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AN AGENDA FOR COMMUNITY, STABILITY AND GROWTH IN NORTH JERSEY

New Jersey is facing difficult choices. It is the most densely populated state in the US, yet it is the nation's most suburban state. It is one of the fastest-growing states in the Northeast, has the highest median income, the highest school spending per student and among the highest housing prices in the country.

However, even with all its wealth, New Jersey has very serious problems — patterns of segregation and sprawl that strain all types of communities, concentrate poverty in some of the nation's poorest cities and threaten to destabilize its many older suburbs. New Jersey relies too heavily on property taxes. With the highest property tax rates in the nation, local governments are pitted against each other in a wasteful competition for tax base.



Voters and politicians in New Jersey have been calling for fundamental property tax reform. Yet changes haven't come and the recommendations for reform from state-level commissions or policy advocates have not been enacted. New Jersey's governor and legislative leaders are today faced with local governments overwhelmed by skyrocketing fuel costs, slowing business growth, public employee pension obligations and local school expenditures that are rising rapidly.

Part of the property tax crisis in New Jersey is the vast differences in property tax base within each region. These deep disparities create serious inequalities in the capacity municipalities have to finance public services and schools. Places with low property tax base must assess a much higher tax rate than places with high property tax bases just to provide the same level of public service. Such disparities in tax base have led many communities to use fiscal zoning practices that encourage sprawl and increase economic and social stratification across the state.

