
Committee Meeting

of

JOINT LEGISLATIVE COMMITTEE ON CONSTITUTIONAL REFORM AND CITIZENS' PROPERTY TAX CONSTITUTIONAL CONVENTION

*"The Committee will meet to organize and receive
a presentation by the Office of Legislative Services"*

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: August 4, 2006
12:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Bernard F. Kenny Jr., Co-Chair
Assemblyman John J. Burzichelli, Co-Chair
Senator Fred H. Madden Jr.
Senator Leonard Lance
Assemblyman Louis M. Manzo
Assemblyman Richard A. Merkt



ALSO PRESENT:

Catherine Z. Brennan
Philip N. Liloia
*Office of Legislative Services
Committee Aides*

Timothy P. Lydon
Linda Schwimmer
*Senate Majority
Kay Walcott-Henderson
Gina LaPlaca
Assembly Majority
Committee Aides*

John Hutchison
Senate Republican
Mary C. Beaumont
Joseph Glover
*Assembly Republican
Committee Aides*

***Meeting Recorded and Transcribed by
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Hearing Unit, State House Annex, PO 068, Trenton, New Jersey***

ASSEMBLYMAN JOHN J. BURZICHELLI (Co-Chair):

Good afternoon, and welcome, everyone.

My name is Assemblyman John Burzichelli. I have the honor of being Co-Chair of this Committee. And I'd like to ask my Co-Chair, Senator Kenny, if he would be kind enough to chair this meeting. And then we will rotate, going forward.

And it is an honor for me to ask him to take the gavel and to call this meeting to order as we begin this very important work.

Senator.

SENATOR BERNARD F. KENNY JR. (Co-Chair): Thank you, Mr. Chairman.

I call this inaugural meeting together.

And I want to thank everyone of the Joint Legislative Committee on Constitutional Reform and Citizens' Property Tax Constitutional Convention.

First, let me thank Senator Richard Codey for appointing me to co-chair this Committee. And I also want to thank Assemblyman John Burzichelli for agreeing to co-chair this Committee with me, as well.

And as John mentioned, we will rotate the chairmanship, depending on some of the subject matter. But, essentially, we will be rotating throughout this process.

I want to introduce the two Senators who are on this Committee -- and I'm sure Chairman Burzichelli will introduce his Assembly people -- Senator Fred Madden and Senator Leonard Lance.

I look forward to working with both of you, gentlemen.

And I look forward to working with my Senate and Assembly colleagues on both sides of the aisle.

I also want to thank everyone in particular who assisted in the preparations for today's hearing. In particular, I want to thank the staff of the Office of Legislative Services for working so hard to prepare today's presentation.

This Committee has been charged to, first, review the State's current tax system and the various provisions of the Constitution that affect property taxes, which will be discussed shortly as part of the OLS presentation by David Rosen.

Our current tax regime has evolved -- regimen has evolved over many decades. Fixing it or changing it bodes great challenges, but also opportunities for all of us.

Our charge is to propose reforms that will promote a fair and equitable system of taxation. It will require us to put partisanship aside, and regional interests aside, as well; and to roll up our sleeves and focus on what's right for the state as a whole, and what's required to assure a healthy economic future for all our citizens.

Tough choices will have to be made, although some doubt that the Legislature has the ability and the willingness to do it. In my view, however, this is why we're elected in the first place. And I believe all on this Committee will embrace that opportunity.

Having made those choices, it will then be our duty to determine whether to propose constitutional changes that should be submitted directly to the voters by the Legislature, or whether they would comprise an agenda for a yet-to-be authorized constitutional convention.

I'm confident that this Committee will give these issues intensive and thorough analysis, and will work together to formulate proposals for presentation to the entire Legislature.

At today's hearing, the Office of Legislative Services will provide an overview of the current tax system and how the State generates its revenue. The presentation will also review the constitutional dedication of various taxes. Finally, it will compare New Jersey's tax burdens to other states.

At future hearings, I anticipate that the Committee will hear testimony from experts, and address such issues as alternative tax structures, the current property tax assessment system, tax exemption property, sustainability, and State assumption of certain constitutionally required services.

There will be no public testimony today. We understand the public has much to say on these topics, and we plan to have a series of public meetings in locales outside the State House to enable full participation in this special session.

I hope that today's hearing will shed some light on this crucial subject and begin an important dialogue. And I approach this with an open mind, and I'm sure that all the members of the Committee do.

Just to let you know what we're planning to do today -- and then the Co-Chairman will address you -- is, we're going to hear from David Rosen, of OLS, to discuss the matters that I mentioned in my opening statement. There may be some interaction between Mr. Rosen and members of this Committee. And that will, essentially, be today's subject matter.

Then Co-Chairman Burzichelli and I, working with the other members and staff, will construct a schedule over the next few months as to when we will meet, and how often we will meet. And that will be determined, in part, by the work of other Committees.

Some of the recommendations that may come forth from this Committee will, in fact, be generated by us. Others will be in reaction to some of the findings of other Committees. As you know, there are three others. And so we will be working in concert with other members who have been appointed to these important Committees.

So after today's session -- or Committee meeting -- we will work on a schedule of meetings subject to members' availability and subject to the subject matter that comes to us.

So, at this time, I would like to reintroduce the Co-Chairman, Assemblyman John Burzichelli.

John.

ASSEMBLYMAN BURZICHELLI: Thank you, Chairman.

And, again, good afternoon to everyone.

I'd like to read a few remarks into the record as we begin.

I begin by stating that, like my distinguished Co-Chairman, Senate Majority Leader Bernard Kenny, I want to welcome everyone to the inaugural meeting of the Joint Legislative Committee on Constitutional Reform and Citizens' Property Tax Constitutional Convention.

I also want to thank Speaker Roberts for giving me this extraordinary opportunity to preside over one of the Committees in this unprecedented special session on property taxes.

To my other colleagues in this effort: Assemblymen Manzo and Merkt, Senators Lance and Madden, I want to say from the outset that it's a privilege to be working with each of you.

Finally, I wish to thank all the people, the OLS staff in particular, who were working behind the scenes over the past four days to pull together the resources to get this first meeting off the ground.

There is an urgency that compelled this Committee to be the first to move the special session process from concept towards action. The urgency is this State's regressively burdensome property tax problem. I know OLS will provide us with a detailed briefing in a few moments, but there are statistics that we must begin to digest from the outset of our work.

Roughly \$20 billion annually is collected through the property tax. This is approximately equivalent to the amount the State income tax, sales tax, and corporate business tax raise, combined. Second is New Jersey's dubious distinction among the other states when it comes to the property tax. We presently have the highest average property tax levies in the nation. We have the highest per capita property taxation in the nation. We are second in terms of reliance upon the property tax for raising government revenues. And we are third in property taxes as a percentage of personal income.

Each of us on this Committee know the personal stories of people who are impacted by these statistics in very personal terms: senior citizens who can no longer afford to keep their homes they spent lifetimes to secure; young couples that must reside with in-laws, because they can't afford the cost of owning their own home; and middle-income families that

must make do with cramped quarters of a starter home, because they can't afford the property tax bills of a larger house.

The overarching mission of this very special session is to help these people find a way out of the State's property tax crunch. I want this special session to work. But I also believe that we must confront the likelihood that statutory change alone may not get us to the finish line of property tax reform. Constitutional changes may be necessary. That's why this Committee was formed.

The way I see this Committee's mission is a two-step process. First, we must work to identify and advance constitutional changes that will enhance, complement, or strengthen any of the property tax reforms achieved by the other Committees. The second step is to determine if a citizens' convention should be called to bring about property tax reform. In essence, if we are successful with the first step of making constitutional changes now, there shouldn't be a need for a constitutional convention later.

