



## Fiscal Stress: It's Not Just a Big City Problem

By Henry A. Coleman

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### **FOREWORD By Jon Shure, NJPP President**

Stereotypes, whether they deal with people, places or problems, are dangerous and misleading. They divert attention away from real needs and real solutions. So it is with the issue covered by this report. Too often when we think of places where quality of life is threatened by the spiral of rising taxes and declining services, cities come to mind - aging, rundown, unappealing cities.

It is important to know that many other places in New Jersey - including some that on the surface appear to be thriving - face the same conditions that have been so brutal for the cities. Those conditions, as the report points out, include in large measure over-reliance on property taxes as a system to pay for local government. By seeing this bigger picture we can understand more clearly that no one in New Jersey is immune from the situation outlined below. This is "our" problem, not "their" problem. The sooner we see this, the sooner we can start to debate and develop solutions for ridding New Jersey of the ticking time bomb of fiscal stress.

While other work by NJPP on property tax issues has dealt with how best to provide relief for overburdened individual homeowners and renters, this report focuses more on the impact that municipalities - of all sizes and complexions - feel from the system. NJPP is indebted to Henry A. Coleman for an analysis that helps to advance the day when New Jersey comes together to face up to what needs to be done.

### **THE NATURAL COURSE...OR NOT?**

To many observers it is simply the natural course of things: cities go from being vibrant to growing old and tired; they become less viable - no longer able to make it on their own. But in New Jersey, there is no question that the process of decay has as one of its major causes the structure of the tax system we, as a state choose, to live with. Furthermore, it must be emphatically stated that the problems that will be discussed here are not found only in the major cities of New Jersey, the ones that fit the stereotype of decline.

Far from it. Today, municipalities of all sizes are threatened by the current situation. Indeed, well over 100 of the state's 566 municipalities - big and small, urban and suburban - are experiencing problems. Moreover, many of the others may be staving off short-term trouble by acting against the long-term interest of their region and the state as a whole. They do so in hopes of finding a way out of the dilemma thrust upon them by state policy.

This need not be the case. Changes in the state's tax structure that could reduce or eliminate

these pernicious impacts are possible. They would require, however, greater understanding and more political leadership than has existed to date. If undertaken, these changes would make the decline of the state's municipalities something far from the inevitability that is today's conventional wisdom. The longer it takes to develop and implement effective solutions, the more difficult it becomes to deal with problems of fiscal stress that threaten this state's quality of life in ways ranging from the education of our workforce to suburban sprawl.

## **WHY NEW JERSEY IS DIFFERENT**

New Jersey is the richest state in the nation, with a median household income of \$54,226, more than 31 percent above the national average. Clearly, there are significant resources available in the state. However, the distribution of those resources among local jurisdictions is highly skewed. So it is that New Jersey is home to some of the nation's richest municipalities, and also to several of the poorest. According to a 1993 report by the Greater Washington Research Center, Camden ranked fifth and Newark ranked thirtieth among the poorest municipalities in the country.

One reason why the state's high per capita income is of little help to municipalities is that, compared to other states, New Jersey relies excessively on local governments and local financing through the property tax. There are almost 1,600 local units of government in New Jersey, including 21 counties, 566 municipalities, 611 school districts, and more than 400 local authorities, fire districts and other special-purpose local governmental entities. These local units rely almost exclusively on property taxes to pay for a range of activities and services that elsewhere in the United States are funded to a greater extent by state dollars. In 1998, the most recent year for which figures are available, New Jersey was first among all states in terms of property taxes per capita at \$1,744.

The measure of a government's ability to pay for services demanded by its citizens is called "fiscal capacity." This refers to the relationship between spending needs and available resources in a jurisdiction. Where resources are inadequate to provide the amount of spending needed in a community, a structural imbalance called "fiscal stress" is said to exist.

