
Committee Meeting

of

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

"The Committee will meet to consider its final Report"

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: November 21, 2006
11:00 a.m.

MEMBERS OF JOINT 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
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey***

TABLE OF CONTENTS

Page

APPENDIX:

Report submitted by Joint Legislative Committee on Constitutional Reform and Citizens Property Tax Constitutional Convention	1x
---	----

rs: 1-37

SENATOR BERNARD F. KENNY JR. (Co-Chair): We're going to get started here, for the discussion and disposition of our findings over the past three months -- the Constitutional Reform and Citizens Property Tax Constitutional Convention.

The Committee will be chaired by my colleague John Burzichelli today. And there will be discussions; and culminating, in all likelihood, in a vote on the Report that has been dispersed.

Later on, I'll have a few comments of thanks to all the members of the Committee and the public for participating. But at this time, I'd like to ask my Co-Chairman if he would assume the Chair.

Assemblyman.

ASSEMBLYMAN JOHN J. BURZICHELLI (Co-Chair): Thank you, Senator, and thank you Co-Chair Kenny; and thank you to this group who has assembled today. I will read into the record an opening statement.

But Senator Kenny is correct in how we will proceed. We will go around the table to allow our colleagues and distinguished members of this Committee to offer a statement for part of the record, as we work toward conclusion of this Committee's work today.

But I want to remind everyone -- and I will mention that in my statement -- that although this Committee will finish its work as a Committee, the efforts of this Committee, as outlined in its body of work, will live on through the legislative process, which is where the reforms and where the changes will come from.

But I'd like to, Senator, if I may -- I'll read into the record an opening statement on our behalf.

I'd begin by thanking you, Co-Chairman Kenny -- by commending you for your leadership and partnership throughout these past months. And I mean that sincerely, Bernie.

SENATOR KENNY: Thank you.

ASSEMBLYMAN BURZICHELLI: It has been a pleasure to serve with you -- with your long, distinguished history of service to this state in your position. You have just been so very helpful in your guidance. And I mean that sincerely.

Thank you.

SENATOR KENNY: Thank you very much, Mr. Chairman.

ASSEMBLYMAN BURZICHELLI: The process has benefited greatly from your insights.

To my fellow Joint Committee members, Senators Lance and Madden, Assemblymen Manzo and Merkt, it's been a privilege to sit alongside each of you through this process. Some regard what we have done here to be historic. I think it's just part of our job. But to assemble this Committee from both Houses, and to be associated with each of you, has been a real privilege for me.

We have disagreed from time to time, but, frankly, not often. But nobody can question our collective commitment to resolve and address the property tax issue. The people of New Jersey demand that we work in a bipartisan fashion, and I think we have delivered. The personalities on this Committee have been comfortable, and we have made a sincere effort.

Finally, I'd be remiss if I did not thank the respective partisan staffs and the Office of Legislative Services for their research, their guidance, and their hard work in these proceedings. Because those who are

in this audience, and those watching television -- many of you know that we sit here, but we have support of many people that have helped us along in the details of numbers.

We have performed above and beyond the call of duty-- They have performed, above and beyond the call of duty, what has been asked of them.

Before we move on to the Report and the process of voting, I'd like to call attention to the work we've performed to bring -- that has brought us to this juncture. We've held seven public meetings, including two public hearings. We've listened to 102 speakers. We've compiled more than 5,900 pages of testimony, documentation, and other background materials. We received approximately 1,000 e-mails from concerned citizens. We've heard from dozens of experts, stakeholders, and government officials. This effort was inclusive, innovative in spots, and comprehensive.

While this Committee's primary directive was to identify constitutional reforms for achieving property tax relief, the unstated, overarching goal was to find ways to cut property tax costs. That objective is at the core of the paramount recommendation advanced in the Committee's Report: A new system of direct credits on property tax bills that will provide 20 percent savings for the majority of New Jersey working middle-income households. The proposal would protect senior citizens who have a choice of receiving the new credit or the current property tax rebate check, whichever is greater. This would be in addition to the current Senior Citizens Property Tax Reduction Program, the maintenance of which is called for under the findings of this Report.

I should point out that the \$1,200 maximum rebate that most seniors currently qualify for is already 20 percent of the average property tax bill in New Jersey, which is roughly \$6,000 a year. Seniors also will benefit from recommendations advanced by other Committees, such as making a community's senior citizen population one of the factors for determining distribution of State education aid to help lower property taxes.

I know there are outstanding questions about the direct credit. The Governor, Senate President, and Assembly Speaker are in the process of working out the details of how it will be funded, and how the credit will be distributed to help those homeowners who need help the most.

We're all on the same page in trying to craft a system that will be sound, stable, and sustainable. We have no interest in engaging in gimmicks or perpetrating a deception. The tax credit we advance must have legs to help property taxpayers offset their property tax bills, and legs that can go the distance of offsetting costs for years to come.

I am confident that the outstanding issues regarding the credit will be resolved in a very short time. In a state where some middle class and senior homeowners can see upwards of one-quarter of their income swallowed by property taxes, the direct credit proposal outlined in this Report will keep more money in the residents' pockets. It will deliver a lifeline stronger than any rebate check.

This Report is also mindful of the needs of our business community, who fear that any tinkering with the Constitution could be detrimental to them. We've heard those concerns loud and clear, and strongly recommend that the State Constitution's Uniformity Clause be left

as is. The need for New Jersey to change its national image to be seen as a more business-friendly state outweighs any immediate property tax benefit that could have resulted from changing the Uniformity Clause. Delivering immediate relief from high property taxes was just one on a list of must-do items we received from the people who spoke before us or e-mailed us their thoughts.

We have heard demands that government be empowered to take better care of tax dollars. The people want strong safeguards erected to ensure that State and local funds are spent efficiently and wisely. This Committee recognizes that simply allowing municipalities to raise taxes in a never-ending spiral will never make sound fiscal sense. Our towns and cities must learn to make the dollars currently available to them work harder and produce more results; and, may I add, that our State government must do the same.