As this Committee begins its work, I want the state, from the outset -- I want to state, from the outset, that there are no predeterminations about anything. We don't know if any constitutional changes will be necessary. Likewise, there are no forgoing conclusions about the likelihood of a citizens' convention. Our initial proceedings largely will entail information gathering. We will hear from experts, both in this state and nationally. After identifying the problem, we can then move to the phase of identifying and recommending possible solutions. It is altogether likely that there will be instances of overlap with the other Joint Committees, and some of our actions may be done in concert with one or

more of the other three Joint Committees. Nothing should be ruled off the table at this time, and nothing has been ruled off the table.

This is going to be an honest effort involving public outreach and public input. A Web site has already been constructed for the purpose of educating the public and encouraging public involvement. The special session link is prominently displayed at the top of the Legislative Web Site, www.njleg.state.nj.us. Today's proceedings, in fact, are being audio and video recorded for Web site -- Web casting at the site. Additionally, the State's cable television systems are broadcasting today's proceedings live. In the future, we hope to have meetings in a variety of communities around the state, and we are working to set up a video conferencing system with the cooperation of Rutgers University. With the input of our citizens, we can better ensure that property tax relief is guaranteed, permanent, and a basic right of all New Jerseyans.

Gentlemen, I'm pleased to be with -- I'm pleased with these outreach efforts. But I'll be a lot happier if this Committee produces tangible results, results that will make a difference in the livelihoods and collective psyches of our citizens, results that make property tax relief and reform significant and permanent.

I thank all involved in this effort. We take this very, very seriously, as my Co-Chairman stated. This is a time that's been long-overdue -- for this discussion to be extended through every corner of this state. And this group assembled here is sincere in making that discussion thorough and complete in reaching conclusions that are going to be long-lasting.

Mr. Chairman, thank you for the opportunity for the opening statement. I know other members have them, as well. And the meeting is yours.

SENATOR KENNY: Thank you, Mr. Chairman.

Are there statements that any of the members would like to make at this time?

Assemblyman Manzo.

ASSEMBLYMAN MANZO: Thank you, Mr. Chairmen -- Co-Chairs Burzichelli and Kenny -- distinguished colleagues, ladies and gentlemen.

They say you have to have a strong constitution to serve on this Committee, and I can see that the people here certainly do have the right stuff. I look forward to working with all of you.

I want to thank Assembly Speaker Roberts for his confidence in appointing me to this Committee. It will soon become apparent to all that this panel -- this particular panel -- will have the most enduring responsibility of the whole special session. While other Committees begin work next week on benefits reform, school funding reform, and municipal consolidation and shared services, we will begin today to lay the foundation for changes in our State Constitution.

We are here to ensure the changes proposed by other Committees remain dedicated to lowering property taxes and correcting the unfairness of New Jersey's tax policy.

We have four important roles: arbiters, evaluators, proposers, and guardians. With only a few months time for public discussion, we must be vigilant as we cull good ideas from the bad. We can ill-afford to waste

our time on false starts and intractable debates. However, we cannot afford to pass up truly good ideas or ideas that become truly good, simply because they are politically volatile. Constitutional changes are not something to be taken lightly.

The process of amending the Constitution is among the most important functions of the State Legislature. This is not a place for partisanship or for scoring political points, nor is it a place for rubber-stamping or maintaining a status quo. The Constitution of this State, like that of our country, is built on the foundation of equality; provides for a course of justice to resolve inequities; and, above all, it insists upon and demands fairness, something that is terribly absent in our current New Jersey system of taxes, and something that cries out for reform.

It is our charge to measure and ply such fairness to each and every proposal that passes through this and other Committees. This panel is the last safeguard our state residents have to ensure that reform is also equitable.

Finally, our Governor, just a week ago, called on us for action, action, action. He's right. He's right. He's right. He challenged us to make history. We should take up that challenge, but we should be mindful. The pages of history do not tell the exploits of timid souls, nor those whose mettle buckled when given the chance to do great things. The pages of history belong to the bold, both winners and losers, those willing to take great risks at greater personal sacrifice to achieve a greater good. Only time will tell if we have the intestinal fortitude to fill the pages of this historic chapter in New Jersey with our deeds, or if it will only leave an empty

passage. The courage of our convictions shall determine such fate. For the sake of our great people, let us resolve to succeed.

Thank you.

SENATOR KENNY: Thank you, Assemblyman Manzo.

Assemblyman Merkt.

ASSEMBLYMAN MERKT: Thank you, Mr. Chairman.

It is a delight to be with you today, and with such distinguished colleagues.

I am very grateful to have been selected for this very important Committee. I feel I am here as a representative not only of the people of my home district, but also of the Assembly Republican Caucus.

This is an important business. In my opinion, this is a once-in-a-lifetime opportunity, and we all must make the most of it. This is our chance to take a look at a document that basically has been in place for close to 60 years, and to recognize that New Jersey, today, is no longer the New Jersey that existed when that document was adopted.

We have a chance to tackle what is, frankly, the most vexing problem in New Jersey government, and that is the high property tax rate. It has been there for years, it's there today, and unless we do something, it's going to be there for the foreseeable future. As the Governor has said, and more importantly, as the people have said, we expect results. And the people expect results soon.

I submit, Mr. Chairman, that this is not going to be an ordinary Committee. And it's going to require us to think outside the box. We're going to have to be creative. Everything is going to have to be on the table.

I'm delighted to hear, as Chairman Burzichelli has pointed out today, the scope of this Committee. It is going to be a fairly broad scope. And I think we need to think about not only specific items within the Constitution that we need to change addressing property tax, we also have to look at some of the larger issues concerning constitutional impediments to letting the Legislature actually solve this problem. It's a terrific challenge, and I look forward to being part of it.

Thank you.

SENATOR KENNY: Thank you, Assemblyman.

Would either of the Senators like to make remarks at this time?

Senator Lance.

SENATOR LANCE: Thank you, Mr. Chairman.

I have chosen to serve on this Committee by my own appointment, because I believe that it is a Committee that is relevant to the most important issue confronting the people of New Jersey, our very high property tax burden.

I have also chosen to appoint Senator Cardinale to the education committee, Senator Kyrrillos to the Shared Services Committee, and Senator Gormley to the pension committee. And I believe that these appointments demonstrate that the Republican members of the State Senate intend to take these hearings very seriously. And I hope that over the course of the next five months, Mr. Chairman, we will be able to achieve results.

I served as a member of the Property Tax Convention Task Force, which reported its findings to the Governor and the Legislature in December 2004. And it was my view then, and it is my view now, that we

ought to move in the direction of a convention for property tax reform, so long as that convention has the ability to discuss spending, as well as revenue.

Over the next five months, it will become evident whether the Legislature has the ability to reform the property tax system that currently exists in this state, or whether we should move to a convention.

Obviously it would be preferable, Mr. Chairman, if we in the Legislature, working with the Governor, could reform the system ourselves. But the last 30 years leads to the conclusion that perhaps a convention is the best vehicle to achieve true property tax reform.

I approach my responsibilities on this Committee in the hope that, over the course of the next five months, we might engage in fundamental reform. And I look forward to working with you, Mr. Chairman, and with the other members of the Committee.

We on the Republican side of the aisle are disappointed that our membership on these Committees is not of the same percentage as Democratic members. But, moving forward, I certainly look forward to working with you personally, with the Co-Chairman, and with every member of the Committee.