Usually, fiscal stress is a chronic, rather than a periodic, condition for a local community. High and rising local taxes coupled with poor and declining quality of local services are characteristics of local fiscal stress. Moreover, fiscal stress is a dynamic condition - it produces a vicious downward spiraling cycle. High and rising local taxes plus declining local services lead to a deteriorating tax base and further increases in taxes and reductions in services. In other words, the worse it gets, the less desirable a place the municipality becomes; then as more people and businesses depart, the capacity only lessens and the results get worse. Any cyclical downswings in the state, regional, or national economy, which raise local spending pressures while reducing the flow of revenues to the local jurisdictions, exacerbate these structural imbalances.

## **WHY SHOULD WE CARE?**

Fiscal stress presents a problem for several reasons. First, it contributes directly to the economic decline of many local jurisdictions, especially the state's largest cities. Many

households and businesses are economically mobile, and when they move they often are not replaced. This brings about a decline in local property tax revenue and means that remaining residents and firms face fewer and poorer quality services. Tests scores in local schools decline, streets are dirtier and less-well maintained, crime rates increase - the quality of life in general deteriorates. Because public service costs do not decline in proportion to the loss of population and businesses, the remaining taxpayers face higher tax bills for reduced services. Since taxes accrue as costs of doing business in an area, these higher taxes reduce the value of property and the incentive for companies to locate or expand their operations in these cities and older suburbs.

Second, developing suburbs suffer directly or indirectly, under powerful pressures to constantly seek to avoid fiscal stress by expanding their property tax base in hopes of maintaining low tax rates. So they open the municipality to commercial establishments, offices, houses and other development. This so-called "ratables chase" results in unwise planning and land-use decisions, guided by the need to expand the revenue base instead of to preserve quality of life. Congestion, pollution, costly and duplicative infrastructure investment and loss of valued open space result from the ratables chase. It is important to note that the ratables chase does not give rise to a long-term sustainable solution to the problem of fiscal stress. Municipalities that rely on new ratables to absorb budget increases approach the threshold of fiscal stress when their developable land is exhausted. State efforts to protect the environment through state planning have not been strong enough to contend with the development pressures from the ratable chase. Indeed, the state's purchase of open space might accelerate the reduction in the amount of developable land available, and while that is desirable from an environmental standpoint, under our current tax structure it further contributes to property tax pressures and fiscal stress.

Third, and perhaps most distressing, is the self-perpetuating cycle set in motion by the fear of fiscal stress. Taxpayers - individuals and businesses - leave cities and older suburbs because they believe taxes will increase and services will decline. Where do they go? Into developing suburbs, further contributing to congestion, loss of open space and unwarranted public investments in those places. The net result is higher-than-necessary public spending, higher and less fairly distributed tax burdens and reduced quality of life for all.

### **HOW BAD IS IT?**

To get a clearer sense of just how pervasive the problems of structural imbalances and fiscal stress are among local governments in New Jersey, it is helpful to review how property taxes are determined. In New Jersey, there is not a single property tax, but rather a separate property tax for each jurisdiction that is authorized to impose the tax. The municipality is the property tax collection agent for all local government in the state, collecting from homeowners and businesses not only what is needed for municipal services, but also those imposed by school districts, counties and such other special-purpose local entities as fire departments.

How much a jurisdiction needs to get from property taxes is the difference between how much it will spend and how much it can get from other, non-property tax sources such as federal and state aid, fees, charges and so on. It is, then, a residual tax. That is:

Property tax levy =  
local spending minus revenues available from other sources

Each jurisdiction, every year, comes up with a property tax rate, in other words the percentage of a home or business's full property value that will go for taxes. The amount of money needed and the total property value in the local jurisdiction determine the tax rate in that jurisdiction, or:

Property tax rate =  
Property tax levy ÷ Property value

The property tax burden in a given place relates directly to:

- The level and rate of growth of local spending
- The amount and distribution of state aid and other alternative revenue sources
- Property values, which reflect both real and inflation-induced growth

Any change that increases local spending and/or decreases non-property tax revenues will increase the property tax levy, all else being the same. If state aid or some other component of non-property tax revenues declines or simply fails to keep pace with the growth in local spending, upward pressures on local property taxes will result. Likewise, any decrease in property values, due to a reduction in the number of households and businesses or to an increase in the amount of property that is exempt from taxation, will reduce the size of the tax base and put upward pressure on local tax rates. As a result, property taxes in a jurisdiction are a good measure of the degree of fiscal stress.

