
REMAPPING DEBATE

Asking "Why" and "Why Not"

Passing new bucks?

Original Reporting | By Mike Alberti | Budget deficit, Economy, Taxes



March 16, 2011 — The township of Mount Holly is in central New Jersey, near the Delaware River. It has 9,536 residents, some of whom work across the river in Philadelphia.

Last week, along with at least 26 other municipalities in New Jersey, Mount Holly notified its residents that it may be holding a referendum in April, in which voters will be asked to approve local property tax increases in excess of a state-imposed two percent annual cap that was pushed through

by Governor Chris Christie last year. New Jersey currently allows municipalities few other ways to raise revenues — local sales and income taxes are entirely off-limits — and, it turns out, the failure to approve the referendum will mean substantial cuts in core municipal services.

There had already been a four percent annual property tax cap put in place by the previous governor, Jon Corzine, in 2007. But that cap — in addition to permitting greater annual increases — allowed municipalities who believed they needed to raise property taxes by more than four percent to plead their case before the state's Local Finance Board. The Board granted waivers to nearly all who applied.

New Jersey's current governor, Chris Christie, pushed through the new cap last year. The tighter cap cuts in half (from four percent to two percent) a municipality's ability to make property tax decisions through the normal legislative process. It also imposes a new hurdle: the requirement that any municipality that wants to increase property taxes by more than two percent get voter approval for that step in a referendum to be held on April 27th, the same day as the vote on annual school district budgets.

Christie spokesperson Kevin Roberts said that the cap was designed to force towns and cities to "get their fiscal houses in order," and that the referendums were meant to make it harder for municipalities to circumvent the cap.

Township manager Kathleen Hoffman said that Mount Holly has already cut its budget down "to bare bones." Last year, the town was forced to lay off all of its part-time and seasonal workers, as well as some full-time workers, she said. Mount Holly already shares some services — like trash collection — with neighboring towns. Hoffman said she was grateful that, thus far, the town has not been forced to lay-off any police officers, as have many other New Jersey municipalities.

“We’re at the point where municipal offices close if somebody has a sick day,” Hoffman said. “They’re predicting a flood next week, and we’ll have to chose between sandbagging buildings or clearing brush from storm drains, because how can you do both when you only have six people in [the] public works [department]?”

“I’m just glad winter’s over,” she continued. “I don’t know who is going to plow the streets next year.”

Hoffman did not yet know how large a tax increase Mount Holly would ask for, or which additional services would be cut if it failed to pass, but she said that police layoffs would be likely, since the police force accounts for one-third of Mount Holly’s budget. Still, she was doubtful that voters would pass the referendum.

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While Roberts placed the blame for rising costs and property taxes squarely on the municipalities themselves, several officials in other towns that may hold referendums next month said that it was the state tax policy that forced them to rely so heavily on property taxes in the first place.

They argued that the referendum process, while framed as a way to give voters the final say over property taxes, masked a larger issue: a state policy that puts the burden on municipalities to raise the revenue they need, but ties their hands by barring them from raising revenue except by means of increasing property taxes.

The referendums, they said, presented voters with a false choice: to raise their already-high property taxes still further, or to do without some essential services. There are other choices, too, officials pointed out, but they are ones that the state has already foreclosed to them.

Cutting 172 out of 369 jobs?

Not all of the 27 municipalities that have notified voters of a possible referendum may actually hold one. The Municipal Clerk of Edgewater Park Township, Linda Dougherty, said that while the town notified residents last week, it had since been able to balance its budget within the two percent cap, partly because it will maintain a four-day workweek for town employees (excluding police) that was instituted last year.

The towns that will potentially hold referendums are spread across the state, from the southern Pine Barrens to the Jersey Shore, and they vary in size and demographics.

The substance of each referendum will be different, as well. Some municipalities, like Mount Holly, have not completed their full budgets, so they do not know exactly how much they will ask for.

Some towns will peg the tax increase to specific services to try to make the increase more palatable. David DeVecchio, the mayor of the City of Lambertville, said that the referendum would simply allow voters to decide whether they wanted to continue paying a fee for garbage removal or pay for the service through property taxes.

“We’re an unusual case,” DeVecchio said. He has already downsized many city departments, including public works, the courts, and the police, and so does not expect to have to make further layoffs this year.