The Constitution of this State is, I believe, a document that has stood the test of time. But any document can be improved. And, in my judgment, Article VIII -- the article of our Constitution dealing with taxation and finance -- is the article most relevant to true property tax reform. And I would hope that we can have a meaningful discussion of Article VIII, and how to move forward into this new century lessening the property tax burden on all of our residents.

We should make sure, however, that we work in coordination with the other Committees since, in my judgment, educational funding is critical to a reform of the property tax system; as well as the other important issues of shared services, in a state that has more jurisdictions per capita than any state in the nation, and the newly relevant pension and Benefit Committee, based upon the enormous pension obligations that confront the people of this state over the remainder of this decade and on into the 21st century.

All of these Committees have to work together. And, frankly, I think that this is the Committee -- because of its constitutional mandate -- that will be able to lead the way for the other Committees.

I appreciate the opportunity to provide opening remarks, Mr. Chairman. And I know that you and your Co-Chairman will make sure that this Committee operates in a fair way, based upon your tremendous experience in the Legislature, an experience that extends back to 1987. And it is my pleasure to serve with every member of this Committee.

Thank you, Mr. Chairman.

SENATOR KENNY: Thank you, Senator Lance.

Senator Madden.

SENATOR MADDEN: Thank you, Chairman.

First, I would also like to start by thanking Senate President Codey for giving me the honor to serve on this Committee.

For me, this is rather simple. Each and every one of us out here ran for office. We were elected. We made commitments to people. And people look at legislators for leadership. We arguably sit in the highest house in our districts, and people come to us all the time looking for help.

And they explain to us the financial problems they have. And we do the best we can with our constituent work.

But this is what it's all about. They want leadership from us. We are now at the table, and we need to give this the best shot we can. I think that, working together, we have a tremendous team. We have, arguably, historically an opportunity here to really raise the element of how the people in New Jersey live.

I will commit to you, as I did to the Senate President. I will give you 110 percent. I will listen to all options. I have not come in here predisposed, even though, Senator Lance, I have co-sponsored the constitutional convention bill. But, publicly, I have always said I believe that should be Plan B. I think this special session is the way to go.

I am somewhat surprised that we're actually in this special session, based on the history of what's taken place in the Legislature. But now that we're here, I look forward to rolling up my sleeves and being a very active part in these hearings and processes.

And I just am very thankful, and will work very hard for you and the people, just like we're expected to do.

Thank you.

SENATOR KENNY: Thank you very much, Senator.

We cannot accomplish anything without the tremendous staff support that we receive from the Office of Legislative Services, as well as partisan staff. And I just would like to ask them to introduce themselves.

MR. HUTCHISON (Senate Republican Aide): Mr. Chairman, John Hutchison. I'm the Research Director of the Senate Republican Office.

SENATOR KENNY: Okay.

MS. SCHWIMMER (Senate Majority Aide): Linda Schwimmer, of the Senate Democratic Office, in coordination with Tim Lydon, of the Senate Democratic Office.

MS. BRENNAN (OLS Committee Aide): Cathy Brennan, with the Office of Legislative Services, co-staffing with Phil Liloia.

MS. WALCOTT-HENDERSON (Assembly Majority Aide): Kay Henderson, from the Assembly Majority Office. And I'm also working with Gina LaPlaca and Thurman Barnes, from that office.

MS. BEAUMONT (Assembly Republican Aide): I'm Mary Beaumont, from the Assembly Republican Office, in concert with Joseph Glover, from the Assembly Republican Office.

SENATOR KENNY: Thank you.

And I would hope that the staffs would communicate between and among themselves frequently. That's how much of the work gets done.

And I and Chairman -- the Co-Chairman-- We are available to all the members on a regular basis. I hope that we develop a rather unique relationship because of the magnitude of the challenge in this case.

And so I thank everybody for their comments.

And this is very daunting, very challenging. But as Assemblyman Burzichelli stated, and Senator Lance, and everyone said in a different way, it's a once-in-a-lifetime opportunity for us. So we embark on it.

So at this time, if everybody has completed their comments, I would like to ask Dr. David Rosen to begin his presentation.

D A V I D J. R O S E N, Ph.D.: Thank you, Mr. Chairman, and members of the Committee.

Listening to your opening remarks underscores, for me, the importance of what you're doing and the seriousness with which you're each approaching it.

Personally, on behalf of my OLS colleagues, it's a privilege to be called upon to support this effort. And we will do whatever we can to help you in starting today and going forward for the next several months.

The presentation that I'm going to be giving today is the tip of the research iceberg that's been going forward. Each of you have received a rather substantial binder containing a lot of information. That information will be available to the public as well, through the Web site that Assemblyman Burzichelli referred to, in the next week or so. And all the information that we generate will be made public at the direction of the legislative leadership.

What I'm going to do this afternoon is provide an overview of some of the factual and conceptual items that I think provide a context of the discussion that you're going to be undertaking: first, looking at property tax within the context of New Jersey's tax system; and then turning to some of the constitutional issues that relate specifically.

I discussed with the Chairman before we started-- If you have questions as we go through, about items that are not clear, please interrupt me as we go through so we can clear those up. But they'd like us to hold substantive discussion material until after the completion of the presentation. You each have a hard copy of the presentation, as well, before you.

As was noted before, New Jersey's property tax is the largest State or local revenue, raising nearly \$20 billion. It's twice the size of the income tax, almost three times the size of the sales tax, and considerably larger than the corporation tax, which are our three largest State taxes. If you look at them compared to each other, clearly the property tax dwarfs the other three, which are our three largest revenue sources.

Approximately 72 percent of the local property tax is assessed against residential properties. The remainder, obviously, is commercial and industrial. The average residential property tax in the state is almost \$6,000 -- in 2005, the last year that we have the final data. On average, the property tax represents a little bit more than 5 percent of personal income. But as I'll discuss in the next few slides, the property tax affects different individuals very differently. And, in fact, if we looked at the range here, it would be from perhaps less than 1 percent to considerably over 50 percent in different examples.

This slide shows the local property tax per capita over the past 30 years. The top line, in blue, is the local property tax in actual dollars. The pink line is one that adjusts it for CPI inflation. So what you can see, obviously, in nominal dollars is that you have more than a four-fold increase in property taxes over that time, in terms of dollar amounts. But in terms of the controlling for inflation, you can see that over this time, the property tax is growing faster than inflation, but not wildly faster than inflation. And it varies from time to time, as we'll see in the next slide.

This slide shows local property tax as a percentage of personal income. And what you can see here is, over the 30-year period there's been a fairly narrow variation between about a little over 4 percent, and starting

off at 6 percent, of personal income. And we've had fluctuations within this period for various reasons, some of which are not necessarily tied to the property tax.

If you look, for instance, at the period from 1991 to 2001 -- or from '93, say, to 2001 -- you can see that the property tax per capita is declining. Well, those of you who remember your property tax bills, property tax bills were not declining in that period. That was the period of the big stock market gains in personal income. So when you look at personal income, and divide that into the property tax, we were paying a smaller percentage. Again, distribution is very important. Most of those income gains during that period were concentrated in high-income individuals. So while personal income per capita was going up in the state, low- and moderate-income people were not seeing a very large increase. So their property tax per capita may not have been going down in those years, while it was on average.

How does New Jersey compare to other states? As Assemblyman Burzichelli noted, we're first in property tax per capita, and we're third in property tax as a percentage of personal income. The difference being the fact that New Jersey is a wealthy state. So when you control for income, it's not quite as bad, although third is pretty high.

Where do the property taxes go? Fifty-five percent of school -- 55 percent of property taxes goes to school districts, 26 to municipalities, and the remainder goes to county government. It's important to note, again, that these are statewide averages. And you have enormous variations from district to district, from municipality to municipality, and from different regions of the state. Typically, in suburban areas, school property

tax would be much more than 55 percent. In most of the urban areas, it's less -- it's considerably less -- owing to the nature of the tax base, the other demands, and the level of State support for education.