Methods for measuring property tax burdens in a state or community include:

- Overall size of the tax levy
- Property taxes per capita
- General/equalized tax rate
- Property taxes as a percent of all state and local taxes
- Property taxes as a percent of personal income
- Change in property taxes over time.

No matter how the property tax burden is measured, in New Jersey the same pattern emerges. For example, the state average equalized property tax rate (ETR) in 1985 was \$2.47 per \$100 of property value. This was more than double the national average rate of \$1.21.

And while ETRs have been declining across the country, that decline was very modest and short lived in New Jersey. Despite a huge growth in the value of property over the years, the ETR for the state in 2000 was \$2.32, down somewhat from the level in 1985 and from 1966, when it was \$2.57. Two groups set up to examine property taxes in New Jersey - the Property Tax Assessment Study Commission, which issued its final report in 1986, and the State and Local Expenditure and Revenue Policy Commission, which reported in 1988 - suggested a target ETR of \$3.00 or less as desirable. Above that level, they said, is a trouble zone, where the situation cannot be sustained indefinitely and fiscal stress may be near even

if local officials do not yet realize it. In 2000, 129 municipalities had an ETR of \$3.00 or more, up from 119 in 1998, with at least one such municipality within each county (see table).

The problem of fiscal stress is pervasive, and not limited to the large cities in New Jersey. Moreover, fiscal stress does not appear to be abating over time.

### **WHAT CAUSES LOCAL FISCAL STRESS?**

Many of New Jersey's local units are experiencing a structural imbalance and some degree of fiscal stress. In general, this structural imbalance results from two factors:

- The way the responsibilities to provide and pay for services are allocated between the state and local governments does not always match up.
- Spending needs and resources available among local governments vary greatly.

The Constitution of the United States provides for the sovereignty of the national and state governments. It makes no mention of municipalities. Local governments, then, are considered "creatures" of their parent state. Any local unit presumably can be created or destroyed at the discretion of its state government. A state's authority over its local governments extends to defining which services they can or must provide, and which revenue sources they have at their disposal. Among the states, the allocation of functional responsibilities between the state and its local governments differs significantly. In addition, local access to alternative revenues also varies considerably.

For example, New Jersey has a very efficient tax collection system compared to other states in that, with the exception of the property tax, all of the major taxes (e.g., income, sales, business) are collected centrally by the state. The only significant exceptions are the Atlantic City luxury tax, the Newark payroll tax and parking and hotel taxes imposed by some cities. However, while the collection of these revenues might be very efficient, the same cannot necessarily be said about how they are then used. Indeed, that efficient system works well only if revenues from broad-based state taxes are then shared with localities in proportion to the service costs that they are forced by the state to bear.

Local governments have significant responsibilities for such services as schools, police and fire protection, garbage disposal, public assistance, county colleges, assistance for the mentally ill and disabled and the office of the county prosecutor. In these instances, the service is either a state responsibility devolved to local government or a local responsibility under state law.

For example, the New Jersey Constitution defines the provision of a thorough and efficient primary and secondary education for individuals 5 to 18 years of age as the responsibility of the state government. Indeed, the state sets many of the parameters governing the provision of school services, including curriculum standards, minimum teacher salaries and such. But the state of New Jersey provides only about 40 percent of the total cost of financing local education - well below the national average of around 50 percent.