Other disparities are growing in New Jersey. Affordable housing is very unevenly distributed across the state, creating areas with deep pockets of poverty that reduce opportunities for those who live there and induce fiscal stress and instability for the municipalities and school districts where affordable housing is concentrated. This is true for cities as well as New Jersey's many older and more diverse suburban communities. While New Jersey's Fair Housing Act helped make affordable housing more widely available, loopholes and unfair policies and practices have actively undermined the true objectives of this program.

New Jersey's highly fragmented system of local government — 566 towns and 611 school districts — coupled with its bad housing and tax policies makes disparities between towns worse and drives greater extremes of poverty and wealth. Communities, neighborhoods and school districts with the most economic and racial diversity are punished with growing fiscal stress, rising social problems and increasing instability.

The time for reform is now.

TAX REFORM

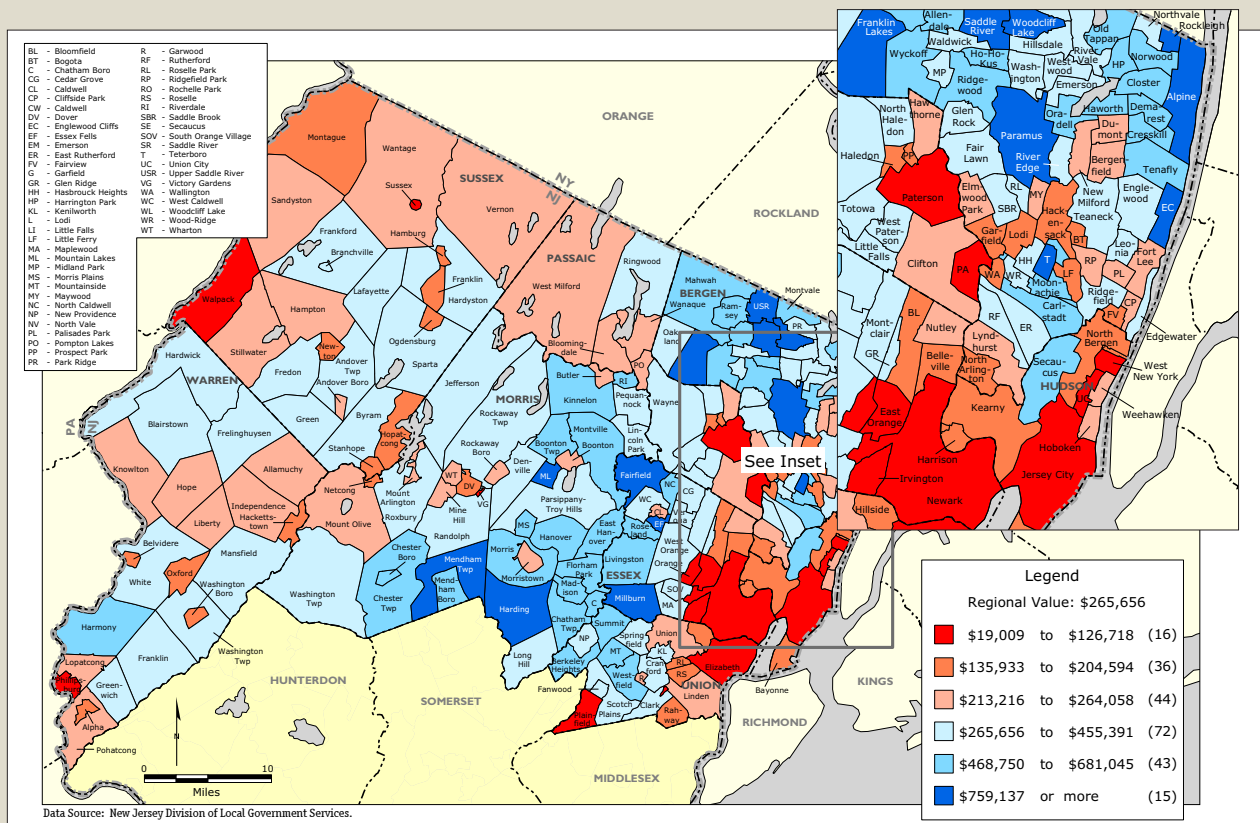
New Jersey is in need of fundamental property tax reform. Local governments and school districts in the state rely too heavily on the property tax for revenues. The state ranks second in the country in property tax revenues as a percentage of personal income and third in the percentage of municipal revenues coming from the property tax. This over-reliance results in a never ending chase for tax ratables, anti-family housing policies, overdevelopment of land and abandonment of urban communities.