To achieve this end, the Report recommends a cap on annual hikes in property tax bills. The Report also calls on the Legislature to strongly consider the establishment of an independent Office of State Comptroller to keep a watchful eye on use of funds by all levels of government in New Jersey. Waste, fraud, and abuse are three words taxpayers hear much too often, and which showcase the worst of government. If we are to restore the public's faith in government -- whether at the school board, local, county, or State level -- we must first provide reason for them to know that their tax dollars are not being thrown away. To further cement that idea, we also recommend that local option taxes not be a part of New Jersey's future. If there ever will be a time to consider

such action, it must be long after this property tax crisis has been put to bed.

There are other ideas that are put forth in our Report that, in the interest of saving time, I will not go into now. But I encourage all residents to read our findings for themselves and to continue to provide this Committee with feedback. Today is not the end of the Joint Committee's work. Now we must begin the task of taking concepts and turning them into legislation that can be considered by our colleagues in both Houses.

The next part of the process may not be as public. I doubt that anyone would want to watch a live Internet broadcast of the Office of Legislative Services typing up bills. But it is equally important. (laughter) It's nice to talk in generalities, but it's better to legislate in specifics. Now those specifics will come to pass.

Ladies and gentlemen, I would argue that, at this point -- that this Joint Legislative Committee has produced reform options that can have a real, lasting impact on our state. And when coupled by the 87 recommendations from our colleagues on the other three Joint Committees, they amount to a peace of mind for New Jersey's property taxpayers if successfully implemented.

From the beginning of this special session process, the real issue at stake has been property taxes. New Jersey's fiscally pressed taxpayers deserve real relief, not false hopes. I believe the work of this Committee has contributed substantially to the Legislature's ability to achieve that worthy goal.

Having read that statement, we'll now move on and move around this table. And we will start with Senator Lance.

Senator, would you care to go first?

SENATOR LANCE: Thank you, Mr. Chairman.

I want to begin my remarks by indicating that I believe that you, Mr. Chairman, and Senator Kenny have conducted these hearings in an eminently cordial fashion. And I want to thank you and the Majority members of the Committee for the way in which we have conducted our proceedings. And I want to thank all of the members of the staff, from both the nonpartisan Office of Legislative Services and the staffs of the partisan caucuses, for the way that we have been advised about the various matters that have come before this Committee.

And I did not know you or Assemblyman Manzo well before this process began. And, certainly, I believe that I have made two friends. And you have been eminently cordial in your relationships with me and with the Republican members of this Committee.

We agree with several of the recommendations of the Committee. Certainly, on the Uniformity Clause -- that there should be no amendment to the Uniformity Clause. And that is a recommendation with which we are in total agreement.

Speaking for myself, I favor a 20 percent reduction in the property tax burden of New Jersey residential taxpayers. I would like to see a greater reduction. But regarding the 20 percent, as I stated last week when this proposal was announced, I believe that it is essential that it be applied to all residential taxpayers in this state, not just some residential taxpayers. And I base that statement on my belief that the property taxes are much too high for all residential taxpayers in this state. And I do not believe that the credit should be related to the income of residential

taxpayers, particularly given the fact that we have, in New Jersey, a steeply graduated income tax based upon levels of income. And I believe that this program should be based upon the enormously high property tax burden -- the highest in the nation. And so to the extent that the 20 percent is not extended to all residential taxpayers on primary residences, and to the extent that it is a program that may be at the level of 15 percent, or 10 percent, or no credit at all, I dissent in part regarding that -- the fundamental recommendation of this Committee.

Areas in which we find ourselves in disagreement include the fact that there was a recommendation in the Report that there not be a cap on State spending. We had testimony in that regard. It is the Republican position that there ought to be a cap on that portion of the State budget that deals with State spending. This, obviously, does not involve municipal or school aid. This involves the portion of the State budget dealing with State spending itself.

Moving on, I am very concerned about the recommendations regarding farmland assessment. This is an area where I believe I have some knowledge, given the fact that the district I represent includes Hunterdon and Warren counties, which are farming areas of our state. I am opposed to amending the Farmland Assessment Program, constitutionally or statutorily, in any way. I do not favor the extension of roll-back taxes or increasing the \$500 amount each year that must be generated by a farmer. And I'm opposed, also, to a conveyance tax.

We will be issuing a Minority report in that regard, as well as concerning other matters. And we cite a study from Cook College, Rutgers University, indicating that the extension of roll-back taxes would be

counterproductive and, indeed, might lead to the loss of greater farmland than is now the case. And so I dissent from that aspect of the Report.

Regarding a constitutional convention, my views have been stated before, Mr. Chairmen, as a member of the commission that dealt with that issue several years ago. I'm not sure that we will not have a constitutional convention. Because I do not believe the recommendations, in total, will necessarily provide sustainable property tax relief. My considered judgment is that any constitutional convention, Mr. Chairmen, must have the ability to discuss spending, as well as revenue.

And then, most fundamentally, Mr. Chairmen, to me, personally-- I am deeply disappointed that the recommendation of the majority of this Committee is that there should be no amendment to the debt limitation clause. I believe, fundamentally, that all future levels of debt should go to the people for their approval or disapproval. The very disturbing report that was released last week indicating that debt in this state is at \$37 billion and rising, and that most of that debt is contract debt, not general obligation debt -- it compels me to continue my belief that, moving forward, only debt approved by the people themselves should be issued. And this, for me, personally, is the most disturbing aspect of the Report. And in the Minority document that is now being drafted, we will advocate, and advocate vigorously, for the fact that future debt should require voter approval.

Mr. Chairmen, it's a situation where I believe that the debt, that is now a burden for our children and grandchildren, is so great that we should make sure that the debt limitation clause should be applied as it was written in the 1947 Constitutional Convention. And I believe that the

framers were wise then. And we have not continued on the course that they suggested. And this, to me, is the most fundamental aspect of where I disagree with the Majority Report.