Similarly, as a partner in the establishment of the county colleges, state government was to

pay approximately 50 percent of the cost of operating that system. In fact, the state's share generally has amounted to only about 25 percent. In addition to these situations where the state government plays a dominant role in so-called joint state-local spending decisions, unfunded federal and state mandated expenditures also add to the state-local mismatch. Although the state plays such a major role in the spending decisions at the local level, the state reserves for itself the authority to impose taxes on broad-based revenue sources, such as the income and sales taxes. The result of these factors is extensive reliance on property taxation by local government because it has nowhere else to turn.

From place to place in New Jersey, needs and resources are unevenly distributed. A major reason is the combination of having such a large number of local jurisdictions, and the reliance on local property tax as the primary source of revenue for local governments. Indeed, spending needs are often greatest where resources - measured in terms of property values - are least. Cities and older suburbs in the state have experienced a loss of households and firms, which move out to developing suburbs in search of cheaper housing, better schools and safer communities. These cities and older suburbs remain home to many economically disadvantaged, often minority, households that might need more services from the public sector, but have very limited resources to help pay for those services. This concentration of poor residents in cities and older suburbs, while better off individuals reside in outlying suburbs, is often referred to as "polarization." As noted earlier, the problem is quite pervasive and far broader than just a handful of older cities. It now describes more than 100 municipalities, with more joining the ranks each year.

The state-local mismatch suggests that local government in general carries a disproportionate burden within the New Jersey public sector. The local disparity mismatch indicates that the resulting fiscal stress is much more severe for some local units than for others. In essence, New Jersey relies excessively on local government to provide and/or finance services within the public sector - and some local jurisdictions are far less able to handle that extra burden than others.

### **WHAT WOULD IT TAKE TO FIX THIS?**

Since high property taxes are a signal of the extent of fiscal stress among local government in New Jersey, the state has devoted considerable effort to trying to sort out the various dimensions of "the property tax problem." Policy and programmatic responses have followed. Recent efforts to address some aspects of the property tax situation have included: The Property Tax Assessment Study Commission (1986); The State and Local Expenditure and Revenue Policy Commission (1988); The Quality Education Commission (1990); The Education Funding Review Commission (1994); The Governor's Property Tax Commission (1998); The Senior Tax Freeze (1998); and NJ SAVER program (1999).

These efforts focused on issues ranging from improving property tax administration to reducing individual taxpayer burdens (especially for senior citizens) to changing the structure (i.e., number and extent of cooperative efforts) of local government to alternative means of financing schools, currently the largest use of property tax revenues.

Each has met with, at best, only limited success. They have in large measure not been comprehensive, in many cases only addressing pieces of the problem and often avoiding

politically delicate issues. Comprehensive reform would address each aspect of the property tax - and, therefore, fiscal stress-problem, including:

### **1. Over reliance on local/property taxes**

Approximately \$15 billion in property taxes are currently collected in New Jersey. To place this figure in some context, it is about equal to the combined yield from the income, general sales and corporate business taxes, the three largest state-government revenue sources. Property taxes in New Jersey account for over 45 percent of all state and local taxes, well above the national average of about 31 percent.

### **2. Changes in property taxes**

Over the last 8-10 years, property tax levies (reflecting both increased taxes on existing properties and taxes on new properties) have increased on average about \$400-500 million a year. Property tax relief to local governments or to individuals would have to equal that amount just to keep the current situation from getting any worse.

### **3. Fiscal controls on local access to revenues**

Local governments in the state are largely limited to the property tax in raising revenues. More than 98 percent of all local own-source tax revenues in New Jersey come from property taxes, compared to about 75 percent on average for other states

### **4. Disparities among municipalities**

Effective tax rates in the state vary significantly, with extremes ranging from lows of \$0.77 in Rockleigh Borough (Bergen County) and \$0.87 in Avalon Borough (Cape May County) to highs of \$11.85 in Winfield Township (Union County) and \$6.15 in East Orange City (Essex County). As noted earlier, over 22 percent of the state's municipalities, including most of the large cities, are significantly above the \$3.00 standard, with the resulting adverse implications for economic development in those communities.