Another symptom of our over-reliance on local taxes is that tax base is distributed very unevenly, creating serious inequities in local capacities to finance public services. In Northern New Jersey, for instance, property tax base for municipalities at the 95th percentile (like Essex Fells Township, Woodcliff Lake Borough and Fairfield Borough), with a tax base greater than

95 percent of the municipalities in the region, was 6.9 times greater than property tax bases in municipalities at the fifth percentile (like Jersey City, Elizabeth Township and Walpack Township). This means that, without state aid, the community at the fifth percentile would need to assess a tax rate 6.9 times greater than the community at the 95th percentile to provide the same level of service.

The map shows that property tax base per household is lowest in older communities closest to Newark, like Jersey City, East Orange and Irvington and in older areas like Woodcliff Lake and Fairfield Boroughs, as well as in outlying areas bordering New York and Pennsylvania. They are highest in an arc of outer ring suburbs around Newark.

Property Tax Base per Household by Municipality, 2003



PROPERTY TAX BASE SHARING

One way to relieve the property tax burden in stressed communities is through tax-base sharing. Regional tax-base sharing systems place a portion of the growth in tax base into a regional pool. The tax base is then distributed back to the participating communities and school districts based on tax base, population or other local characteristics.

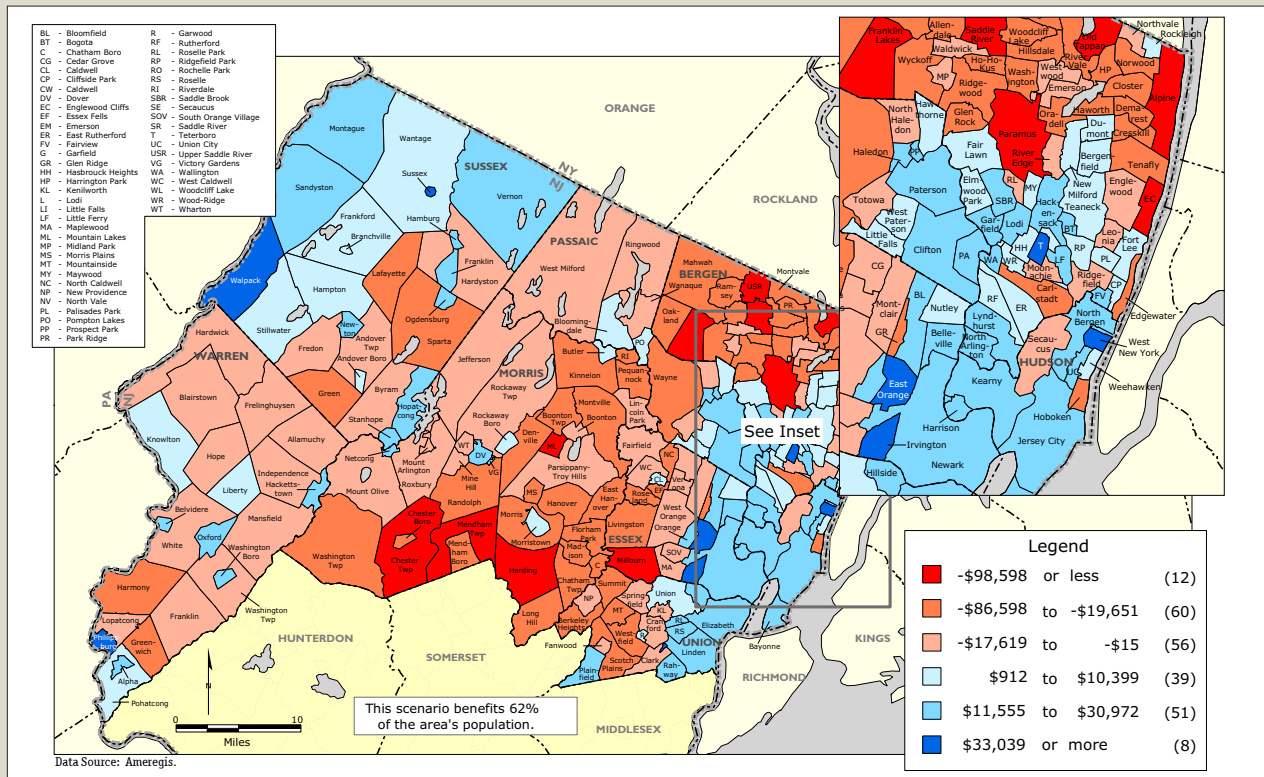
New Jersey already has one regional tax-base sharing program. The New Jersey Meadowlands Commission has overseen a tax-base sharing program since 1970 that collects 40 percent of the growth in property tax revenues in portions of 14 Bergen and Hudson county communities. Those revenues are redistributed annually based on the share of the Meadowland district that falls in each community. Because all participating communities share in revenue generated by development no matter where it takes place, the commission, which oversees land-use planning in the district, is able to plan for both conservation and development where they are most needed.

Tax base sharing is a more realistic and more comprehensive solution to New Jersey's tax crisis than consolidation or shared services. It encourages both cooperation and regional growth while preserving local autonomy and character.

Regional Tax-Based Sharing

- Reduces incentives for competition for tax base (the "ratables chase").
- Reduces inequalities in tax rates and public services.
- Encourages communities to engage in joint economic development ventures.
- Complements regional land-use planning.
- Benefits most residents — simulations of tax-base sharing in Northern New Jersey show benefits to 62 percent of residents.

Simulated Change in Property Tax Base per Household as a Result of Redistribution of 40% of Tax Base Growth According to Number of Households, 1993-2003