It's always a pleasure to work with colleagues who are devoted to the public good. And I believe that anybody who has followed these hearings closely, or the hearings of the other Committees, recognize, now, that we have in the Legislature men and women who try to deal with the important issues that confront us in a fashion of getting as much information as possible, and in a fashion recognizing that we must move forward together. And I believe that you, Mr. Chairman, and you, Senator Kenny, have conducted these hearings in that fashion. And I'm pleased to have participated in the process.

Thank you, Mr. Chairman.

ASSEMBLYMAN BURZICHELLI: Senator, I thank you for your contribution and your guidance. And I don't say that to be patronizing.

I'd like to just clarify a few points. Because in the areas that you register a dissent, I want to point out that the process continues. The issue of how that 20 percent will work will be a legislative process, after negotiations between our leadership in both Houses, and the Governor, and Treasurer come to an understanding of what the universe of that may be. So I think that your comments in that area will continue to be heard. Because I think we all agree that we would prefer that 20 be everywhere. And I'm hopeful that, as the State continues to get healthy -- as indications are, we are -- that, over time, that 20 percent is going to reach even more

people. So I think your comments today are to point. And I want you to know that I share your issue there.

With regard to the farmland assessment, and everything associated with it, I too represent an agricultural district. So we will be both mindful of the legislative process that talks about that, as we go forward. And my feeling is, and my understanding is, that there will be no move to change the income requirement from \$500, going forward. The debate and discussion will be about, should there be a roll-back; and what that should look like, if it should happen. So we both will work closely on that, to make certain that we've taken into consideration the Farm Bureau and everyone associated with that, to see how that works.

And I'll mention debt limitation, because I also, myself -- speaking personally -- share with you our concern. And although it didn't make a bullet point recommendation, on Page 83 I think there's important language related to that, which says, "Therefore, the Joint Committee recommends that the issue of voter approval of long-term borrowing should be referred to the Tax Policy Study Commission for a thorough study and analysis." And although I would have preferred that we would have been in a position to complete that work at this Committee level, frankly, at a given point, there's a time to start, and there's a time we were required to finish. So I think that the position that both you and Assemblyman Merkt had brought to our attention -- which is an important body, part of this body of work, with regard to what's happening in the debt area -- that issue is far from concluded today. And I know you both would have preferred stronger language, and we'll hear more about that. But there is, reflected in the body

of this, commitment that, yes, that should be looked at and has to be looked at.

So everything you've said-- I don't want to give any impression at all that it fell on deaf ears. It did not. There's a recognition that that work has to continue.

Now, I'll move to my left, and we'll move to the Assembly side. Assemblyman Richard Merkt, please.

ASSEMBLYMAN MERKT: Thank you, Mr. Chairman.

Mr. Chairman, at the outset, I, too, would like to express my gratitude to you and to Chairman Senator Kenny, and to Senator Madden, Senator Lance, and certainly my good friend Assemblyman Lou Manzo, for what has been a very interesting experience; and one that has deepened my friendship with my Assembly colleagues and, I think, broadened my friendship with Senate colleagues. I'm thrilled that we've had this opportunity. It's been a great, great thing.

I think this is a process that has merit. But I wanted to start out with those comments up front, because I have to be somewhat frank here. And I want you to understand that anything I say, certainly, is not intended in a personal nature. I have the highest personal regard for every member of this Committee. These people have definitely committed themselves to trying to do this process and to make it work better. And I think, to some extent, we have powers beyond us that have influenced the outcomes, and not always necessarily for the better.

The second thing I want to do is, I want to commend the staff. The OLS staff, the partisan staff as well-- They have done yeoman's work in this effort. And I think the people of New Jersey are better off for the

time that they have committed, and the effort that they have committed.

And, of course, it's been educational. I think all of us have learned a significant amount by sitting here during these, I guess, 14 weeks, hearing testimony, listening to hundreds of people who are involved, and having the opportunity to discuss the issues.

That said, I must first agree and associate myself with the learned remarks of the very learned Senator Lance, who, I think, beautifully summarized a lot of the issues. And, therefore, I will spare the Committee rehashing those particular issues.

On an administrative note, I just want to point out the fact that I am quite disappointed that I did not get to see the recommendations of this Committee in writing before the media and lobbyists were briefed. I don't think that should have happened. I think it's a breach of protocol. And, frankly, it was personally embarrassing to me, because I had a member of the media call me for comment. And I think he was somewhat surprised to hear me say, "What recommendations?" That shouldn't have happened. And, hopefully, that's something that would not happen in the future.

Now, let me get on to the chief issue that I wish to address today, which is the 20 percent proposed reduction plan. And I say "20 percent" -- that has to be in quotes, because it seems to be 20 percent for some people and not 20 percent for others.

First of all, I don't think that that properly falls within the ambit of this Committee. And the reason I believe that is because, if you read the constitutional charge -- or the legislative charge to us, we are supposed to be dealing with issues of constitutional import and whether or not there should be a constitutional convention.

Now, I'm not a stickler on such things, but I am troubled by this 20 percent proposal for a couple of reasons. The first one--

And you, Mr. Chairman, know this terribly well, because I think you and I kind of shared a view on it.

We should be putting any kind of relief program or reform program into the Constitution itself to make sure it survives, so that the people of New Jersey, who are depending upon property tax relief, receive not the last dollar that the State has available to spend, but the first dollar that the people of New Jersey -- that the State has to spend.

I am a great believer that any other program is essentially not sustainable, because the next year we go, there may not be money to support the program. And if the money is not there to support the program, what good is the promise that we've made this year? So I thoroughly agree with the concept that you advanced, and which unfortunately did not make it into the final Report -- that, as a proposal and as a recommendation, that we really do need to have some constitutional teeth to the proposal for property tax relief, or else the people of New Jersey cannot bank on it going forward.