### **5. Who pays**

In other words, how should the burden be shared fairly? The property tax is widely held to be a regressive tax, in that middle- and low- income households end up paying a larger share of their yearly income in property tax than do the wealthiest residents.

### **6. Administration of the property tax**

This has two parts: assessment and collection. Assessment concerns center on large disparities between market value and what a property is assessed at within a municipality, long delays in revaluation/reassessment of property (property is supposed to be uniformly assessed yearly, but about 15 percent of all municipalities have not revalued in a decade or more) and the concentration of much of the state's tax-exempt and tax-abated property in many of the poorest jurisdictions. In terms of property tax collection, while the statewide average is for collection of more than 95 percent of what is owed, the rate is almost ten percentage points lower in several of the state's largest local jurisdictions.

### **7. The ratables chase**

The extensive and almost exclusive reliance on property taxes by local jurisdictions produces unwise and uncoordinated land-use and planning decisions, which result in under use of the state's urban areas and an over use of the state's open spaces and environmentally

sensitive areas.

## **WHY DID PREVIOUS REFORMS FAIL?**

As noted above, the state has made several attempts to address the problems of local fiscal stress and property taxes before. Several factors likely contributed to the relative lack of success of the previous efforts.

First, the reforms were implemented at an inadequate scale. Billion-dollar problems do not generally lend themselves to million-dollar solutions. NJ SAVER might be a good case in point. This is a program that was designed to be phased in over a five-year period, beginning at \$200 million in individual property tax relief and increasing until a total of \$1 billion in relief is provided. Note that these rebates are given to homeowners regardless of whether they live in high-tax or low-tax municipalities. Moreover, they do nothing to provide municipalities with the resources they need to function. And, business owners who also pay high property taxes get no benefit at all from this program.

Second, New Jersey has a confusing conglomeration of property tax relief programs. In the Fiscal Year 2002-03 state budget, property tax relief programs for individuals alone included the following: NJ SAVER; Homestead Rebate; Senior/Disabled Citizen Property Tax Freeze; Municipal Reimbursement - Veterans' Tax Exemptions; Municipal Reimbursement- Senior/Disabled Citizens' Tax Exemptions; and Property Tax Deduction Act.

These programs were developed piecemeal over years, often guided more by political considerations than the desire to achieve economic efficiency or overall fairness. With better planning and allocation, resources invested in these programs could provide the basis for a systematic, unified and comprehensive property tax relief program. Such a system would likely prove more effective in producing needed property tax relief, though the level of overall relief would still be inadequate unless additional resources were invested.

Third, the benefits of previous reforms were diffuse, and poorly targeted to individual need, so they did little to address equity concerns raised by the property tax. The Senior Freeze provides a good illustration. Though programs directed to senior citizens are politically popular, this group is not always the one most in need of relief. Low-income residents of cities and older suburbs are generally the groups with the greatest property tax burdens. These groups are often not included as primary beneficiaries in property tax relief programs. Expanding a relief program to include non-needy individuals or communities increases the costs and dilutes the program's effectiveness in reducing inequities in individual tax burdens.

Fourth, out of a total Fiscal Year 2002 budget of about \$23.3 billion, the state government provided about \$1.7 billion in direct aid to municipal governments, and about \$7.4 billion to local schools. The two concerns discussed above about inadequate program scale (relative to the magnitude of the problem being addressed) and poor targeting based on need are also applicable in describing these resources devoted to schools and municipal government assistance. In general, state aid is not designed to reflect local needs or the availability of alternative resources among local government recipients. The amount of state aid reflects

neither the level of responsibilities given local government by the state nor the unique fiscal capacity concerns of particular communities.

## **WHAT ARE THE OPTIONS NOW?**

Many reforms have been recommended at various times by policy study commissions, advocacy groups, state and local policymakers, academics, think tanks and other analysts. This section reviews several of the reforms that have been suggested over the years by various study commissions and policy analysts, and tries to indicate which aspect of the structural imbalance would be addressed by the reform.