SCHOOL FUNDING

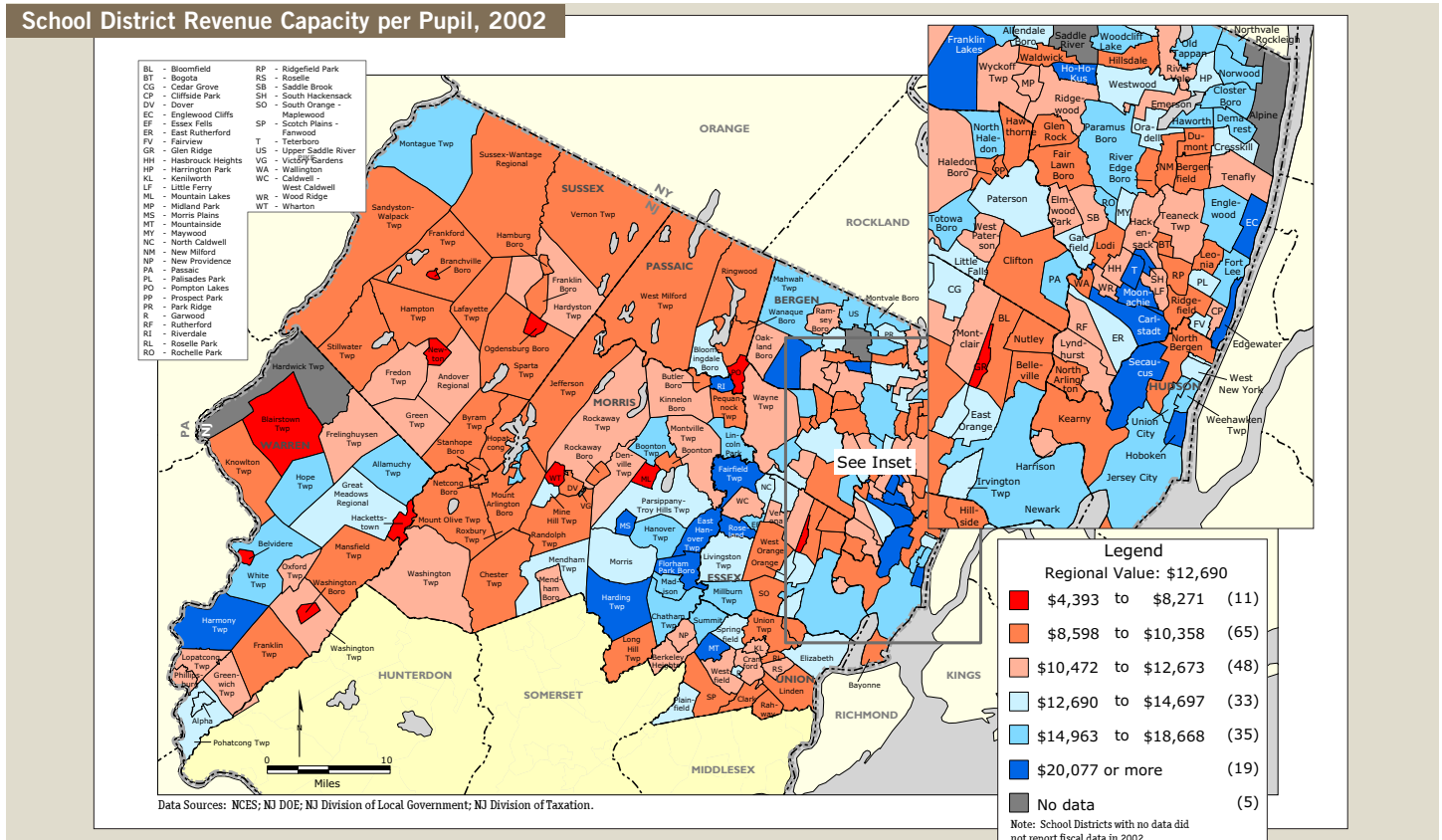
Like municipalities, New Jersey school districts rely too heavily on property tax for revenues. Compared to other states, New Jersey school districts rank second highest in property tax revenue per pupil, second in property tax revenue as a percentage of personal income and third highest in property tax revenue as a percentage of total school district revenue.

Most people will agree that New Jersey's school funding system is not working. But too many critics focus solely on the 31 poorest districts that receive special funding (*Abbott* districts). This ignores the large number of school districts confronted with the responsibility to educate large numbers of poor students with very limited local resources and far too little support from the state government. Dramatic disparities in school district revenue capacities — defined as the sum of the revenues a district would generate if it assessed an average property tax rate plus the actual state and federal aid it receives — illustrate this. (Note that revenue capacity does not vary with a district's actual tax rate, which means that a district's capacity is unaffected if it happens to tax itself very lightly.)

Statewide, the revenue capacity of the 95th percentile school district (the district with capacity greater than 95 percent of all districts) was more than three times greater than the capacity of

the district at the fifth percentile — and this is *after* accounting for what districts receive in state and federal aid. The map shows large numbers of districts in the northern third of the state below the average for the region, including most of the districts surrounding Newark and most in the western half of the region.

Disparities are not the only problem. The current aid system also does a poor job of compensating school districts for the extra costs associated with high or moderate poverty rates in schools. Statewide, there are 92 non-*Abbott* school districts with greater than average poverty rates — districts where more than 29 percent of their elementary students are eligible for free or reduced-cost lunch. In these districts, the overall poverty rate is nearly five times the rate in other non-*Abbott* districts — 46 percent compared to 10 percent. However, the revenue capacity per pupil of the high-poverty districts is 2 percent *less than* in the low-poverty districts and 7 percent *less than* the statewide average. The current state aid system is clearly failing to compensate many school districts for the costs of serving large numbers of poor students. In North Jersey, these high-poverty, non-*Abbott* districts include districts like Hackensack, Bayonne and Kearney.