Mansfield’s property tax increase would fund its first-aid squad.

In Mansfield Township, which is in western New Jersey and has a population of 8,544, the referendum would be limited to one issue: \$90,000 to fund the operations of the first aid squad.

“We thought that limiting the question to one item, and an item of importance of all residents in terms of the health and safety of the community, that that would be a much more palatable questions that we hope would pass,” said Mansfield Chief Financial Officer Joseph Monzo. The first aid squad serves as the ambulance for the town.

Last year, the Mansfield government laid off three police officers, three sanitation workers and the township administrator. “We’re running out of people to lay off,” Monzo said, but added that, in addition to the money for the first aid squad, the town would also reduce the hours of some workers.

“If I wanted to balance my budget without making any salary cuts, I’d have to ask [voters] for a couple hundred thousand dollars,” Monzo said. “I don’t think the voters would pass that.”

In the Township of Brick on the Jersey Shore (population 75,072), the anticipated cuts would be much larger. Chief Financial Officer Scott Pezarras said that the Town Council had not voted on whether or not to hold a referendum, but that he anticipates that the Town Council will put such a measure to residents.

At stake in Brick are 172 jobs, Pezarras said, from every department, including 29 police officers, as well as the elimination of trash and recycling pickup and park maintenance. That’s on top of 71 positions that have already been eliminated since 2008. The township currently employs 369 people.

Shifting the burden

New Jersey has some of the highest property taxes in the country. What is less often noted is that the state's other taxes are relatively low. According to the Center on Budget and Policy Priorities, New Jersey's income tax revenue as a percentage of residents' personal income ranked 20th in the country in 2010, while its sales tax revenue ranked 38th and its excise tax revenue ranked 45th. When taken together, the CBPP said, New Jersey falls in the middle relative to other states in terms of its tax burden on residents.

Moreover, New Jersey is one of only two states in which revenue from property taxes exceeds revenue from income taxes, sales taxes, and corporate taxes combined, according to the New Jersey Star-Ledger. (The other is New Hampshire, which has not state income tax at all.)

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In Gov. Christie's 2011 budget, the state will collect \$10.1 billion in income tax revenue, \$7.8 billion in sales tax revenue, and \$2.3 billion in corporate tax revenue. Combined, that's \$20.2 billion dollars. That compares with the \$25 billion in property taxes that New Jersey's municipalities combined to collect last year, an amount that will almost certainly increase this year.

And while, in many states, municipalities use local sales or income taxes to boost their revenues and decrease their reliance on property taxes, towns and cities in New Jersey are prohibited from raising any tax revenue for their own use except through property taxes.

The other tax revenue generated in municipalities goes directly to the state, and some of it is supposed to come back to the municipalities in the form of state aid and "property tax relief."

Not all of it does, however. While Christie will hold state aid to municipalities level this year, he cut aid by \$446 million, or 26 percent, in 2010.

Those cuts forced many municipalities to make layoffs and reduce services. Pezarras and many other municipal officials said that a large part of their budget problem comes from the diminishment in state aid. This year, Gov. Christie has announced that aid will not be cut any further, but Pezarras said that, in Brick Township, the aggregate revenue lost in the last three years was at least \$5.6 million.

William Budesheim, the mayor of the Borough of Riverdale, said that the Borough had only received \$20,000 in state aid last year, and received no state aid the year before. He pointed specifically to the Energy Receipts Tax, which is paid by utilities for the use of local rights of way. That money has increas-

ingly been used to balance the state budget, he said, and less of it has come back to municipalities in the form of aid.

“There’s a complete structural imbalance in the taxes of this state,” said Deborah Howlett, President of New Jersey Policy Perspectives, a research organization and think-tank. “Across the river in Pennsylvania, you pay a state income tax and all of the towns have a local income tax. New Jersey towns can’t raise revenue that way.”

Property taxes, like sales taxes, are regressive, meaning that they disproportionately affect people with lower incomes. Income taxes are generally more progressive, with wealthier people paying higher rates. And, in the case of New Jersey, the further reliance on property taxes has meant that more and more of the burden of generating revenue has been placed on municipalities.