### **Change in government structure**

This would result in fewer local units of government, and greater cooperation and coordination among the units that remain. This includes local government consolidation and sharing of services, as well as regionalization and/or privatization of local services. If the problem is a mismatch among local units, then fewer local units may be a part of the answer.

### **State assumption**

Reducing reliance on local government and expanding the role of the state in delivering services could include such actions as state takeover of more of the costs of financing a) the office of the county prosecutors, b) public assistance or operating mental facilities, c) local schools, and d) county college operations. Local responsibilities are reduced as the state assumes a greater role in providing and financing "state" services.

### **Local revenue diversification**

Authorizing local government to impose and collect other, non-property taxes, including those that would capture non-resident dollars, would reduce the heavy reliance on local property taxation. It would increase the funding sources available to local jurisdictions through mechanisms such as a) local option income and sales taxes, b) parking, entertainment, and hotel taxes, and c) user fees and charges, perhaps imposed on owners of tax-exempt properties that use local services.

### **Tax-base sharing**

This would mean greater cooperation and coordination among the local units involved, especially in terms of economic development decisions. The Hackensack Meadowlands Development Act is one of the most-often cited examples of how such a system can work. In the Meadowlands, land-use activities over the last 30 years have been planned in the best interest of the region, without strict regard to the town-by-town distribution of activities. A portion of the benefits of economic development (i.e., ratables and the resulting property tax revenues) are pooled and redistributed among the 13 municipalities in the area according to a pre-determined formula. This reform makes participating local governments partners in sharing the benefits of economic development as well as any costs of development restrictions.

### **Statewide property taxation/alternative funding for schools**

The decision by Michigan to eliminate local property taxes as a source of funding for schools, while implementing an increase in the state sales tax and a modest statewide

property tax is an example. It can reduce reliance on local revenues and eliminate disparities in tax burdens among local jurisdictions.

### **Increased payments in lieu of taxes**

Property tax exemptions are granted under the state constitution to religious, charitable, educational, and governmental entities, many of which accrue to organizations and activities that concentrate their operations in urban areas. Currently, many of these non-taxed entities make payments in lieu of taxes (PILOT), but this program could be strengthened, expanded and more adequately funded to do a better job of recouping lost tax revenue.

### **Targeted circuit breaker**

The regressivity of the property tax - its tendency to overburden middle- and lower-income households - could be eased by limiting the level of the tax burden experienced by specific individuals/households. As noted earlier, this would likely involve the elimination of the current complex of individual property tax relief programs in favor of a targeted and fully state-funded circuit breaker which sets a limit on the ratio of property tax payments as a percent of income for means-tested individuals.

### **Change in assessment/collection administration**

Achieving economies of scale in the assessment function by a transfer of all or part of the assessment responsibility to the county or the state would improve the process of establishing the value of taxable property. So would stronger state guidelines for operation and financing the office of the assessor, and spreading the burden of abandoned properties and other non-responsive taxpayers among a larger group of state taxpayers, rather than concentrating the burdens among residents of a single municipality.

### **Change state aid**

Reducing reliance on local financing, and therefore on property taxes could be most effectively accomplished if state aid were to a) increase in proportion to the level of local government responsibilities, b) be targeted to individual jurisdictions based on their fiscal capacity, c) indexed to preserve its real value over time and d) linked to property tax decrease by the recipient local jurisdiction.

### **Fully fund existing and future state mandates**

This would reduce the back-door access to the property tax that the state has used over the years. By dictating certain spending activities or levels for local government, generally without regard to the variations in the current expenditure burdens or ability to pay among localities. The superior revenue-raising ability of the state as a result of more and more diverse revenue sources would be employed to insure that state resources matched state mandates.