The second issue, I think, is a little more problematic, and is still associated with the 20 percent proposal. And that is, unless I was missing a meeting or something -- and I don't think I was -- this was never discussed in Committee. I mean, we talked about the idea of property tax relief, but we never discussed or fixed on a 20 percent figure. And, frankly, had we had that opportunity, I would have liked to have had a chance to talk about who gets it, who qualifies, who doesn't qualify. I share Senator Lance's view that all of the homeowners in New Jersey certainly should

qualify. We would probably have had a chance to deal then with the issue of who pays for it. Obviously, when you're talking a given percentage, you also have to be talking an associated financial question of: How are we going to fund it? And we don't have an answer for that. Perhaps more upsetting than any of this is the fact that the public has been denied an opportunity to have an input into this process.

I found it personally troubling that when I finally did get to see the recommendations, the number one recommendation was something that this Committee had never taken testimony on, and had never really discussed as an issue. I don't think that's properly the work product of this Committee. We did a lot of good stuff, and we should be talking about the stuff that we did. We shouldn't be talking about a proposal that, as far as I can tell, was more the product of discussions between the Leader of the Assembly and the Leader of the Senate, than it was the work of this Committee.

And I think it's somewhat misleading to the people of New Jersey, when they read our Report and they see this 20 percent proposal in it. And they don't understand that that really wasn't something that came out of this Committee's deliberations. It was something that was kind of added in at the last moment.

Another problem I have with it is, which 20 percent? I am now, I think, on my fourth iteration of what this 20 percent figure really means. On the one hand, I remember that when the Leader of the Assembly and the Leader of the Senate came out and announced that they had reached an agreement, it was stated that the relief was going to be 20

percent relief for a majority of the people of New Jersey -- New Jersey families.

Then we had a second version, that appears in the Report, that basically says, it's going to be relief for -- 20 percent relief for, I guess, as many people as we can afford.

This morning, I read a third version by Senator Codey that basically said it's going to be relief of 20 percent for people over a certain amount -- or under a certain amount of income -- then 15 percent for another group, and then something else for something else. The problem I have-- And, by the way, there's another version out there, as well. So we have at least four versions out there. And if it's our recommendation, who knows? Maybe we should be the ones who actually fix what the rules should be here.

I see a program that has the consistency of Thanksgiving gravy. And I just really believe that the people in New Jersey -- if they're going to hear it discussed in the press -- really have a right to know, is 20 percent, 20 percent? Is it 20 percent for everybody? Is it 20 percent for some? Is it really 15 percent, or 10 percent, or nothing for a significant number of people?

I happen to share Senator Lance's view that, since we have a highly graduated income tax that's funding a huge amount of what we do now, that it's really unfair to many citizens to count their income against them a second time, when it comes time to distribute property tax relief. I mean, property tax relief is something that-- If property taxes -- high property taxes are something that are hurting literally every family in New Jersey. And, yes, we can say, "Well, as a percentage of your income, it's not

very much.” But you know what? These people are getting whacked on the gross income tax side. And so you’ve got to ask yourself, at what point does this make New Jersey a less attractive place for people to live?

So I guess, in sum, the program that was projected as our first recommendation, unfortunately to me, does not appear to be what we were shooting for, which is sustainable property tax relief. To be as critical as I can in this particular instance, it looks more like an election-year driven idea than it does a good, well-thought-out, comprehensive plan for property tax relief.

The other issue is this: We’ve had discussions -- if you go back to the last gubernatorial campaign -- where some people were proposing 30 percent reductions in property taxes. And it was derided by others as being unthinkable, unreasonable. And then there was another candidate, who has since advanced to a much more exalted role. And he talked about a 40 percent reduction in property tax.

So to me, deciding what the right number is and who is going to receive it is a very, very important issue. And I really believe that it should have been discussed publicly in this Committee. We should have been taking public testimony on it. And that’s why I have been so focused on that particular aspect.

It’s disappointing to me, because I thought we had a very promising start to this process. I think the leadership in this process has been stellar. And I, again, want to stress the fact that I do not hold anyone involved in this process accountable for what I think has been a bit of a distortion of where we were going. It’s going to be very difficult for me to

support a program -- or a Report -- that includes recommendations that, in my view, truly were not part of the central work of this Committee.

Thank you, Mr. Chairman.

ASSEMBLYMAN BURZICHELLI: Thank you, Assemblyman, very much. And let me, again, thank you for your contribution, particularly on the debt limitation side. Your presentation, along with Senator Lance's, is an important part of this Report.

ASSEMBLYMAN MERKT: Thank you.

ASSEMBLYMAN BURZICHELLI: And I know you would have preferred that there have been a different recommendation. But as I read from Page 83, there is a legitimate desire by this group to make certain that discussion moves to the next level and we work to understand if there is a better way, especially since we're talking about doing some things with assets.

And let me, before we move on, just say to you that the issue of the 20 percent, and how it found its way into this Report-- If you read the first sentence -- "the current Homestead Rebate should be replaced by a system of credits." I think that we had a discussion with regard to the credit side; and the ability to include the base of the 20 percent was a result of leadership, the Governor's Office and the Treasurer's Office, having made that progress. So the liberty was taken to insert that as a starting point of conversation.

But I share with Senator Lance, and yourself as well, that that 20 percent should be for as many people as possible. And I do mean, sincerely, as the State continues to get healthy, I hope that 20 percent reaches everyone. And the issues of -- the details of that were not to be held

here, because that would be the legislative process -- which you will be fully engaged in -- to try and shape how that 20 percent works, and how it can reach the most amount of people, and, above all, how it can be sustainable.