SCHOOL AID

In addition, the current aid system clearly shortchanges many other districts with significant, although below-average, poverty rates. For instance, in North Jersey, the West Orange and Clifton school districts have free and reduced-cost lunch eligibility rates of 23 percent and 14 percent, but state aid only brings their revenue capacities per pupil up to about 20 percent *below* the statewide average.

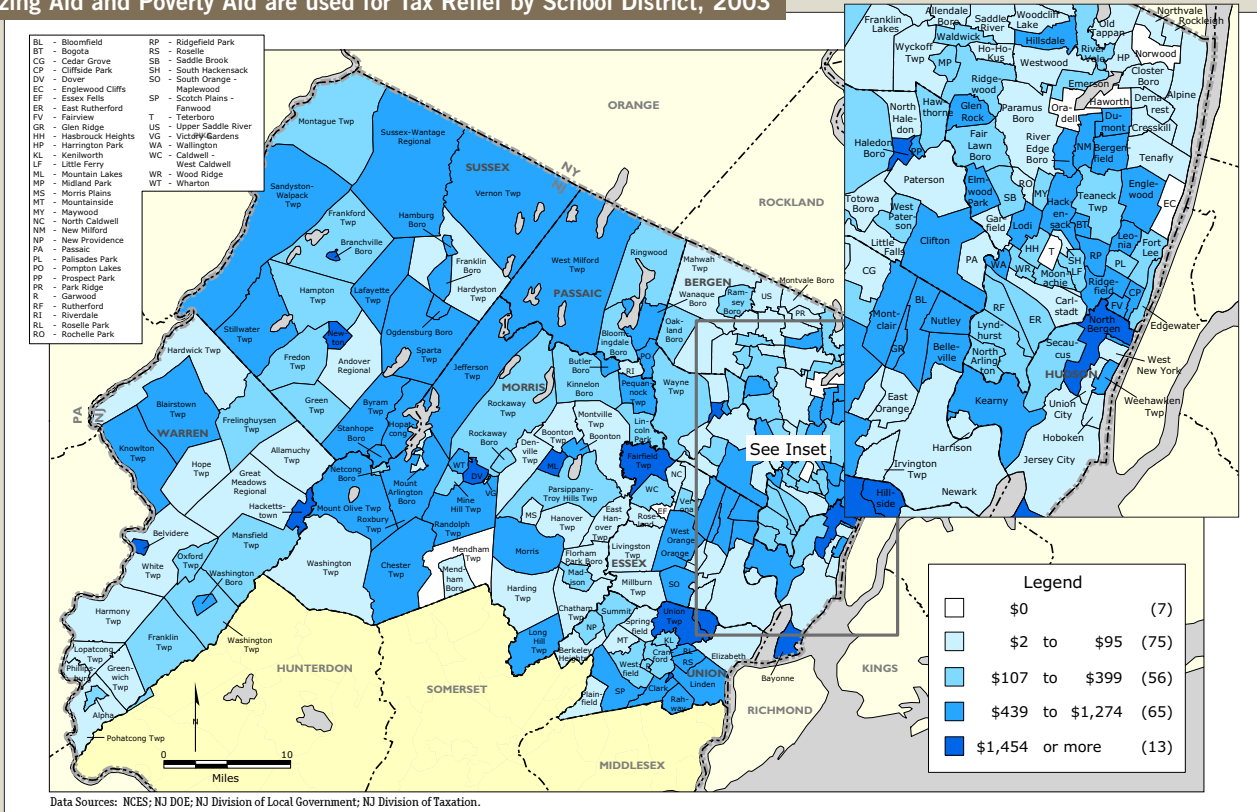
A way to ease property tax burdens, lower tax rates and reduce disparities is to take school costs off of homeowners and shift more of the burden of public education to the state.

