

TESTIMONY TO NJ PROPERTY TAX CONVENTION TASK FORCE
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Good afternoon, Mr. Chairman and Members of the Task Force. My name is Richard Goldberg, and I represent the Commerce and Industry Association of New Jersey.

I am pleased to provide testimony on behalf of New Jersey's business community regarding the scope of a Constitutional Convention to address the issue of property tax reform.

As you know, New Jersey businesses absorb a large share of the state's property tax burden. According to a study by the Council on State Taxation, businesses paid \$156 billion in property taxes during the Fiscal Year 2003, accounting for nearly 40 percent of total state and local property taxes. Like New Jersey homeowners, business owners are burdened with the same high property tax rates, yet there have been no efforts to provide our employers with any kind of relief. Year after year, skyrocketing property tax rates have made our state one of the least affordable places to do business.

Clearly, the employer community recognizes the urgent need for real property tax reform. However, let me be clear in saying our Association cannot support a Constitutional Convention that does not equally address spending at all levels of government. Nor can we support a Constitutional Convention that empowers special interests by not providing for a fair and equitable delegate selection process.

Should our state proceed with a Constitutional Convention, we are very concerned that in order to find alternative revenue streams, the Convention will increase the tax burden on New Jersey businesses by raising the corporate business tax, sales tax or income tax, or by raising the rate at which commercial properties are taxed. Over the past several years, the business community has been hit with an onslaught of tax increases, ranging from an historic increase in the Corporate Business Tax to various tax increases targeted at specific industries. New Jersey currently has one of the highest business tax burdens in the nation, and any additional tax increases will further put our state's employers at a competitive disadvantage.

Furthermore, history suggests that such an increase in other taxes would not effectively reduce property tax rates. In 1976, New Jersey introduced a state income tax to reduce the reliance on local property taxes and increased the income tax in the '80's and 90's for the same reasons. However, since 1976, there has not been one year in which property tax rates have declined. It is clear that the more tax dollars government receives, the more government will spend.

Therefore, it is the opinion of this Association that the answer to property tax reform does not lie in finding new revenue sources, but in implementing new spending controls at every level of government. While the Governor recently signed legislation to cap local government discretionary spending by 2.5 percent, we must go further and implement strong tax and expenditure limits at the state level as well. When state government spends beyond its means, the result is looming budget deficits and a greater burden on municipalities to fund our schools and other programs through increases in property taxes.

We believe the Constitutional Convention should implement strong tax and expenditure limits at all levels of government pertaining to all budgetary items. Twenty-six other states in the nation currently have tax and expenditure limitations (TELEs) which help to control state spending and reduce taxes.

Specifically, the Convention should look at the Colorado Taxpayers Bill of Rights as a model for tax and expenditure limits in our state. In 1992, the people of Colorado passed a constitutional amendment which capped spending at the rate of growth plus inflation and required the immediate refund of surplus tax revenues to the taxpayers. As a result, Colorado taxpayers have received \$3.2 billion in tax rebates since 1997. Between 1995 and 2000, the state ranked first in gross state product growth and second in personal income growth. Such strong controls in New Jersey would go a long way to help control state and local spending, generate property tax relief and avoid future budget crisis.

Other states have implemented TELEs, but many have not achieved the degree of success of Colorado because they have not been as stringent. In fact, in 1978, New Jersey enacted a very weak TELE with many loopholes, which was allowed to lapse in 1983. History has shown the most successful spending control mechanisms are constitutionally mandated and therefore cannot be changed or circumvented by elected officials.

The Heartland Institute recently issued a study which discussed other important components of successful state's TELEs. The Institute said that strict definitions of spending caps were critical, and that the limits should apply to both local and state governments, so constraint at the state level could not be circumvented by shifting functions to local governments. Moreover, the Institute said that, in order to control spending, no government function, such as education, should be allowed to operate outside of the spending limits.

Another important component is the stabilization of state and local budgets through a rainy-day fund, which eliminates the need to increase taxes or incur debt when there is a revenue shortfall. In periods of rapid growth, part of the surplus revenue is returned to the people through tax cuts and tax rebates, and part is set aside in a rainy-day fund. The rainy day fund is then used to offset revenue shortfalls in periods of recession.

It is our opinion that a constitutionally mandated cap in state and local expenditures is an important part of reforming our property tax system. However, New Jersey also must take a look at the inequitable manner in which we fund our schools. By mandating that urban districts receive the same amount as the highest-spending school district in the state, we are short-changing the majority of our state's middle-class schools, resulting in massive property tax burdens on New Jersey homeowners.

It makes little sense that urban areas receive the majority of our state's education dollars with no improvement in test scores and graduation rates. Clearly, this is a funding formula that is broken and harmful to both suburban property taxpayers and urban school children.

Our Association recognizes the need to implement a more fair and equitable distribution of funding so all New Jersey students can achieve a quality education. We support a change in the school funding formula that would give the Abbott districts funding equivalent to the average amount spent for education in New Jersey municipalities. To offset any losses to the urban districts, we recommend that aggressive tax incentives, far greater than are currently available, be offered to businesses that locate or relocate into our cities. This will provide the stable tax base, taking the pressure off of the homeowner, to make our cities more self-sufficient.

In closing, I would like to thank the members of this Task Force for hearing the concerns of the employer community. Should it be decided that a Constitutional Convention is the appropriate course of action, it is our hope that the scope of the convention includes controlling government spending at all levels and avoids placing additional tax burdens on New Jersey's employers or working families.