And I thank you for your mentioning the Constitution side that I had advanced. Because, again -- although it didn't make a bullet point recommendation -- on Page 42, the Report speaks very clearly, directing to the Legislature attention the potential to use the Constitution. And I chose not to heavily lobby that it would be a bullet recommendation. Because as the cautionary language that is attached to the Report clearly points out, further discussion is necessary of how that language, related to the Constitution, should be used. But I maintain -- steadfast -- that, in the end, once we understand how the approach is going to be to the short-term relief, we should pursue the Constitution for long-term reform, to make sure -- certain it stays guaranteed.

So, again, another example that the work of this Committee lives past the bullet-point recommendations. And people must read into this Report to see where we really arrived at.

So I say, loud and clear, that this work will extend past just the recommendations.

As the Governor's comments before the League of Municipalities was-- And he went on to say, "We have to take all this hard work, all the recommendations, and gather public input, further debate, and details; consider additional ideas, draft legislation, and get the necessary votes to make the package law." So the Governor recognizes that there is more work to be done.

But, thank you, Assemblyman, very much for your work and effort. And you were always available to this Chair, as we bounced ideas. There's more to be done.

Let me move back to the Senate, and invite Senator Fred Madden to offer us a comment.

SENATOR MADDEN: Thank you, Chairman.

I'd like to thank you and your Co-Chair, Senator Kenny, for your leadership in this Committee over the past three months.

I'd like to thank my colleagues from the Assembly -- Assemblyman Manzo and Assemblyman Merkt -- for their institutional input and their hard work over the past three months, also. It's been educational, informative, and I believe you've challenged a number of the speakers to bring forth some very good points throughout the hearings.

And to my right, Minority Leader Senator Lance-- As always, Senator, you're eloquent in your speaking, and you hit a lot of points, that I have found in my tenure in the Senate -- you had a lot of points that just need to be put out in front and discussed. And your leadership has served this Committee well. Thank you for your forthrightness.

To the members of OLS, I simply just say, every time I've asked you for something, I had it in an expeditious way. You're a real class group of people. You're professional, and you sure shined in supporting this Committee as it advanced through the hearings.

To the members of the partisan staff, we always depend on you constantly throughout the years, and you never let us down. And you keep up the good work. And thank you for all your effort.

Regarding the Report and my experiences on the Committee, I would simply say this to the people: I believe that a lot of the pressures and a lot of the discussions that have been taking place over the past couple of years in the Legislature actually brought these special sessions to bear. There is, in this particular Report, at this time -- for the people who have held closest and dearest to their heart the recommendation to have a constitutional convention-- At this time, the Committee's Report recommends that it's not -- we don't feel it's necessary. And I say, "at this time," meaning that that could always change, depending on how our negotiations move forward. I believe it was the pressure and the push for the constitutional convention that helped bring these special sessions to bear.

That being said, the Legislature has been, in part -- and has been challenged to do what it is supposed to do: sit down and come up with a better way to fund our schools and reform our property tax structure. The Report that we have put before the people, I believe, is what I will call the "very first step." I believe it is a significant step. We can debate whether it could be 20 percent for some, and 15 percent for others; or should it be 15 percent for all. But that debate is to take place over the next number of weeks. And I believe that those debates are going to be public, and they're going to be very, very interesting for many people.

One of the most profound recommendations, I believe, in this Report, is the report -- is our recommendation whereby we are calling for the establishment of a Tax Policy Study Commission. I believe this is one of the more significant recommendations, aside from the tax credits. And I say that for this reason. We have sat here for almost three months. We

have had, as the Chairman said, a number of meetings, both in this building and we've had them publicly. However, if we do not continue this process, I think it's just going to be a blip on the screen, so to speak, whereby we will sit, come up with an idea, and move forward one issue, in one point in time.

I believe the support of a Tax Policy Study Commission would be an ongoing process to review our fiscal policies and our spending policies within the State. I believe this Study Commission should also be charged to address one thing that, significantly, has not moved forward. And that is to evaluate and make recommendations to us regarding our State's debt limitation clause.

I partner with my colleagues from the Assembly and Senate on this particular issue. Debt has risen dramatically. In any household, if your debt had gone up hundreds of a percent over a period 10 years, you would hit the brakes, step back, and look at how you're spending money. And you'd make some major revisions to your fiscal policies in your own household. I believe the State of New Jersey needs to do that.

The shame of it is -- as Assemblyman Burzichelli pointed out -- we have a limited time frame. We have deadlines, we have reports we need to get done. The driven purposes of these Committees was to provide the most immediate, effective tax relief and reform that we could for the people. And we were given a small window of time in which to do that. Many have said we've been challenged to do, in three months, what has been a problem for well over 30 years.

That being said, the Study Commission should be able to be put in place, I hope. It is my best wishes that it will be put in place, it will

take its job seriously, be given time lines along the way, and guide the Legislature on issues of concern.

Ladies and gentlemen, the cap on governmental spending-- We had testimony from people throughout the country on this. And there are issues and concerns. And one of the most driving points -- I remember a statement being made -- was the fact that-- Listen, if you cap government, the State's now going to have to cut. But there was no guarantee, with the current system, that we would cut waste in the government. Good programs may actually get cut. What I would like to see is a consideration, as we move forward, to put some caps on our spending, but with assurances and a safety net to show that what we cut would be the waste in the government. And I believe the best way to do that is consideration for a State Office of the Comptroller, to complement the State Auditor's Office. You see, what we really need is-- We need a hardcore set of cops, if you will (laughter) -- so to speak -- that just need to be able to go in and make sure that you're spending the people's money the best you can.

I have publicly said this before. Day in and day out, our commissioners and directors show up, doing the best job they can in the State of New Jersey. But day in and day out, they are not spending eight hours a day trying to figure out how to get the best bang for the buck, necessarily, because of the demands on their job. We need a special group that would go after that particular issue regarding State spending. I wholeheartedly believe that. I believe that it will find waste, it will find duplication of services, and it will find services that maybe we're offering now that we no longer need to provide, or there is a more economical way to provide that, possibly with the use of technology or elevated level of

education. But I believe that that will be a very, very good step forward as we advance our issues.