Compared to other states, New Jersey currently ranks 11th from the bottom in state aid as a percentage of total school district revenues. The map shows the annual savings in school district property taxes if the state increased its share of school spending by \$2 billion — roughly the amount involved in the 2007 tax credits/rebates. The map assumes that the money is distributed to school districts based on a two-part formula that accounts for differences in local tax bases. Districts with less than the

statewide average revenue capacity per pupil would receive 52 percent of the difference between their actual capacity and the average, which amounts to \$1 billion total. Many school districts could reduce local taxes by significant amounts; 64 percent of the state's students are in districts that would benefit from this policy. School districts like Nutley and Clifton, for example, could see annual property tax savings for a median value home of at least \$500.

The second part of this formula, a poverty equalizing aid, would expand New Jersey's controversial school funding program based on the *Abbott* decision beyond the 31 special districts to include the more suburban and rural school districts that have a mix of low- and middle-income students. The remaining \$1 billion would be distributed to non-*Abbott* districts based on the number of poor students in the district (those eligible for free or reduced-cost lunch). Districts would receive more than \$6,700 per poor student. This would better distribute state aid to stressed districts across the state and encourage diversity.

Annual School Property Tax Savings for a Median Value Home if New Power Equalizing Aid and Poverty Aid are used for Tax Relief by School District, 2003



AFFORDABLE HOUSING

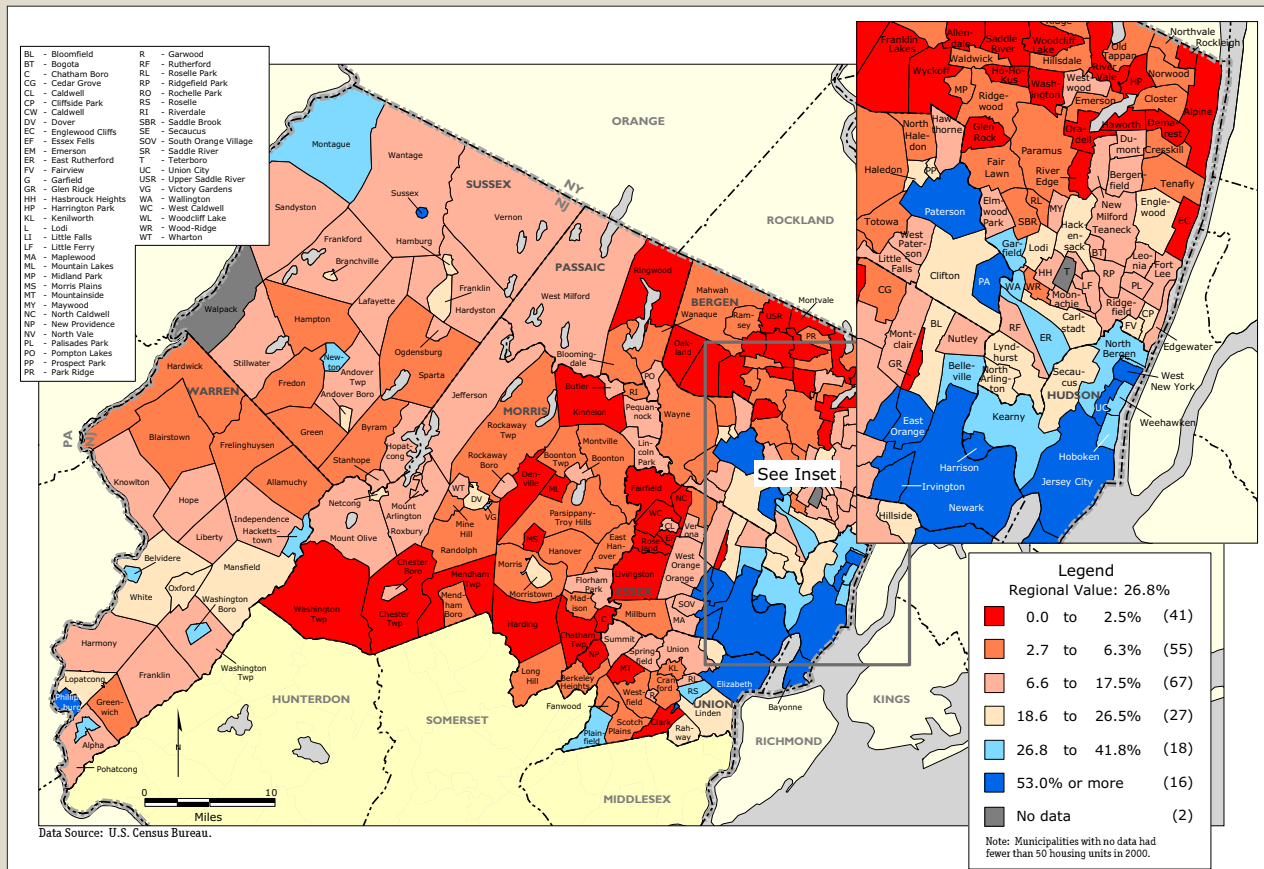
Affordable housing is distributed very unevenly in New Jersey, resulting in high concentrations of poverty that reduce opportunities for residents and create fiscal stress and instability for municipalities and school districts.

