

New jersey revenue reform



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In his State of the State speech, Governor Corzine identified five broad areas of revenue reform in New Jersey, i. e., pensions and benefits, shared services, debt reduction, modernization of the tax structure, and sustainability. The centerpiece of the direct property tax relief is the tax credits in the form of 20%, 15%, and 10%, depending on the amount of income per household. Governor Corzine was explicit about this in his speech.

He was equally explicit in stating that for the tax credit system to work, there must be a solid, concrete source of funding. For this, he pointed out the sales tax revenues and the redirected homestead rebates will supply the first influx of financing. As for the succeeding years, the balance is proposed to come from the following: 1) cost savings achieved through regular and independent auditing by a new, nonpolitical state comptroller; 2) consolidations and shared services; 3) collective bargaining on pension and health benefits; 4) asset monetization designed to reduce the state's credit card payments and provide the capacity to make capital investments in the future of the state; and 5) 4% cap on the increase in the property tax levy, claimed to be the key for sustainability of the tax credit system. Each of these is supposed to contribute to the sustainability of the reform program, with the cap and the credit working off each other to attain the goal.

Reacting to the speech, Assembly Minority Leader Alex DeCroce stated that “sadly, after five years of Democrat control, the state of our state has never been worse. The toxic mix of high property taxes, public corruption, a mountain of debt, wasteful state spending and anti-economic growth policies

are making New Jersey unaffordable for middle class families” (The Associated Press 2007).

Superficially, Governor Corzine’s recommendations seem to be nothing more than political grandstanding, since all 120 legislative seats are slated for elections this year. Clunn (2006) points out that in 2005, State House representatives promised to enact real property tax reforms by year-end of 2006, with no results. The recommendations of the State House were effectively countered by the Governor’s apparent desire to negotiate benefits reforms rather than make tax cuts, something that the State House representatives endeavored to get approved for five months.

Corzine’s actions since his election have lead to the creation of a blogspot on the internet, called NJ Fiscal Folly, where citizens voice out their criticisms against the Governor. Many individuals reacted negatively to the raising of sales taxes from 6% to 7%, the refusal of essential state spending reforms, and the addition of \$270 Million to the Governor’s already significant pork (NJ Fiscal Folly 2006).

For the bloggers, “ any talk about setting aside a portion of the tax increase is simply blather, nothing more than lipstick on the pig” (NJ Fiscal Folly 2006). More so when paired with the proposed alternative budget for 2007, which involved barely any spending cuts, save for a lower contribution to the pension system, and the Governor’s threat to shut down state government unless the legislature approves his proposed budget (NJ Fiscal Folly 2006). The sales tax increase was supposed to supply \$1. 2 Billion in revenues for the government.

There are a few people, however, that are trying to look past the politics and are objectively assessing whether or not the proposals are actually feasible or if they will produce the desired results. Senator Gormley, a Republican, thinks that the speech given by the Governor gave a “matter-of-fact outline of what needs to be done”, but it remains to be seen whether or not it will be done (Rispoli 2007), since talk of revenue reform has been just that, talk, for the past half a decade, with New Jersey’s property tax reliance at double the nationwide rate. Hester (2007) reports that legislators are hoping to have the new tax system of property tax credits in place before the bills go out this summer, which are checks mailed to homeowners as tax relief.

Others reacted more constructively to the Governor’s empowered speech, such as William G. Dressel, Jr. Executive Director of the New Jersey State League of Municipalities. Dressel (2006) applauded some of the proposed reforms while rejecting others, but stated that the recommendations will “generally help to limit future pension and benefits costs.”

After a preliminary analysis of the proposed recommendations, Dressel (2006) pointed out that there are certain things lacking therein which the special session needs to provide for, such as the burdensome relationship between the real property tax payers and the members of the Police and Firemen’s Retirement System, and the enforcement of the moratorium on new benefits. Dressel (2006) rejected outright the proposal to ban dual elective office holding and the tying a portion of property tax relief funding to adherence with the Efficiency Commission.

He also commented that with respect to the original recommendation by the governor on shared services, there seemed to be a deviation in the course

being taken by the special session. He pointed out that thus far, there were no recommendations on debt reduction and no specific provisions for sustainability, and that the proposals to modernize the tax system were deficient in supplying a funding source for the changes sought, specifically the tax credit system reducing residential property taxes by 20%.

Hester (2007) reports that this 20% cut would require \$2 Billion per annum and be funded by money previously allocated for property tax rebates and sales tax revenue, with the government relying on the previous year's excess sales tax revenue to serve as initial funding, but with the need to find \$400 Million more each year to fund the tax cut past the current year.

Caslander (2007) opines that with the proposed changes, New Jersey would be better off changing its name from the Garden State to the "Tax Capital". Treating the proposals as being analogous to "finding free cheese in a mouse trap", Caslander (2007) believes that the solutions will alleviate the problem only for a short term, but that the problem will remain, and in effect, the current proposed solutions will only end up compounding the problem, because the solution involves granting tax relief now but providing for its funding later.

Rebovich (2006), after the first special session, commented that perhaps an ideal real property tax reform program would involve an extension of the sales tax, an increase in income tax rates, and savings from benefit reductions, as in effect, the burden would be shared or distributed among different people, and the effects on business and the economy would not be so harsh.

Considering that the Governor's state of the state speech cannot be expected to expound completely the mechanics of the proposed reform, that could perhaps account for the lack of details as to how the proposed changes will work. At first glance, the proposals seem to conform to Rebovich's picture of what would be an ideal real property tax reform program to alleviate the current situation in New Jersey. Both public and private sectors are affected, and it seems that the burden is spread out. However, there are still many things that need to be addressed.

For example, how exactly will the tax credit system work? How much will it take to develop the system and install it in place of the current system? How will the new system be funded in order to be put in place? These questions are as important as determining where the funding for the credits themselves will be taken. Without concrete plans for the working and implementation of the credit system, it will definitely not work, and the reforms desired will not be attained.

Also, what will be the cost of implementing a new system of auditing? And what guarantee is there that the new state comptroller will be, as he is described "nonpolitical"? What about consolidation and shared services? The Governor stated that this area needs some review, but there must be a specific set of rules or criteria to help determine which areas or branches should be consolidated, and which should remain independent, as well as which particular services should be shared.

As for reduction of pension and health benefits, is there potential liability on the part of the state for those who claim a vested right to the value of the benefits they receive, especially with respect to pension and retirement

benefits of those who have been receiving them for years? Spreading the burden of paying for the proposed reforms is a good idea, but is it just? What if the state ends up spending more because of litigation? Then the expenses would merely be redirected elsewhere, but the burden would still be heavy for a lot of people. The idea of banning dual elective office holding is a good idea, whatever curtailing effects it might seem to have on the right of suffrage of the electorate.

Public office is a public trust, and from the person in office should be expected no less than the duty of utmost fidelity and loyalty to the people he represents. The tendency in holding dual offices is that the efforts of the public officer will be divided, and the quality of his services might be diminished. As for Dressel's arguments against the Efficiency Commission, perhaps a set of rules to govern the proceedings and determinations made by the Commission, as well as a mode of appeal or review of its determinations, would be enough of a safeguard against the danger of subjectivity pointed out.

Objectively, the recommendations given are feasible, but more work needs to be put in fine tuning the plans and executing them. The cooperation of everyone is needed; instead of blindly criticizing, constructive comments and active participation can make the proposals for reform work.

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