“There’s a way that folks above us in the state make us out to be the culprit here,” said Chuck Chiarello, the president of the League of Municipalities, which represents the state’s local governments. “But who didn’t pay into their pension funds?”

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Chiarello contended that the state’s position is hypocritical: on the one hand, he said, the state government is placing blame for budget deficits on the municipalities; on the other hand, “there has been a real reluctance on the part of the state to look for other revenue sources.”

One alternate source of revenue that has been proposed by some state lawmakers is the “millionaires tax,” a two percent increase in the tax rate on income’s over \$1 million dollars a year. Last year, the State Senate and Assembly passed the measure, but were unable to overcome Christie’s veto. The measure was introduced again in the Assembly last week, but the Governor has promised another veto. The proposed measure is projected to raise \$637 million, much of which would return to residents in the form of property tax rebates.

Tough choices, or false choices?

Given the lack of alternatives open to municipalities, Mansfield’s Monzo complained, that the new cap tied his hands: “There’s no other way to raise money.”

But Roberts of Gov. Christie’s office said that was exactly the point: “When you have a cap on revenue, then you’re going to have to make difficult choices [including] service reductions and layoffs, and shared services,” Roberts said. “The intent of the property tax cap is to say, ‘look, a lot of this is not taking place at the level we would like.’ It’s going to force changes at the local level.”

Roberts also said that instituting the referendum requirement was intended to make it harder for municipalities to get waivers from property tax caps. He called the old system, where waivers were granted by the Local Finance Board, “a cap without a cap.”

WHAT ABOUT MUNICIPAL CONSOLIDATION?

While local officials were prepared to speak about the need for imagining alternatives to the current relationship between the state and municipalities when it comes to levying taxes, they were less open to a different kind of change that Governor Christie has proposed.

He has argued that many of New Jersey’s 566 municipalities need to share services or to consolidate into larger entities. The current system, Christie has argued, creates waste and inefficiency.

Though some cities and townships have begun sharing some services, consolidation was not under serious consideration by any of the municipalities contacted for this story.

Some local officials, however, argue that the choice between raising property taxes and cutting services is a false one, with other potential structural changes being ignored.

“Why can’t we have local income taxes, like in Pennsylvania?” asked Mansfield CFO Joseph Monzo.

Howlett agreed that other local taxes would be one solution. “New Jersey is strange, because there are a lot of pipes in to the state government, but only one spigot back [to the municipalities],” she said.

Howlett also pointed out that tax policy is set by the state government, and while forcing municipalities to cut services, the Christie administration has refused to make efforts to wean the state off of property taxes, which she said put too great a strain on individual communities.

“The state has to ensure that local governments are not overwhelmed by their responsibility for providing services,” she said.

Monzo agreed. “So, now, the voters have a say in our town budget,” he said, “but the state budget doesn’t get voted on. The county budgets don’t get voted on.”

If they were, he suggested, voters might chose to increase income, sales or excise taxes, to decrease the reliance on property taxes, thereby taking some of the burden off of municipalities. [Recent polls](#) also suggest that voters favor instating the “millionaires tax.”

Though Christie has portrayed himself as a proponent of local control, some local officials point out that the tax cap and the referendum process, combined with state policy limiting revenue sources, effectively takes control away from municipal governments. Christie’s office did not respond to a request for comment on this charge.

Roberts did, however, reject the notion that the state might pursue other revenue sources to support municipalities. “To continually go back to the well of trying to increase things on the revenue side and not control things on the spending side is what got us into this problem in the first place,” he said. “We can’t talk exclusively about revenue.”

But every town that’s seeking a referendum has already made cuts. “We’re cutting, we’re cutting,” insisted Riverdale mayor Budesheim. “We also need the extra money.”

And why is the conversation exclusively about cuts? Why can’t there be a conversation about revenue, as well?

“We have to get [expenditures] under control first before you talk about taxing people more,” Roberts said.

But when asked what happens when local governments run out of cuts to make, Roberts said, “Well, we’re not there yet.”

The Governor’s office did not respond to a request to identify a minimum level of necessary services beyond which cuts should not be made.

“We have to get [expenditures] under control first before you talk about taxing people more,” said Christie spokesperson Kevin Roberts. When asked what happens when local governments run out of cuts to make, Roberts said, “Well, we’re not there yet.”

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