the next set of maps you have before you indicate what amount of additional dollars per pupil each district would receive in that simulation. The darkest blues indicate the greatest amount of new funds.

Rather than condemning the *Abbott* decision, we say let's fix the system. While we understand this requires significant resources, thanks to *Abbott* the infrastructure exists for large-scale state funding of public schools. The formula needs to be expanded and adjusted to promote more equity, diversity and opportunity. A bill introduced by Assemblyman John McKeon known as the "*Abbott Rim District Bill"* is a step in the right direction. However, it needs to include *all* districts with economically diverse populations and diverse schools.

Expanding state funding of schools based on revenue capacity and the mix of special education students is one way to begin to create a more equitable system and lower property taxes. But it only addresses half of the problem. As long as we are even *partially* dependent on property taxes to fund schools and services, we will have to find ways to share the benefits of regional growth or we will keep pulling apart as a state with a few winners and many losers.

Consolidation or shared services may be a way to share growth and expenses. However, to meaningfully address regional disparities and stabilize tax rates, the State would have to act on such a large scale as to make it utterly unrealistic and politically unattainable. The communities with the greatest growth in tax base are simply *not* going to voluntarily merge with poorer towns. Enabling small-scale change is not enough.

County-wide consolidation (even if it *could* happen) would not be enough to create regional balance or stability in tax rates. Too much wealth is concentrated in too few places to enable much savings. There is simply not enough growth for some counties to support themselves, left on their own. In fact, built-out and tax poor counties like Essex, Union, Hudson, Passaic, Camden, Cumberland and Salem would suffer disproportionately by a county only strategy.

What *would* work is *Regional Tax Base Sharing*.

Regional tax base sharing responds to the issues of both equity and efficiency by sharing a portion of the growth in tax base within a defined region.

Today, when development takes place it disproportionately benefits a very small number of communities while their neighbors take on much of the cost. Regional tax base sharing is a program to balance the costs and revenues more equitably.

In New Jersey, we cannot allow old towns to die when the malls, office parks and jobs migrate to newer areas and take the tax base with them. For years we have watched this happening in our cities, and we have done nothing to stop it. Now, once thriving first and second ring suburbs are also feeling the pinch, as jobs and tax base move even further out. Disappearing tax base affects older towns like Pennsauken, Hightstown, Highland Park and Bloomfield, as well as newer built out communities like Cherry Hill, Woodbridge, Gloucester Township, West Orange and Wayne. In these towns, taxes are high and they are rising fast. Your next set of maps indicate the percent change in property tax base from 1993-2003. Blue indicates the highest rate of growth, while the reds indicate the lowest growth.

As our towns become built out and the jobs and tax base move away, communities are forced to raise their taxes to keep up with rising costs as a result of a stagnant or declining tax base.

Regional tax base sharing can relieve the property tax burden in stressed communities by placing a portion of the growth of the region's tax base into a regional pool. The tax base is then shared among the participating communities and school districts based on tax base, population or other local characteristics. All communities receive something from the program, but some will get more than they put in.

This kind of tax base sharing program has been in use for more than 30 years right here in New Jersey, in the Hackensack Meadowlands. The New Jersey Meadowlands Commission oversees a tax base sharing program that collects 40 percent of the growth in property tax revenues in portions of 14 Bergen and Hudson County communities.

It also has been used on a much larger scale – across seven counties and 2.6 million people in the Minneapolis-St. Paul (MN) metropolitan area – since 1971. The Twin Cities program reduces tax base inequalities by about 20 percent and the program does not simply transfer tax base from suburbs to cities. Most of the places that benefit most are in the suburbs and Minneapolis has roughly broken even over the lifetime of the program – it has switched back and forth from being a small net receiver to a net contributor several times during the period.

Some of the immediate benefits from regional tax base sharing are:

1. It is revenue neutral. *It is the only serious tax reform proposal that does not require new money,*
2. Reduces property taxes for a majority of communities – especially those suffering under the most crushing tax burden,
3. Reduces the disparities in tax base and tax rates between neighboring communities within a region,
4. Reduces the destructive and wasteful competition between neighboring communities,
5. Protects the existing tax base,
6. Enables built out communities to provide more/better services.