New Jersey's current affordable housing program contains features that undermine its objectives. The program, implemented by the Council on Affordable Housing, is based on the Mount Laurel decisions of the New Jersey Supreme Court issued between 1975 and 1983 that require all communities to provide "realistic opportunities" for affordable housing. While the rulings are a step in the right direction, the current program falls short in several ways. Although the program led to the construction or renovation of nearly 40,000 low and moderately

priced units, this falls far short of the total obligation identified by the state of 118,000 units and the need identified by housing advocates, who note that nearly 875,000 households were paying more than 30 percent of their income for housing in 2000. It also includes provisions that allow places to "buy their way out" of up to one-half of their fair share of affordable housing, undermining the program's ability to increase affordable housing where it is needed most.

The map below shows that, even with the current Fair Housing Program, housing affordable to a household with 50 percent of the median income is concentrated in the poorest parts of the region, and especially in Newark and its suburbs.

Percentage of Housing Affordable to a Household with 50 Percent of the Regional Median Income by Municipality, 2000



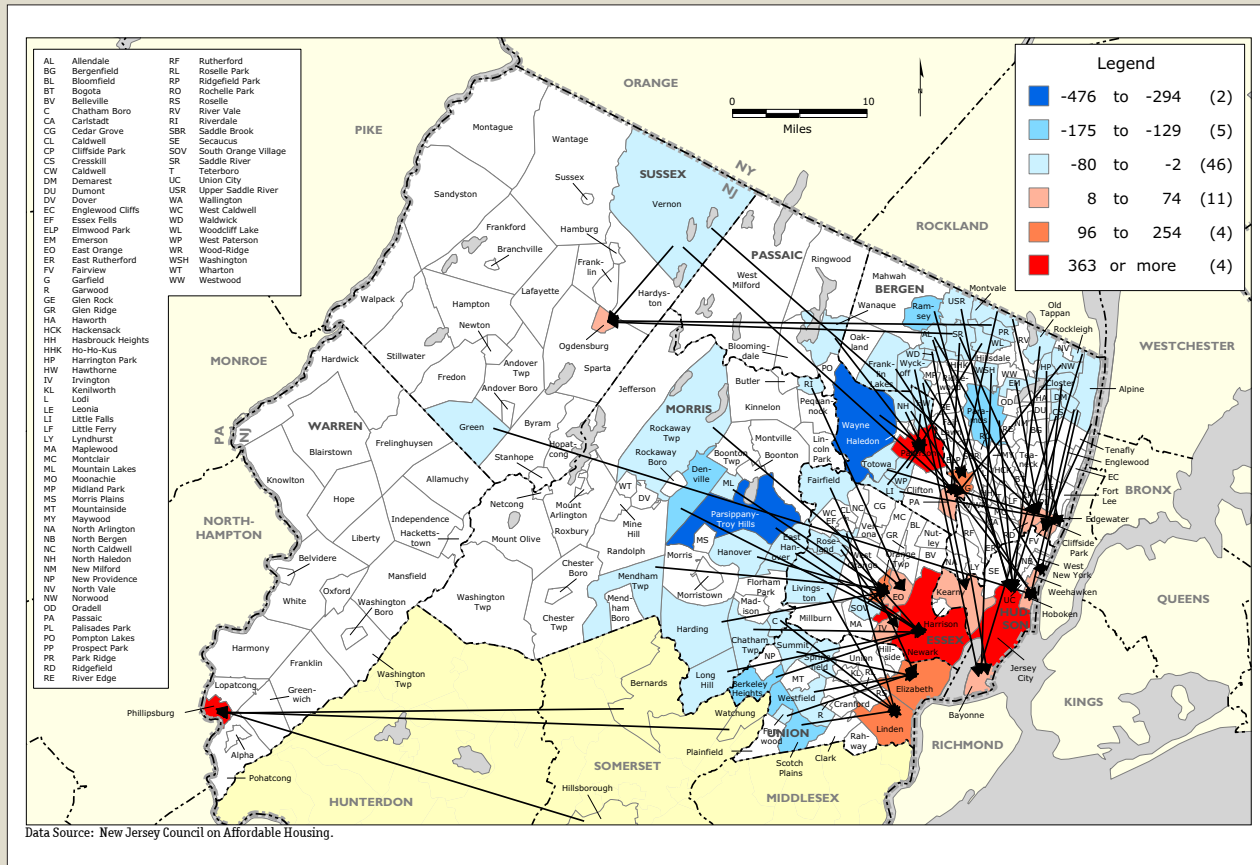
AFFORDABLE HOUSING

One way to make the Fair Housing Program more effective right away would be to change the rule that allows suburban communities to transfer up to half of their affordable housing obligation to high-poverty cities — the Regional Contribution Agreements (RCA) system. The rule has meant that relatively few affordable units have been built in higher tax base areas experiencing the greatest job growth. The map below shows the transfers by municipality from 1988-2005. The clear result is to increase the share of affordable housing in lower-income, lower-opportunity places that are already home to an abundance of affordable housing.

The RCA system has other faults as well. It provides only a fraction of the funds needed to renovate or construct affordable shelter in stressed communities. It also allows growth centers to restrict up to 50 percent of the affordable housing for senior housing.

A reasonable fair share program — one that accounted for job growth as well as existing distributions of affordable housing — could do much more to encourage the private sector to provide affordable housing in places where new jobs are being created. For instance, simulations show that, if a program that required that one of every 10 new housing units must be affordable and that one new affordable unit be built for every 30 new jobs created had been in effect during the 1990s, it would have created a significant increase of affordable housing in the very same places currently using the RCA system to transfer their affordable housing obligations to other communities — communities that already contain much of the region's affordable housing.

Total RCA Unit Transfers by Municipality, 1988 – 2005



CONCLUSIONS