That all being said, I would like to simply close, Mr. Chairman, with saying that, from my viewpoint, having lived in New Jersey pretty much -- essentially my entire adult life -- I believe we have before us one of the most significant property tax reducing initiatives that we have ever -- I have ever seen put before the people. And I've been paying property taxes as an adult for well over 30 years, and raised children. And now I'm watching them being burdened with the same thing, trying to start out in their 20s -- in a lifetime.

So I would like to just simply go on record and say that it is my firm belief that this document, again, is a good start, to clone your phrase. As a healthy State -- as we fiscally become healthier -- I would hope that these credits would expand and hit more people, and even to a larger amount of money. But again, it's a great start, I believe. In terms of the Committee, I'm proud to have been a part of this Committee. And I look forward to volunteering my time, in the future, for any issues of concern regarding our tax reform measures. It's been a pleasure spending my Summer and my off-hours with you. (laughter) But it was for a good cause. And the reality of it is, it's a starting point. And let us not forget that as we move through the legislative process.

Thank you for the ability to make comments.

ASSEMBLYMAN BURZICHELLI: Senator, thank you. And thank you for your contribution, and your steady attention to details, and your very thorough deliberations as this process had moved -- with the amount of testimony we took from experts across the country. Your ability

to sort through things and help keep us focused is a tremendous contribution. Thank you so much, Senator.

We now move to the last comment out of the Assembly side, which will be Assemblyman Lou Manzo.

Lou.

ASSEMBLYMAN MANZO: Thank you, Assemblyman.

I personally, too, want to take a moment to thank each member who served on this Joint Committee for their insight and their articulation in the important issues that each espoused: Senator Lance and Assemblyman Merkt on the spending side, and the debt issue -- which, on portions of those, I do agree.

And, Senator Madden, for you bringing to the table the concerns of the convention -- the constitutional convention, and your keeping that -- us focused and keeping that in the back of our minds.

John, your movement on constitutional dedication of the relief-- I think that's important.

And I have to thank Senator Kenny for reeling us all back in and reminding us of the great things that government has done through funding, and borrowing; and the need to discipline our need for wanting to curtail, and not destroy our future at the same time.

But it was a special honor, aside from the typical members -- is to have two distinguished members. And I'm just honored to be serving with someone of the magnitude of Senator Lance, and Senator Kenny too, what I think are legends of the Legislature. And it's something, I think, that I will cherish in my term here. And I appreciate learning from you, through this process.

I also want to tip my hat to the two Co-Chairs for doing a splendid job in stewarding us to where we're at.

Dr. Rosen, you and your staff have been magnificent. Phone calls every day, I know almost, from me -- where's the information, getting it, and compiling all the information that you did. You've been great.

And our partisan staffs-- They've been fantastic. And much of the documentation of the Committee actions that were taken, that are in here, are their work.

I've read over the constructed Joint Committee Report cover to cover, several times, actually, since last Wednesday. Over the weekend, I viewed, actually, each of the available Committee meetings that were posted online. Now, it's not that I don't have an active social life, it's just that I had a cold over the weekend. (laughter) And I'm mostly unknown to the Trenton media, so it wasn't that I was being bothered by phone calls from the press. But I took the time, because I wanted to emphasize what I feel is important to me and to a lot of people in the state.

While I'm very proud of the work we've done here, and I support the Committee recommendations, I'm just a little upset about the thrust of what I felt -- the recommendations, and where they should have went, and what was captured.

The knowledge we learned through all of our hearings should shape what future tax commission policies we set up look at. And I don't think we reflected that knowledge particularly well in our recommendations. Repeatedly, we were given facts and figures concerning the alarming growth of the school tax portion of New Jersey's overall property tax bill, now hovering close to 60 percent. Repeatedly, a common

theme of witnesses that were echoed, and/or suggestions made before our Committee, were that school funding should have been based, somewhat, on an ability to pay. And in exploring that option throughout many of our hearings, we asked the Office of Legislative Services to substantiate the distribution of the tax burden spread across New Jersey.

Unfortunately, it wasn't until our last meeting -- because they were working, trying to get this information culled together from the Treasurer's Office -- and our last meeting was a nonpublic meeting -- it wasn't until then that OLS was able to provide us with a snapshot of their findings. I will be making those findings available to the public, and I'm sure the Committee will too.

But I would ask at this time, if OLS could put up just one graph that I had asked them to do, sort of capturing what it was we went over at our last meeting.

I wasn't surprised by the data that they had found, having worked on the SMART Homestead Rebate Act. And the chart -- what it basically shows is what I term -- is a *fairness evaluator*. Dollar for dollar, all things being equal, it shows us, in proportion to earned income and in paying, what tax burden in New Jersey our taxpayers fall in. The stripe -- the bars indicate the property tax, the red bars indicate our sales tax, and the white bars indicate the income tax. And you can see that the lowest income earners are exemplified on the left hand of the chart. And it progresses on up to the highest income earners in our state. And I think this puts all three taxes in a snapshot. And I hope that we will take from this, and forward this most vital information to a tax policy commission for study. Because I think right here describes the problem that we have had.

You can plainly see that in regards to the property tax, overwhelmingly, lower-, and middle-income, and even lower upper-income residents are being crucified in New Jersey. The value of homes being five times more than the average income for New Jerseyans leads us to the conclusion that -- why would we ever want to fund anything like school taxes through a property tax, and not an income tax?

The sales tax is just as regressive. And in the future, we should avoid asking New Jerseyans to pay for their tax relief with other regressive taxes. The graph also indicates that New Jersey's income tax is our State's most progressive tax. And as noted, it is primarily funded by the top 1 percent of New Jersey income earners. The latter point, incidentally, has been the primary reason given by the Executive Branch, and some in the Legislature, for not using this most progressive, underutilized resource for remedying our overreliance on property taxes in New Jersey.