Some Long-term Benefits of Regional Tax Base Sharing:

1. Increases the efficiency of the regional economy, creating the potential for lower property tax rates for all municipalities,
2. Moves us from competition to cooperation,
3. Encourages regional land use and economic development planning,
4. Transfers the leverage from developers to municipalities – reduces the incentive to offer tax breaks,
5. Reduces the incentive for more sprawl and middle class flight,
6. Helps to stabilize communities and discourage regional segregation,
7. Encourages infill development in older areas,
8. Creates a real opportunity for cities and distressed communities to revitalize,
9. Reduces the incentive to develop vital natural areas and resources, helping to conserve them for future generations,
10. Creates a better business climate,

11. Will help keep New Jersey's working families and seniors from fleeing our state.

Steps to implementing Regional Tax Base Sharing in New Jersey

1. Define a region:

The New Jersey Regional Coalition asked Ameregis to produce simulations of tax base revenue sharing for three regions of New Jersey. The maps you see show how tax base sharing might have worked in New Jersey between 1993 and 2003, and where this system would encourage growth. This simulation shares 40% of all tax base growth within each of the three regions – north, central and south. As the maps indicate, significant majorities of region residents benefit from this system.

These regions also mirror the areas defined by the Council on Affordable Housing (COAH), which were established in part to address growth disparities and they describe areas that share employment and housing centers. This means within each area many people shop, live and work.

On our maps each tax base sharing area is comprised of two COAH regions. A tax base sharing region could also be broken down into the six individual regions. What is important about region size is that it includes an area big enough to encompass entire regional housing and labor markets.

2. Establish a Base Year, from which tax base growth is calculated.

3. Define the Tax Base by deciding what part of the tax base to share.

In Minnesota they only share the growth of Commercial-Industrial tax base, while in the Meadowlands they share growth in the total tax base.

Sharing only the growth in Commercial and Industrial tax base targets the growth in tax base most directly involved in wasteful competition for tax base – the ratables chase – as well as keeping the system simple.

4. Collect Shared Tax Base.

In both the Meadowlands and Minnesota examples, 60% of new tax base is kept locally, and 40% is collected into a regional pool.

Although other ratios were tried, this ratio has endured the test of time in both places. It is also a ratio that acknowledges that some costs are borne by the community in which development locates, while other costs spread to neighboring communities.

5. Develop a formula and an administrative system for sharing growth that promotes the most equity and stability.

This formula could consider population, households, tax base per capita, or the number of children eligible for free/reduced lunches.

Over time, adjustments may be necessary to the percent shared, the regional boundaries and/or the distribution formula to account for inflation or other considerations to make it work better.

What's important is that it can be adjusted until it does the most good for the most people. And it can get enough support to succeed.

Our simulations run by Ameregis found that a majority of residents would immediately receive additional resources from this program in **28 of New Jersey's 40 Legislative Districts**. In fact, **over 73%** of New Jersey residents represented on this committee would benefit from this program. This does not mean, however, that residents in the remaining districts and communities are harmed, or would see a rise in their property tax rates.

Tax base sharing is a more realistic and more comprehensive solution to New Jersey's tax crisis than consolidation or shared services. It encourages both cooperation and regional growth while preserving local autonomy and character.

It is independent of the state budget and it responds directly to the economic pattern in each region. Since we are recommending only a portion of the growth of revenues to be pooled to share with other communities, no tax increases would be needed.

And because of the Meadowlands District, New Jersey already has a successful tax base sharing system administered by the state that has benefited its member towns and has made that region one of New Jersey's most competitive. The experience there would be invaluable while setting up systems in the rest of the state.

However, regional tax base sharing doesn't solve all of New Jersey's problems. To achieve comprehensive property tax reform, and create communities of opportunity, tax base sharing should be paired with reducing dependence on property taxes to fund our schools.

To Summarize:

Together, these two reforms provide a way to break the current cycle of growing inequalities and provide a way out of New Jersey's property tax crisis.

Together, they provide comprehensive fundamental property tax reform that works and for which the citizens of New Jersey thirst.

Together, they protect towns' existing tax base to stabilize our communities.

Together they provide a flexible and dynamic system that responds to changing conditions.

Together they provide a fiscally responsible way to lower property taxes while enhancing both our schools and future economy.