Why do we rely on the property tax so heavily in New Jersey? Well, certainly in this debate there will be lots of discussion of the things that are wrong with the property tax. There are a couple of things, at least, that are right with it, or at least suggest that it's a useful tax to rely on -- at least in part. One, is that it is a local tax. It's a tax that's determined by local decisions, decisions presumably closest to the taxpayers.

Second is that the property tax provides a reliable, annual revenue source, which is not subject to economic fluctuations the way some of our other taxes are. You'll recall, with the property tax, you make a determination at the local level of how much money you want to raise, you look at what the property tax base is, and you calculate the rate.

For our other major taxes -- the income tax, the sales tax, the corporation business tax -- we have a rate set in law. And that rate is applied against the tax base that's unknown going into the year. And we get an amount of money that may be more or less than we anticipated. The property tax is pretty good at producing the amount of money that you anticipate.

Obviously, the other side of the coin, in that these arguments are, perhaps, more familiar, is that the property tax is -- we are disproportionately dependent on the property tax. It's so much larger than our other revenue sources. And any time you have a tax system that's overloaded in one area, it makes it somewhat problematic. Property tax is not tied directly to an individual's ability to pay.

You can have a very wide variation between the tax burden -- the property tax burden -- in one town than another, depending on circumstances that have nothing to do with the taxpayer, but other circumstances. Which relates to the other argument: that property taxes have been seen as distorting land-use decisions, as municipalities make decisions based on property tax impact, rather than other considerations which might lead to more prudent land-use decisions.

We want to take a look at how the property tax influences or affects different taxpayers. And to do this, we've taken an illustration of three houses -- three identical houses on the same street, each with a \$7,000 property tax bill -- and to take a look at the way the tax burden differs from taxpayer to taxpayer. We could have chosen hundreds of other examples, but this, at least, is emblematic of the kinds of variability that you would see.

The first family is a family of four, income of \$90,000. They're paying \$7,000 in property taxes, 7.8 percent of their income. They pay \$1,575 in income tax, 1.8 percent of their income. Under the FY '07 Appropriations Act, they qualify for a homestead rebate of \$250. So net of income tax, property tax, and homestead rebate, they're paying over \$8,000, about 9.3 percent of their income.

Living next door is a retired couple. Most of their income comes from pension or Social Security. Their property tax is \$7,000, but they've been in the Senior Freeze program for a couple of years. They're only paying \$6,150, which is still 15 percent of their income. They pay no income tax at that level. They pay no income tax because most pension income and all of Social Security income is not taxable in New Jersey. So if

they had \$40,000 in wage income, or just interest income, they'd have to pay tax, but they don't on this income. They get a homestead rebate of \$1,200. So, net, their taxes are just under \$5,000, about 12.4 percent of their income.

The third house is a single individual with a high income. She makes \$400,000. She's paying the same property tax, which, for her, is only 1.8 percent of her income. She's paying almost \$23,000 in income tax, 5.7 percent of income. She doesn't get a homestead rebate, because her income is too high. Altogether she's paying nearly \$30,000 in tax, about 7.5 percent of income.

In the next slide, we've just pulled it together. And not particularly trying to draw a conclusion from this -- other than to point out to you that there is an interplay of factors that affect each individual's circumstances, and how the property tax would affect them; and, perhaps, how remedies that we might look at might affect them, as well.

If the objective is to reduce our dependence on a revenue source that's providing \$20 billion a year, it seems to me that there are several ways that that can be approached. The first is to find a way to reduce or constrain local spending. As I understand the charges for the Committees, those issues relating directly to that are really in the purview of the other three Committees directly. There may be an involvement here. But I really didn't have anything more that I was going to put on the table at this point, other than to note that it's obviously an area to look to control property taxes.

The second is to shift State spending from some other area to increase State aid. If we take a look at how -- it's hard to read in this light,

I apologize. This is the way the State budget is currently allocated. Thirty-nine percent of it goes out in State aid to school districts and municipalities. Another 33 percent goes out in grants. That includes homestead rebates, Medicaid, some grants to municipalities and school districts, as well as support of higher education.

The red wedge and the red-and-white-striped wedge represent State government spending. And that constitutes about 20 percent of the State budget on the operations of State government. And then the yellow wedge is debt service. The reason I put this here is to show that State government, in total, is about 20 percent, about \$6 billion of the State budget. So you would have to very substantially cut State expenditures, State operations, to provide substantial amount of money to reduce the \$20 billion.

When he addressed you last week, the Governor talked about finding a way of taking some of the money that's in that yellow wedge -- the debt service part -- and moving that over to State aid. That is, if an alternative source of revenue can be found to fund the State's debt, that money would be freed up, as well.

A third option to reduce dependence on the property tax is to replace the property tax with other revenues that the State collects. As we noted before, the income tax and the sales tax are, by far, the largest revenue sources that the State has. The corporation business tax is considerably smaller. The hatched wedge in the upper left represents casino and lottery together, which constitute less than 5 percent of State revenue. Again, if you're looking for big revenues to make a big impact on property taxes, the income tax and the sales tax seem to be the best candidates, the

candidates that are at least large enough to, if you decide to do it, generate money that could offset property taxes.

The income tax currently generates about half that the local property tax generates. All income tax revenue is currently dedicated for school/municipal aid and for homestead rebates. New Jersey's gross income tax is highly graduated with rates going from 1.4 percent at the low end, to 8.97 percent at the high end.

The top 20 percent of taxpayers, those making about -- making about \$10,000 (*sic*) or more -- pay 80 percent of New Jersey's income tax. The top 1 percent, people making \$500,000-plus, pay about 40 percent. So you can see that the impact of the income tax is greatest, and we draw our revenues disproportionately, from the high end of the revenue spectrum. And that's where the money is in New Jersey's income tax.

Four out of five seniors who report taxable income report less than 50 percent -- less than \$50,000. And more than half of seniors pay no income tax. Again, that's a function of -- one, that they tend to have lower incomes, but also that significant portions of senior incomes -- that is pension and Social Security -- are not taxable under New Jersey's income tax.

New Jersey income tax-- This is the trend over the last 10 years of income tax collections. And you can see that the significant thing in this chart is the big drop-off we experienced in 2002 and 2003, when the stock market crashed. And we had really been floating on a bubble for the preceding four or five years that were growing quite rapidly. And we had about a 14 percent drop in one year. It went down again the second year. There was a little bit of recovery in '04. And the big jump in '05 is largely a

function of the enactment of the so-called millionaires tax rates that went into affect. We were, in fact, growing -- not -- fairly robustly in 2005. But that big jump is a function of the rate change.

One of the issues with the income tax -- and I alluded to this when I talked about the virtue of the property tax -- is that the income tax can be somewhat erratic. This is particularly the case because we rely on high-income individuals to support the income tax. And the income of those individuals tends to be more variable from year to year. Someone who is living predominantly on wage income is going to have fairly consistent income from one year to the next. Somebody whose income is capital gains, and partnership income, and sole proprietor income, and the like is more likely to have fluctuations from year to year. And we see that in the income tax.

Sales tax -- we just raised the rate to 7 percent, which is now as high as any other state's state sales tax rate. Most states, however, also have a local options sales tax on top of the state tax, and you combine those. In some states, you have county and municipal, as well. The highest combined rate that we found was in Arkansas, at 11.5 percent.

New Jersey's sales tax is less regressive than most, in that we exempt clothing and food purchased for home consumption. So it is more of a discretionary purchase tax than other sales taxes are, although it tends to hit more at the lower end of the income spectrum as percentage of income.