This source, by the way, would cement sustainability if it were utilized for the reform measures needed in our tax dilemma. The day before we even convened this Committee, the Executive Branch declared that income tax alternatives were a nonstarter, and it took that 800-pound gorilla off of the table. I want to thank this Committee for being bold enough to still explore it. I think we needed to do that to shape the future.

Let's recap some of what we learned in the evidence presented before us. The top 1 percent of income earners in our state are paying close to 40 percent, or the lion's share, of income tax because of several factors. Number one, their ranks have grown. And this is born out by a Policy Perspective study that was recently done. Number two, their income has followed a national trend and has exceeded the income increases of other

tax brackets and the earners in those tax brackets. And, number three, because we implemented a Millionaire's Tax several years ago, we get a bigger portion of income revenue from that tax bracket group.

Now, look at the graph and see for yourself, again, who is bearing the burden of New Jersey's most onerous tax, the property tax, the tax whose reform remained our priority. Our failure to rely on a fairer revenue stream, based on the ability to pay, is what's driving the tax pain for most New Jerseyans, and so many middle-income residents, leaving them to flee our state.

Because of the overwhelming number of top 1 percent income earners New Jersey has, we rank as the first state in the nation in per capita income. But as evidenced in a memorandum that was constructed by OLS in answer to some questions I had, this factor, in a state that underutilizes its income tax, hurts us even more. Because some of the largest programs in New Jersey implements -- that New Jersey implements are tied to per capita income as a means test for Federal subsidies, New Jersey ranks dead last amongst all states in money returned for our Federal tax dollar. Funding for Medicaid, Section 8 housing, temporary assistance to needy families, and Title I education dollars are tie-barred to our per capita income. This severely disadvantages the resources New Jersey needs for its seniors, its needy families, and its children. To supplement the lack of these Federal dollars for those programs, New Jersey relies on an assortment of other taxes to fill that void. And they're mostly regressive taxes. And local governments trying to fill that void, in turn, again rely on the property tax. This is that vicious cycle that, eventually, causes businesses to have to raise salaries so their employees can afford the property taxes in the state, when

we don't make better use of the income tax in the first place, which would solve the problem.

In light of these factors, and comprehending what this graph before us signifies, to do nothing more or to recommend nothing more would be sinful for us. An assortment of witnesses and public commentary overwhelmingly presented before our Committee has advocated for solving New Jersey's property tax problem, along with other recommendations, with an ability-to-pay dynamic, mainly tied to better use of our income tax.

From our Joint Committee findings on Page 1; from the public sentiment -- 180 e-mails out of 277 -- indicating we should be tied to an ability-to-pay system; 10,000 petitions filed along with the SMART Bill; and 78 resolutions from counties and cities, all supportive of a SMART Bill concept, which represents nearly 1.5 million people -- their constituents.

In Dr. Rosen's OLS presentation, on August 4, there was a clear indication of the need to switch tracks. The public hearing on September 21 -- again, more people advocating for a fairer way to tax people in New Jersey. In my SMART Bill presentation, on October 12, I presented some more information. Ben (*sic*) Waisanen, a tax policy analyst, that day also described relief must be issued on a -- based on a proportion to income and an ability to pay. On October 19, Joyce Powell, NJEA; Senator Schluter -- all advocating the same theme, that we need to be using -- make better use of our income tax. On Page 42, even our Joint Committee findings reference the ability to pay.

And finally, when we reference -- we give reference to appointing a lot of this work to a Tax Policy Commission, we should make note that we previously had two of these Tax Policy Commissions enacted

by the Legislature. And both of their reports indicated that we should make better use of New Jersey's income tax.

There was not one witness before our Committee who countered any of these claims. The only evidence to the contrary was in the manner of speculation that was raised outside of the Committee, stating that our State's bursting-at-the-seams, top 1 percenters would somehow leave the state. This sentiment is rooted in hysteria and not supported by fact.

We were given snippets of the New Jersey economy in a report and white paper that was issued by James Hughes and Joseph Seneca. In reading their report synopsis in the *New Jersey Report*, of June 2006 edition, one can see what is driving the hysteria. A passage cites the basis of some Trenton policy makers' fears of utilizing income tax as a solution was the climate of the social circles in which they travel.

My colleagues, we cannot adopt public policy by prevailing sentiments of our social circles. We cannot allow a scintilla of the minority to drive the agenda for the overwhelming vast majority and, in so doing, continuing to drive them out of the state. While it's true that Einstein did say that you can't solve problems using the same thinking that created the problem in the first place; he also said that if the facts don't fit the theory, change the facts. And that's what I believe some people do when they say we shouldn't be using income tax more closely tied to property tax relief. Einstein, incidentally, also said that the hardest thing to understand is the income tax. And he was a pretty smart guy, too. (laughter)

Our immediate reprieve, as a solution to these problems, has been to recommend a 20 percent tax credit -- we hope can grow in future

years -- and asking a much-needed Tax Policy Commission to find root for its sustainability. Incidentally, as I said before, two previous commissions also recommended better use of our income tax.

In a last-minute warning to the Legislature, Governor Corzine said last week -- and he said it best -- "Be bold." He demanded sustainability to our solutions, and he's right. And we should have referred to two sections of our Constitution that point the way for this solution. Article 8, Section 4, Paragraphs 1 and 2: "It's New Jersey's job to provide, and to maintain, and to support public and primary secondary schools." The second clause we sometimes forget -- it says, "For the equal benefit of all the state," meaning that it's not just for urban areas. It should be for suburban areas. And they're entitled to support for their public schools, too. And Article 8, Section 1, Paragraph 5 -- which Jon is so hardworking on -- the ability to provide relief to property owners via credits or rebates.