It is time to reform New Jersey's outdated system of financing municipal services and schools. There are tried and true methods available with the potential to benefit the overwhelming majority of people across the state and in North Jersey.

- *A home-grown example of tax-base sharing is available to serve as a model for larger programs across the state. If such a program had been in place in North Jersey between 1993 and 2003, 67 percent of the region's population could have seen lower property tax rates with no reduction in public services.*
- *Increased state funding for schools using a very simple formula that distributed the new funds according to local tax bases has the potential to increase funding to the majority of the region's school districts. This would ease burdens on the local property tax and increase the opportunities available to a wide cross-section of poor and middle class students in school districts currently serving large numbers of the state's neediest students.*
- *84 percent of North Jersey's population resides in municipalities or school districts that would benefit from one or both of these reforms.*

It is also time to reform the state's Fair Housing Program. As it now stands, the current program directs much of the new affordable housing in the state to areas that already house most of the state's poor. Concentrating affordable housing and poor populations in just a few parts of the state increases the overall cost associated with serving the poor. It also reduces the opportunities available to people living in those areas, making the already difficult task of rising from poverty nearly insurmountable.

Failing to address these problems will weaken New Jersey's ability to compete in the global marketplace; it will lead to more sprawl, segregation and neighborhood instability; and it will continue to undermine and shrink its vital middle class.

This policy brief attempts to describe attainable and realistic solutions to some of New Jersey's most pressing problems. There are other ways to achieve these same ends but all meaningful reform will require one thing — leadership and courage. New Jersey families and communities desperately need bold and decisive leadership from their lawmakers, government officials and decision makers. Without such leadership this and the many other policy statements that have been produced over the years will make little difference in the lives of New Jersey's people.

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Ameregis is a research and geographic information system firm focusing on land use, public finance, race relations, regional governance, and election systems in American metropolitan areas. Its clients include federal, state and local governments, as well as universities, foundations, non-profits and advocacy groups.

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The New Jersey Regional Coalition is a statewide grass-roots organization comprised of religious, civic and labor organizations committed to stability and fairness through regional reform. Using research, analysis, organizing and action, its members have effectively advanced fair housing policies, school funding and property tax reform as well as civil rights for immigrants throughout New Jersey.