In 2005, New Jersey was ranked 20th in sales tax per capita. That was, obviously, at the 6 percent rate. If we use that same data and adjust it to 7 percent, that would kick New Jersey up to about 11th. If we

looked at it as a percentage of income, we'd be lower than that, because our income is higher, as I noted before. The sales tax tends to be much more consistent from year to year than the income tax. The big jump there, in 2007, obviously is a function of the rate change.

I want to turn now to some of the constitutional issues that relate to the property tax, and then to some taxation issues in general. One of the significant limitations on our property tax that's imposed in the Constitution is the uniformity clause, which says that all classes of property within a taxing district have to be assessed under the same standards, and the same general tax rate must be applied.

In other states, it is possible to assess different kinds of property differently. That is, you can assess commercial property at full value, and residential property at 60 percent of market value. Or you can assign different tax rates for different kinds of property. Under New Jersey's Constitution, that's not permitted. It's obviously an issue that might be addressed in looking at the property tax.

The Constitution provides for exemptions from this based on the personal status-- Where it does provide exemptions, they must be provided in the Constitution. We currently have a veterans' deduction, a senior and disabled deduction, and the homestead rebate, all of which are exceptions to that, that are permitted under the State Constitution, because we have put them in the Constitution. Absent that, we couldn't have done those things simply by statute.

The Constitution also provides exemptions for properties used exclusively for religious, educational, charitable, or cemetery purposes. Again, this is in the Constitution. You can't change that by statute. You

obviously could if you amended the Constitution. There is also a provision in the Constitution for certain long- and short-term exemptions for redevelopment and rehabilitation of a property. And the Constitution also provides for reduced assessment for farmland. Again, these are all matters -- these are exceptions, changes which can be done in the Constitution -- could not be done simply by statute. So if you wanted to change those, modify them, add to them, subtract from them, those would all be constitutional issues that would be within your purview to consider.

The Constitution provides for the dedication of certain revenues. We have, in our statutes, various statutory dedication of revenues. That is, statutes that say the money raised from a particular tax or particular fee must be used for a particular purpose. We also have dedications in the Constitution. There's a significant difference between those, in that the statutory dedications can be overridden by the Appropriations Act. So the statutory dedications signal an intent, but are not a binding commitment. Dedications that are in the Constitution are ones that cannot be avoided by statute. You have to amend the Constitution in order to change them.

As I noted before, all of the revenue from the Gross Income Tax is dedicated for property tax relief. The funds in the Casino Revenue Fund are dedicated for a range of purposes for -- including property tax relief. But, in fact, most of them are dedicated, now, for expanded programs for seniors and handicapped individuals. But there are a broader range of things for which that money can also be used.

The lottery revenue is dedicated for State operations and for education. In each case, we currently spend more than the dedicated

amount on the dedicated purposes. Another way of saying that is, if these constitutional dedications were not operative, if they went away, we probably wouldn't spend less on programs for seniors, or on property tax relief, or on education, because we're currently taking nondedicated moneys and spending them on those purposes, as well. But we can't spend less than this. There's nothing that prevents us from spending more. And in these three instances we, in fact, do spend more than we're constitutionally required to spend for those purposes.

We also have dedication of the motor fuels, petroleum products, and a portion of the sales tax for transportation projects. And this is the money that goes to support the Transportation Trust Fund. And we have, on this year's ballot, a further expansion of that dedication to match the latest version of the Transportation Trust Fund authorization.

The fifth area is the dedication of 4 percent of the corporation business tax for a range of environmental considerations. And, again, on the ballot this year is a further expansion of this. And the experience with this dedication points out, perhaps, one of the pitfalls in constitutional dedication of revenues. And that is, when this was dedicated originally, there were certain specified environmental purposes for which the money could be used. And a combination of some environmental developments, and the fact that the CBT was expanded and, therefore, was raising more money, meant that we were collecting more money and dedicating more money than we could spend for those purposes. And now I think three or four times we've gone back to the voters and asked to amend that section of the Constitution, which now runs, I think, about three pages, specifying how this money will be used. It becomes awkward when you're overly

prescriptive in the Constitution in laying out how money gets spent. Because then, sometimes, you have difficulty spending it. Or if circumstances change, it's hard to make the adjustment. But those are among the issues that you have to weigh when you look at constitutional dedications.

On the one hand, they can be too loose, and allow-- They don't really accomplish anything. On the other hand, they can be too restrictive and make it difficult to budget in future years.

We also dedicated \$98 million a year from the sales tax to support a 10-year program of open space acquisition.

You have, in your packets -- in your -- they're not packets -- in your voluminous binders, you have descriptions of constitutional amendments that have been proposed during this legislative session, which we thought were within the purview of this Committee to consider. And we've organized them thematically in your binders.

The first are a series of proposals dealing with changes to assessment and imposition of property tax -- changing the way we do the assessment, who does the assessment, differential assessments, and so forth.

SENATOR KENNY: Excuse me, David. What does the Number 6 refer to?

DR. ROSEN: Oh, that was how many-- That's how many happen to be in the packet. There's six resolutions on that topic. There are 11 on the next, and so forth.

This next topic is the ones-- These are, sort of, big-solution proposals requiring the movement of money, capping various expenditures,

pushing money from one level of government to another. These are kind of, as I said, megasolutions to property tax problems.

Third are sort of-- If the other ones are mega, these are kind of microsolutions. These are targeted changes for the amount of the rebates or reduction -- or tax reductions for various groups of people.

And there are 10 that address constitutional conventions or special sessions, which is, obviously, something, as you've indicated, may be relevant as you move further along in this process.

SENATOR KENNY: Just a question: Of those four items, I understand that the first, the third, and the fourth all would require constitutional amendments, but not necessarily the second.

DR. ROSEN: The ones in the second are constitutional amendments that would be part of larger solutions. For instance, Assemblyman Manzo's proposal has a statutory and a constitutional provision. And his constitutional provision is one of the things that would be in there.

SENATOR KENNY: But all 11 of those revenue and spending items require constitutional amendments?

DR. ROSEN: Yes. All we put together in this packet for you were the constitutional changes. So all of these are constitutional changes.

SENATOR KAVANAUGH: But some of those items in Item 2 could be accomplished statutorily, I would assume.

DR. ROSEN: That's correct.

Again, one of the things I think you're going to be wrestling with, as a Committee, is what needs to be in the Constitution, what needs to be in statute.

SENATOR KENNY: Right.

But Items 1, 3, and 4 all require constitutional amendments for the reasons that you stated earlier, because they change the unitary -- what's it called?

DR. ROSEN: (indiscernible) Yes, you're right. All the others would necessarily -- those kinds of solutions would require a constitutional action. The second one wouldn't necessarily require a constitutional action. But the ones that we put in your binders are, in fact, ones that would rely on the Constitution.

SENATOR KENNY: Okay.

DR. ROSEN: I believe that's the end of the formal presentation. I'd be happy to answer any questions.

SENATOR KENNY: Okay.

Co-Chairman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Thank you, Chairman.

Thank you, David, for the presentation.

A basic question that I have is, how unique is the uniformity clause that lives in our Constitution related to assessment of properties and communities? Is that unique to New Jersey? Is that commonplace across the nation?

DR. ROSEN: I'm not sure I can answer that. I'll get that information for you.

I know that there are many states that don't have it. But I think there are also many that do. I don't know the numerical breakdown, but we can get that information for you, certainly.