### **Development incentives**

Many places, especially urban areas, have infrastructure in place, an available workforce and other advantages, but are perceived as having a low quality of life. Among the incentives proposed to overcome this situation are dual-rate property taxation (where unimproved and improved land are taxed at different rates), Enterprise Zones, subsidies for brownfields remediation, and, most notably, more rigorous adherence to the State

Development and Redevelopment Plan's call for directing development to cities.

## **A WORD ABOUT BUSINESS**

New Jersey's over-reliance on property taxes often is seen as a problem for homeowners and renters. Therefore, property tax reform discussions usually center on residential taxpayers and they have been the beneficiaries of most property tax relief programs. However, the state Constitution mandates uniform taxation among classes of property, a requirement that is sidestepped when all property is taxed at one rate but homeowners and renters get substantial tax rebates. Property tax relief and equity for non-residential taxpayers should also be a priority. For example, it is generally held that property assessments are more current and accurate for non-residential properties, which means that the relative share of taxes paid by non-residential taxpayers may trend upwards over time. Higher property taxes in cities and older suburbs are generally reflected in lower property values for all taxpayers, through the so-called capitalization process, which may have particularly adverse implications for businesses trying to borrow capital to finance operations or new construction.

Finally, higher taxes are generally passed along in the form of higher prices and/or lower wages, both of which would serve to make businesses operating in high-tax communities less competitive. The frequent response to these conditions is to offer property tax abatements. Virtually no private investment has occurred in high-tax urban municipalities except through tax abatement programs. These abatements are often difficult to obtain, especially for smaller investors and homeowners, which creates an uneven playing field among non-residential taxpayers and between residential and non-residential taxpayers. Instead of programs that benefit individual taxpayers who are able to avail themselves of such breaks, we need lower property tax rates. This will allow ordinary capital investment decisions to be made by private decision makers without the market distortions brought about by taxes or subsidies

## **WHERE DO WE GO FROM HERE?**

New Jersey's current tax system produces structural imbalances and the resulting fiscal stress. This, in turn, contributes to significant problems, including the decline of large cities, the loss of farmland and open space, an unfair distribution of tax burdens, unrealized economic development potential and overall reduction in the quality of life experienced by those who reside or work in the state. More generally, this system has led to more balkanization among the state's local governments, and an attitude among these jurisdictions that fails to see the state or even a region as an integrated community. Several things could further magnify these difficulties, including continued economic downturn.

A significant and sustained economic downturn greatly contributes to the structural imbalance and fiscal stress among local governments. Recessions increase spending pressures for services such as public assistance, housing, emergency medical care and police protection. At the same time, revenues from property taxes, fees and charges, and intergovernmental aid are reduced.

Technology has the potential to affect the fiscal stress experienced by local government in

several ways. For example, technology reduces the need for much of the face-to-face contact (so-called agglomeration economies) previously thought necessary to conduct business. This type of contact was an important reason for the existence of cities. The skills requirements for many of the high-tech jobs of the new technology-based economy will further marginalize low-skill workers in urban and rural areas. As a consequence, advances in technology may further reduce the attractiveness of cities and older suburbs as a place to do business. The result will be slower growth (if not a decrease) in property values, higher property taxes and a continuation of the downward cycle.

## CONCLUSION

Year by year the situation grows more serious. The longer we wait to deal with the problems of New Jersey's tax structure, the harder the job gets. From the largest cities to the most seemingly successful suburbs, a worsening of conditions is taking place. The fact that it is a slow decline that cannot be easily seen makes it an issue that is easy for the public to miss and the politicians to avoid. But it is a problem nonetheless - one that the state denies at its peril.

Henry A. Coleman is Director of the Center for Government Services at Rutgers University and a member of the NJPP Board of Trustees. He would like to thank members of a special working group convened by the New Jersey Mayors' Association Property Tax Committee, and The Fund For New Jersey for helpful comments on earlier drafts of this report. Special thanks go to Judy Cambria, Jerry Harris, Jon Shure and (especially) Cliff Goldman for their many helpful suggestions.