It is clear, my fellow colleagues -- clearly evident to all of us -- that funding public education unequally, at an average 59 percent composition of local tax resources, is unconstitutional. The SMART Bill, as proposed, that was tie-barred to repealing the Millionaire's Tax, I felt, was the best alternative to funding public schools. It would have provided the largest net tax decrease in New Jersey's history, satisfying 95 percent of all New Jerseyans, with the exception -- or even the top 1 percenters, with the exception of those who weren't paying the average property tax hike or school tax in New Jersey; cutting everyone's property taxes the same amount -- I agree with Senator Lance on this -- independent of their income. And it would have removed the disparity between urban and suburban districts. All this without increasing overall tax revenues one

penny more; all this by just shifting the burden from a regressive tax over to a progressive tax.

But revenue isn't the only area in which we need to be bolder. Bonding and spending are also out of control in our State. Just last week, the Treasurer's Office issued a study report on placing tolls on now-free State roads. To justify this, the authors of that report chastised the Legislature for piling up exorbitant debt and mortgaging our future. They're wrong about the tolls; maybe they make some good points about the debt.

And I embrace the sentiment of others on this Committee that no debt should be issued by any appendage of State government unless it's authored by the people of the state. And I'm happy that the Report reflects that that should be studied by the Tax Policy Commission.

I also felt that SCR-15, sponsored by Senators Lance and Allen, is a fitting complement, actually, to the SMART Bill -- and deserves an unrushed hearing -- to curb our State's excessive spending. And it's something to work as a template with.

Chairman Burzichelli, you hit it on the head. In our pushing to dedicate the tax credit and making it permanent, we protect it by the Constitution and we guarantee it to the people. And I will continue to support your legislative efforts in that regard.

Finally, let me impose the words of another immigrant turned U.S. citizen, author and scholar Isaac Asimov, who told us, "If knowledge can create problems, it is not through ignorance that we can solve them."

My colleagues, look at the graph and know the problem. Read the Report and know the problem. More is needed to solve the problem.

All of the smartest people in Trenton know the problem. And all the smartest people working to solve it should know this: The functions of the intellect are not sufficient without the courage of convictions.

Thank you.

ASSEMBLYMAN BURZICHELLI: Assemblyman Manzo, thank you very much.

And let me thank you, as I have thanked the others -- and thank you sincerely for your effort, for your passion, for your ongoing continued pursuit of offering alternatives. And your work on the SMART Bill is, I think, thoroughly reflected in the Report. And I think as it moves to the Tax Commission for review and study, as years pass, the issue of the income tax is going to be in flight, I would think, at some point. So all the effort you've made sets the seeds for what will come in the future.

But thank you so very much.

ASSEMBLYMAN MANZO: Thank you.

ASSEMBLYMAN BURZICHELLI: Let me move on to my Co-Chair, Senator Bernie Kenny, for the Senator's thoughts. And then we'll move toward a vote to release the work.

SENATOR KENNY: Thank you, Mr. Chairman.

I have listened to my colleagues, and I'm not going to add anything to what has been stated. Some issues we agree on, some we disagree. But I think the Report is reflective of our consensus, and that's the important thing. Today is -- that we do, I believe, have a consensus to move this Report out of Committee.

I want to join the others in recognizing the Office of Legislative Services and the staffs of the Republicans and Democrats here, both in the

Assembly and the Senate, for their work over the last three-and-a-half months. It's really been astounding. I mean, the chart that Assemblyman Manzo referred to, which was up on the monitor a little while ago, was worked on by OLS and the Treasury Department here. And it's the first time that this data has been collected in State history, which shows the relationship between property taxes, income taxes, and sales tax as a percent of income.

This analysis had never been done before. And I think a lot of the analysis contained in this Report, as well as the Reports of the other Committees -- of which there are four in total -- has never really been done as exhaustively by the Legislature as it has been in the year 2006. I think this body of work is going to serve future Legislatures and Governors in the next decade considerably, as they continue to look at the issues of financing State government, and property tax relief, and education -- which are the major issues that are always before us. So I do believe that what's been done here, in these four Committees, has been a major turning point in developing an analysis that is going to serve us going forward.

The issue before us now is to vote on the Report to adopt it, so that it can be passed on to the Legislature for their consideration.

And I turn it back to you, Mr. Chairman, for that purpose.

ASSEMBLYMAN BURZICHELLI: Thank you, Senator.

I will be calling for a motion, and we will be -- the motion will be that we release this Report, recognizing that there will be an attached Minority report to follow, which is in draft work now, presently.

Am I correctly understanding?

ASSEMBLYMAN MERKT: Correct.

ASSEMBLYMAN BURZICHELLI: And through that process, as the record stays open to accept that onto the Report, there will be an opportunity for clarification of statements that may want to be included.

So I will call for this vote, and then I will close with a comment.

So, that being said, the Chair will entertain a motion to release this Report, understanding the Minority report shall be attached.

Is there a motion?

ASSEMBLYMAN MANZO: I move.

SENATOR KENNY: I'll second.

ASSEMBLYMAN BURZICHELLI: Motion being seconded, we'll have a roll call, please.

MS. BRENNAN (Joint Committee Aide): On the release of the Report, Senator Kenny.

SENATOR KENNY: Yes.

MS. BRENNAN: Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Yes.

MS. BRENNAN: Senator Madden.

SENATOR MADDEN: Yes.

MS. BRENNAN: Senator Lance.

SENATOR LANCE: Yes.

MS. BRENNAN: Assemblyman Manzo.

ASSEMBLYMAN MANZO: Yes.

MS. BRENNAN: Assemblyman Merkt.

ASSEMBLYMAN MERKT: No.

ASSEMBLYMAN BURZICHELLI: Thank you.

This Report stands released.

I'd like to close these proceedings with the following, and quote the Governor from his most recent speech. "The process is not over with the release of these recommendations of these Reports of the Joint Committee Reports. We are simply entering the next and probably more difficult phase of the process. It's time to make concepts law. The details -- the all so troublesome details -- must now be addressed."

I thank everyone for their service.

This Committee stands adjourned, it's work completed.

(MEETING CONCLUDED)