ASSEMBLYMAN BURZICHELLI: And, I guess, as we move forward -- as this Committee structures its agendas, we're going to get deeper into the Constitution. And I'm certain there's going to be areas of clarification. Because I'm also interested in comparisons about how we have carved out exceptions, like our veterans' deductions, things of that nature -- how that compares with other states, other jurisdictions, and in the end, how we pull all this together. The uniformity clause, I think, is going to be of particular interest.

DR. ROSEN: Certainly. I mean, as I understand our role, it's to be responsive to you during this process. This is sort of an overview. And we anticipate that you'll be coming back to us, wanting more depth. Some of these things may be in documents that are already in the binders. But if they're not, it's material that we'll generate for you as we go along, absolutely.

ASSEMBLYMAN BURZICHELLI: Very good. Thank you.

Thank you, Chairman.

SENATOR KENNY: Any other members have questions for Dr. Rosen at this time?

Assemblyman Manzo.

ASSEMBLYMAN MANZO: Thank you, Mr. Chairman.

Doctor, in the outline you've given, you chart -- or you've shown the three taxes. And you seem to indicate, when it comes to the property tax, that a greater percentage of earned income is utilized to fund that in various ways, amongst various income levels of the state -- or income payers in our state, at each -- at different levels of their income -- the three examples you've given.

My question is: When you look at the property tax burden-- And, on average, I believe school taxes comprise maybe 55 to 60 percent. Do those numbers jump higher, even eating more of an individual's income, when it comes to the school tax, directly?

DR. ROSEN: I'm trying to think. I wouldn't necessarily think so. A school tax is highest, as a percentage, in the suburban areas. And we-- The problem is, we don't have -- one of the real data gaps -- and you're going to discover this as we go forward -- we talk about solutions -- is, we don't have any good data that link individuals' incomes to their property taxes. So we can talk about averages, and we can talk about aggregates. But we really can't tell you how many people there are who are paying \$7,000 in property tax, and making \$60,000 in income. We don't have that data. We can't tell you, for Town X, this is the distribution. The Division of Taxation is moving towards being able to produce that data, but they're not there yet.

ASSEMBLYMAN MANZO: But you can tell us that at a given income level, as per your example -- that if a person is in a different income level, based upon what we know about property taxes in New Jersey, and what we know about the percentage of the portion of a property tax going to school, county, whatever-- Approximately, at a different income level-- For example, you did it on that chart. And I believe the examples that you gave were the individual who was-- The family of four, for example, was 5.6 percent of their income to fund their \$7,000, or whatever -- after their deductions, whatever was left of their property tax bill. The retired couple: it was 12.5 percent of their earned income. And the high-income individual: it was 1.3 percent of their earned income.

If you put the-- For example, for the purpose of what you used as an example-- If you applied what was the average in New Jersey, 55 percent of that \$7,000 tax bill being -- going towards school taxes, the question I was asking is: That individual income used to fund that would be even higher than the 1.3, than the 5.6, than the 12.5? In other words, it's a higher percentage of earned income that goes to fund the school tax than it does--

DR. ROSEN: Well, no, it would be lower, because the school tax is part of the property tax. So these numbers represent the percentage of income paid for the total property tax. So if 55 percent-- If they were-- If it was an average municipality, and 55 percent of that were going to school taxes, then the impact would only be 55 percent of those percentages.

ASSEMBLYMAN MANZO: But it would stay at almost the same tract, higher for the--

DR. ROSEN: Oh, it would be proportionate. The only thing I was saying is that we don't really have good data to tie-- I can come up with three hypothetical examples. And I could have come up with hundreds of others. But what we don't have is really good data. And I don't know how many people there are like my third example, the high-income person -- single, high -- living in most urban districts. There are in some, but not a lot. I mean, they tend to be concentrated in certain kinds of municipalities. So you're going to get different mixes in each municipality. And we simply don't have the data that would let us look at that.

ASSEMBLYMAN MANZO: The other point that I think -- which would be helpful to this Committee, I think, is-- When you talked about urban areas, you made an assumption that if it was a poor area, the property tax might hit harder on an individual because of the volume of children in the district and the needs. But isn't that tempered by, like, Abbott funding?

DR. ROSEN: What I tried to say-- Maybe I wasn't clear before. What I tried to say was that the percentage of local property tax going to schools is less in most urban districts. It's considerably less than 55 percent, because you have a higher level of State funding for the schools.

ASSEMBLYMAN MANZO: So they're getting more of their money, in particular, from the State than they are raising through their--

DR. ROSEN: For schools, that's correct. And they, presumably, have higher municipal costs. And that's where the property tax is going in the urban districts.

ASSEMBLYMAN MANZO: And that money that comes from State funding-- The State derives that from some of its sources: income revenue and sales tax revenue.

DR. ROSEN: Right. Predominantly the income tax, but yes.

ASSEMBLYMAN MANZO: So if it's predominantly the income tax, then, per se, an individual that lives in a suburban area of our state, who contributes -- a middle income taxpayer in a suburban area who contributes an ample amount to the income tax is having a larger portion of their funding going, actually, to fund education in another area, where they're, in their own local area, probably paying more through their own property tax dollars to fund schools for their own children.

DR. ROSEN: That would certainly be true in wealthier suburbs, where you would have the-- Most of the income tax paid from those municipalities would not be flowing back as school aid in those districts. And those people would be paying high property tax for the schools to support them. That's correct.

ASSEMBLYMAN MANZO: One last point on your example: Some of the Committees that have been charged here are charged with looking at cutting revenue -- cutting expenses, consolidation, and what not. And just on the example you made, if we were successful, say, to achieve a cut, say, of maybe 30 percent -- ballpark out -- that would, I guess, calculate maybe to a \$2,000 reduction of the \$7,000 tax load, approximately, that you were using. The bill basically comes down about \$5,000 for each of those.

My question is: Does that fix the-- Or does the percent of income needed to fund that \$5,000 change any, or is it consistent -- that it's still a bigger burden for the poorer person, and still a--

DR. ROSEN: Well, it would depend. I mean, in the examples that I gave, I was looking at two taxes, essentially: the income tax and the property tax together.

ASSEMBLYMAN MANZO: Right.

DR. ROSEN: If you were to reduce the property tax by smarter local spending, then the impact would stay proportional. If you were to, say -- since I used that in the example -- raise the income tax to generate more money to reduce property tax, then it would affect the different taxpayers that we looked at differently.

In the example that I used, the retired couple wouldn't be paying any more income tax, because they don't pay any. So if we increased the rate, it wouldn't matter. So they would get the savings, but they would incur none of the cost.

The high-income individual would pay a lot more in income tax and save a little bit on property tax. So it would affect different people differently, depending on what the nature of the solution is that you use.

ASSEMBLYMAN MANZO: You also alluded to a chart -- the chart you showed with the variation in income levels at various times in our state. And I believe it was during the period of 2000 that we had our greatest spike -- I believe. And you attributed that, naturally, to the economy -- the driving economy.

One thing I would like OLS to prepare, which I think would be helpful to everyone on the Committee, is a chart which would indicate, at different income levels -- the different income brackets that we have in this state -- the number of individual filers that are in each of these groups, how much they are contributing to the tax base, and if that could be rolled back from, say, Year 1999 to present.

There is a perception that in tinkering with our three taxes-- Okay? That tinkering with income taxes, for example, to shift burdens off of property taxes might create an imbalance or is actually going to drive out some of our high-end income earners. And it would be helpful to have that data before making those assessments.

DR. ROSEN: We'll certainly get that for you. There's something of a lag in the data that we're getting from the Division of

Taxation, but we'll get you the most recent data and a time series on that, as well.

ASSEMBLYMAN MANZO: Also, Dr. Rosen, the number of income tax filers in our state-- Would you be aware of that?