Trouble Zone  
**The 129 New Jersey Municipalities with  
 Effective Tax Rates of \$3.00 or More in 2000**

Atlantic County

Absecon	\$3.20
Egg Harbor	3.59
Linwood	3.02
Northfield	3.09
Pleasantville	3.43

Bergen County

Bergenfield	3.35
Hackensack	3.15
Lodi	3.06
Ridgefield Park	3.09
Teaneck	3.11

Burlington County

Bordentown	3.38
Medford Lakes	3.21
Palmyra	3.22
Riverton	3.27

Willingboro	3.44
Camden County	
Audubon	3.18
Audubon Park	5.09
Barrington	3.44
Bellmawr	3.31
Berlin	3.17
Berlin Township	3.17
Brooklawn	3.38
Camden	3.89
Cherry Hill	3.00
Clementon	3.59
Collingswood	3.71
Gloucester	3.03
Haddon	3.13
Haddonfield	3.17
Haddon Heights	3.50
Hi Nella	4.47
Laurel Springs	3.43
Lawnside	3.37
Lindenwold	3.67
Magnolia	3.86
Merchantville	3.77
Mount Ephraim	3.75
Oaklyn	3.47
Pennsauken	3.02
Pine Hill	3.74
Runnemede	3.45
Somerdale	3.74
Stratford	3.54
Tavistock	3.48
Voorhees	3.29
Waterford	3.54
Winslow	3.08
Woodlynne	3.81
Cape May County	
Wildwood	3.02
Cumberland County	
Shiloh	3.04
Essex County	
Belleville	3.86
Bloomfield	3.50

East Orange	6.15
Glen Ridge	3.95
Irvington	4.96
Maplewood	3.71
Montclair	3.51
Newark	3.40
Nutley	3.15
Orange City	4.36
South Orange	3.95
West Orange	3.48
Gloucester County	
Clayton	3.10
Glassboro	3.34
National Park	3.33
Pitman	3.21
Westville	3.01
Woodbury	3.50
Hudson County	
Bayonne	3.83
Guttenberg	3.34
Harrison	3.12
Jersey City	3.87
Kearny	3.32
North Bergen	3.67
Union City	4.81
Weehawken	3.00
West New York	3.94
Hunterdon County	
Hampton	3.25
Mercer County	
East Windsor	3.19
Hightstown	3.77
Trenton	3.63
Middlesex County	
Carteret	3.09
Dunellen	3.07
Highland Park	3.34
Jamesburg	3.05
New Brunswick	3.41
Monmouth County	
Aberdeen	3.39
Allentown	3.03

Asbury Park	4.18
Bradley Beach	3.00
Highlands	3.80
Keansburg	3.49
Keyport	3.06
Long Branc	3.14
Matawan	3.42
Roosevelt	4.32
Shrewsbury	3.69
Union Beach	3.12
Morris County	
Victory Gardens	3.07
Ocean County	
Lakehurst	3.25
Passaic County	
Bloomingtondale	3.15
Haledon	3.16
Passaic	4.12
Paterson	4.09
Pompton Lakes	3.31
Prospect Park	3.10
Ringwood	3.14
Wanaque	3.13
West Milford	3.20
Salem County	
Penns Grove	3.25
Salem	3.55
Somerset County	
Bound Brook	3.16
North Plainfield	3.26
Somerville	3.48
South Bound Brook	3.57
Sussex County	
Franklin	3.28
Hopatcong	3.12
Newton	3.12
Ogdensburg	3.37
Stanhope	3.32
Union County	
Hillside	3.93
Plainfield	3.52
Rahway	3.20

Roselle	4.55
Roselle Park	3.51
Winfield	11.85
Warren County	
Alpha	3.30
Belvidere	3.13
Hackettstown	3.30
Washington	3.34

Source: State of New Jersey, Department of Treasury, Division of Taxation, 2001 Annual Report, Appendix A

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