DR. ROSEN: I think it's about 2 million, but I'm not sure.

ASSEMBLYMAN MANZO: Two million.

DR. ROSEN: Maybe two-and-a-half.

ASSEMBLYMAN MANZO: Are you aware of the number of property taxpayers in our state?

DR. ROSEN: It's more than that, but I will get you those numbers.

ASSEMBLYMAN MANZO: That would be helpful too.

DR. ROSEN: Yes.

ASSEMBLYMAN MANZO: One other piece of information that would be helpful is-- Are you aware of where we rank, per capita, in income in the nation?

DR. ROSEN: Depending on the measure, either first or second.

ASSEMBLYMAN MANZO: First or second per capita wealth?

DR. ROSEN: Yes.

ASSEMBLYMAN MANZO: On that-- Did you factor in, when you looked at the charts on money to the State -- or money that the State uses to supplement municipalities? I assume, the fact that we are ranked that high per capita income, that our dollars from Washington for assistance in other programs, social need, whatever, is less.

DR. ROSEN: I believe we're last. We're certainly in the bottom two or three.

ASSEMBLYMAN MANZO: So my question then becomes, doesn't that create another burden on the State or the local government for supplementing what we're not getting back in D.C. dollars because of our amount of wealth with the property tax, other than other taxes?

DR. ROSEN: Yes, that's certainly true. The same redistributive affect that I talked about before -- about the suburban person paying income tax money that doesn't flow back to that town-- It's equally true that New Jersey, as a wealthy state, pays much more in Federal income tax than we're getting back from the Federal government.

ASSEMBLYMAN MANZO: And because of that, the -- more of the burden, as we just saw for the local property tax, falls more upon the -- not the more affluent, but the less -- or the middle class and the poor, based on the percentages of income to supplement property taxes, based on what they earn. Yet they don't get as much of, I guess, a Federal tax write-off as do the same wealthier individuals.

DR. ROSEN: Right. In fact, most low- and moderate-income people don't itemize, so they don't get to deduct their Federal taxes.

ASSEMBLYMAN MANZO: Thank you, Doctor.

And I'd appreciate if you could share, with the Committee, those documents.

DR. ROSEN: We'll get that you information, certainly.

ASSEMBLYMAN MANZO: Thank you so much.

Thank you, Mr. Chairman.

SENATOR KENNY: Thank you, Lou.

Assemblyman Merkt.

Louis, I think you have to turn off your-- (referring to PA microphone)

ASSEMBLYMAN MERKT: Thank you, Mr. Chairman.

Dr. Rosen, I very much appreciate the information you've provided, and the graphics. I noticed that you provided us information concerning the average property tax burden per capita over the last 30 years. Would it be possible for you to broaden that, and to provide us with another document that, in effect, tells us about the total tax burden, per capita, experienced by people in New Jersey over the past 30 years? I'm talking about adding in the State income tax, when the State income tax was added, and the increases that have resulted; the sales tax, when that was added, and the increases that have resulted. I just think it would be very helpful to this Committee to have a complete picture -- or relatively complete. Obviously, I'm not talking about corporate taxes, which are significant in their own right.

DR. ROSEN: Yes.

ASSEMBLYMAN MERKT: The second question I have is: You were mapping the growth of property tax burden, again per capita. Have you broken out the components, or can you break out the components? Because as I understand it, most property taxes include a municipal component, and a county component, and, of course, the school component. And I think it would be highly instructive to us, when we're trying to craft solutions, if we had the actual figures regarding the growth. I suspect in some areas, for example, the growth may have been much more

moderate. In other areas, the growth may be much more considerable. Can you do that for us?

DR. ROSEN: You mean growth between the three--

ASSEMBLYMAN MERKT: Among the three factors that appear.

DR. ROSEN: Yes, actually I think-- I saw my colleagues preparing the presentation for the Education Committee. I think they actually have a graphic that does that. And my impression -- and I'll double-check, and I'll get you the specific information -- was that, surprisingly, there hasn't been a big change over 30 years in the proportion of the three destinations of property tax money. But I'll get you that information.

ASSEMBLYMAN MERKT: Okay. I just was trying to understand you. Are you telling me that they have all grown at the same rate?

DR. ROSEN: That the percentage of property tax going to each of those categories has remained fairly consistent over time.

ASSEMBLYMAN MERKT: Okay. Well, I would appreciate seeing that in graphic form.

DR. ROSEN: I'll get you that.

ASSEMBLYMAN MERKT: The last thing I have is just a question for you. We were talking about income taxes and the possibility that maybe the income tax might be one of the solutions that we would be considering. I was going to ask you: Do you think an out-migration of upper-income people from New Jersey may result from yet another increase in the income tax, if we do it?

DR. ROSEN: The honest answer is that we don't know. Certainly there's anecdotal information suggesting that some people are leaving. We don't have a baseline. We don't know how many people left three years ago, or how many left five years ago.

We have not seen, in our revenue collections yet, an impact from the last rate increase. It doesn't mean we won't in the future. I don't know. We won't know-- If it happens, we won't know about it until after it happens.

Certainly, whenever you raise the rate, there is the possibility of changing behavior. And as I've-- I mean, I've noted in past years, in discussing this with the two Budget Committees, because of our dependence on a relatively small number of taxpayers, and taxpayers who may be able to make choices, there is a certain amount of risk in raising taxes, particularly at the high end. But I can't tell you that it would or wouldn't lead to out-migration.

ASSEMBLYMAN MERKT: Well, the reason I asked that is, I have some information from Dean Hughes, of Rutgers, concerning this and concerning out-migration within the last year. And it certainly is, I think, an issue that this Committee is going to have to look at as they consider what the options should be.

I thank you.

And I thank you, Mr. Chairman.

SENATOR KENNY: Thank you.

Thank you, Assemblyman.

Senator Lance? (no response) Nothing now.

Senator Madden.

SENATOR MADDEN: Yes, sir.

SENATOR KENNY: Okay.

SENATOR MADDEN: Thanks, Chairman.

Doctor, I'm just trying to hone in on something here. The illustrations that you laid out were very beneficial. But what I have found is that when people pay their bills, they don't calculate the rebate in that, because the rebates are subject to annual appropriations, and they're never consistent. So what I would ask is, if you could have your staff -- if they could just recalculate these same illustrations, but without the rebates, to give us the percentage of how people have to live.

I know seniors will get upwards of \$1,200, or \$1,250 in a rebate. But the reality of it is, throughout the year, we're making them pay that money up front. And the real impact of how it's affecting their lifestyle is really without the rebate.

The other point is really kind of a question, I think, in terms of-- There was a comment made about half -- about 40 percent of the seniors pay no income tax because, I guess, they're below the taxable threshold. And though the illustration shows a senior couple with an income, between Social Security and a pension, of \$40,000, I don't find that being a lot of the norm in the district at least in which I'm in, and the different senior clubs that I go to. An awful lot of our seniors are single. A countless number of them are on PAAD and assistance programs. And I think what I would like to have you also present to the Committee is a fourth illustration that maybe brings in the senior household that has an income, say, of \$25,000 a year, or \$20,000 a year, or somewhere in that ballpark. Because what I find is, literally, those people's lives are being

affected in such a horrendous way. They are literally selling their homes because they're being forced to. Maybe their husband passed away and now, out of need, not out desire, they're being removed from their homes. And I think-- I truly believe, in my own heart, that it's getting worse each year, to where people are being forced out of their homes. And I think it would be very beneficial to the Committee and the people that sit and listen to us if we were to zero in on that income level. Because I think it's going to be rather devastating, the numbers that you present to us.

You can calculate the rebates if you want. But I also would like to have a chart without the rebates to show the fiscal impacts.

DR. ROSEN: Certainly. We can do that for you.

SENATOR MADDEN: Thank you, sir.

SENATOR KENNY: Okay.

Any other members have questions? (no response)

I'm just -- just an observation. I'm fascinated by the charts on Pages 5 and 6. Chart 5 shows the total property tax levy per capita, adjusted for inflation, is roughly the same today as it was in 1977 -- and adjusted for inflation. And the next chart shows that as a percentage of personal income, in 2005 it was less than it was in 1975. And I'm not being an apologist for property taxes, but I just find those charts very, very interesting.

DR. ROSEN: I did, too, Senator. When we generated these, I said, "Gee, we ought to do this." I got them. And, again, I'm not even making a case for or against anything. But they are striking.

Now, on the first one -- on the one on Page 5 -- there is an increase from something like 450 to 550. So in percentage terms, that's not

a trivial-- I mean, on the scale here of the larger number, that's not a very steep curve. But there still is an increase. So, in fact, property taxes have gone up faster than the cost of living, in general, but not manyfold times faster.

SENATOR KENNY: Right.

Senator Lance, did you have something?

SENATOR LANCE: I was making the same comment to our aide that you have just made.

SENATOR KENNY: Can you turn your microphone on, please?

SENATOR LANCE: I made the same comment to our Republican Aide in the Senate. Those two charts struck me as informative.

SENATOR KENNY: Okay.

That was an excellent presentation. There are no more questions. So we're going to be relying on you and staff going forward.

I think we're going to conclude this meeting, if there are no other comments, Co-Chair. And what we'll--

Yes, Senator.

SENATOR MADDEN: If I may think out loud--

SENATOR KENNY: Go ahead.

SENATOR MADDEN: Doctor, the two charts that Senators Kenny and Lance are referring to-- They're based on statewide averages. Is that correct?

DR. ROSEN: That's correct.

SENATOR MADDEN: Average income, average--

DR. ROSEN: Absolutely, yes.

SENATOR MADDEN: So we're just talking about something very large and broad.

DR. ROSEN: That's correct.

SENATOR MADDEN: Okay. What I'm trying to get at is, for maybe a more realistic picture about that property tax breakdown, could you take the illustrations that you've just presented -- the \$40,000, the \$90,000, and the \$400,000 incomes -- go back to '76, where that chart starts, and do individual charts for those three income levels -- like recapitulate back. It's going to take a little bit of work, but it's going to give us a better picture as to just what we're talking about. Because I don't really know if you can say, "Hey, listen. It's been pretty much -- the property tax levy has been remaining pretty much consistent for everybody." I think we're going to find that that may or may not be the case. And I'm going to challenge you to try to give us a more accurate picture as to how people are living, affected by their income status in New Jersey -- regarding property tax levies.

DR. ROSEN: Certainly. As I noted, we're dealing here with averages. And there is a wide range of experiences around that average.

I'm not quite sure how I can go back and get 30 years of data on people that I made up. But we'll see what we can do to find some real-life examples. We may just have to find some people who are going to give us their life history.

SENATOR MADDEN: I'm expecting that the same sources in which you've calculated this now -- they existed back in 1976.

DR. ROSEN: We'll see what we can do on that, Senator.

SENATOR MADDEN: You see? And they just rework it.

DR. ROSEN: We'll do what we can on that -- try.

SENATOR MADDEN: Thanks.

SENATOR KENNY: Assemblyman Manzo has a point he'd like to raise.

ASSEMBLYMAN MANZO: On that chart we're speaking about, where you have the total property tax levy as a percent of personal income, you've used the average, statewide. What would be real helpful, I think -- and what Senator Madden is hitting at, which I would love to see, too -- is the total property tax levy as a percent of personal income for various income levels, so that we're not seeing everybody mixed in the same basket.

DR. ROSEN: Okay. It's a difficult-- The problem with a longitudinal--

ASSEMBLYMAN MANZO: At different increments.

DR. ROSEN: Yes. But the problem with a longitudinal analysis like that over 30 years is somebody -- in the current example -- is making \$90,000. If I go back, looking at 10 years before, they presumably weren't making \$90,000. So you really-- I mean, if you're going to trace--

I understand the question. It's a really good one. I mean, how does this affect actual instances of people? But, literally, I don't know of any way to get it other than going through some individuals' records, and finding out what they paid in property taxes, and what they made.

ASSEMBLYMAN MANZO: I'll accept, for my purposes, just this current year broken down. You know, where we are with property taxes, or whatever, and then the percentage of income.

DR. ROSEN: Okay. We'll see what we can do for you on that.

ASSEMBLYMAN MANZO: Thank you.

SENATOR KENNY: Senator Madden.

SENATOR MADDEN: And, Doctor, the genesis of the question is simply that, if over time, if our upper income level has been growing, and our lower income level has been growing, the averages, pretty much, could remain somewhat constant. And the whole idea here was to see a more accurate picture as to how people are being affected.

DR. ROSEN: I think you're right. And the point I tried to make at one point in the presentation is, during the stock market run-up, which drove down the property tax as a percentage of personal income, statewide, that run-up in income was not affecting a lot of people. And those people were seeing their property taxes go up.

You're right. The averages are not the most descriptive information that we have. In this case, we don't have really good individual data. But we'll see what we can get for you.

SENATOR KENNY: Thank you, Dr. Rosen.

We're going to--

SENATOR MADDEN: May I just--

SENATOR KENNY: Yes.

SENATOR MADDEN: I hate to be a-- I want to give--

SENATOR KENNY: Okay. Go ahead. Sure.

SENATOR MADDEN: Thanks.

Thank you, Chairman. I appreciate it.

Is there a chance you could replicate these charts by region: southern, north, and central New Jersey?

DR. ROSEN: Let me see what we can do on the income data on that.

SENATOR MADDEN: Thank you.

SENATOR KENNY: Well, again, I think the presentation was excellent. I think we all will take the opportunity to review it again, privately, over the next couple of days.

The issue is wide-ranging. It affects every aspect of New Jersey life. We'll get into those aspects in later discussions. But when you change the tax system, you affect interests across the state, whatever they may be: business interest, educational interest, municipal interest, county, taxpayer interest. So we're going to have a lot of interaction among the community here -- not only in Trenton, but around the state. But I think this was a good first meeting.

We're not going to schedule another meeting right now, because we want to coordinate with the other Committees, which are organizing next week. So we'll get the-- The Co-Chairman and I will, through staff or directly, notify each of you when we're going to meet again. Some of you may have some vacation plans for the latter part of August. You should let us know that. And we'll have to deal with that as best we can. But we won't be scheduling a meeting today, because we want the organizational meetings for the other Committees to precede our next scheduled meeting. So we will probably get a better sense of that early next week. And then we will reach out to everyone and notify you as to the next meeting.

What we have to work on is agendas for these meetings. And Assemblyman Burzichelli will be chairing the meeting. And we should have

agendas for our meetings so that we are prepared to discuss specific things for each meeting, as opposed to not having an agenda and just having a wide-ranging discussion.

We will also let the public know when we will start accepting public testimony as soon as we get our agendas set and get a witness list agreed to.

Do you have anything to add?

ASSEMBLYMAN BURZICHELLI: I'd like to conclude, again, by thanking all those who participated. You get a sense, those in the audience, those watching on television, it will take us a meeting or two to get our rhythm, to get our agendas established. We don't want to spend too much time fighting over charts. We know there's a problem there. We're looking for resolution.

Thank you, Chairman.

SENATOR KENNY: Thank you.

The meeting is adjourned.

(MEETING CONCLUDED)