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Report of NJ Economic & Fiscal Policy Workgroup Issued

On Thursday, the Legislative Economic and Fiscal Policy Workgroup issued their [report](#). When created by Senate President Sweeney the workgroup was charged with a “broad mission to identify ways to address soaring pension and benefit costs, hold down property taxes, make state and local government and school districts more efficient, assess the equity and efficiency of our state and local tax structure, leverage the value of state assets, and mitigate the negative impact of the federal tax law that targeted high-cost states.” The recommendations of the workgroup were divided into five categories: Pension and Benefit Reforms; Education Reform at the Administrative Level; County & Municipal Government Reform and Shared Services; State and Local Government Tax Structure; and Leveraging Assets to Stabilize the Pension System.

Despite earlier press reports to the contrary, the report does **NOT** recommend mandating the consolidation of any municipalities.

A number of the recommendations address issues that the League has raised before, though some of the others raise concerns. The report also makes a number of recommendations that will likely be opposed by public sector unions, such as significant reforms to benefits packages and the consolidation of smaller school districts.

We would like to highlight the following recommendations:

- Split revenue from Payment in Lieu of Taxes (PILOTs) among municipalities, school districts and counties based on current property tax ratios for all new PILOTs and consider a phased-in 10 or 15 year claw-back on the redistribution of existing PILOT revenue to provide increased aid to school districts. Revisit the law establishing the formula for calculating the “annual service charge” in the PILOT. Require governing body approval and spending justification for levy cap increases based on added assessments and new PILOT revenue.

On this point, we note that the League adamantly opposes [pending legislation, S-1701](#), that would redistribute the annual service charge in the same proportion as the property

tax. S-1701 stands at 2nd reading in the Senate but, to date, its companion, A-345, has seen no movement in the Assembly.

- Cap accrued terminal leave payouts for all new and non-vested state and local retirees at \$7,500. Upon the expiration of current contracts, require all future leave payments to be made at the average pay rate at which they earned based upon determination of average salary by the State pension system. This cap would be binding on all future collective bargaining and individual employment contracts funded with state or local tax dollars.

The League supports current legislation that would cap sick leave payouts. [A-1851](#) stands at 2nd reading in the Assembly. For more, please see item I(b) in the [League's May 25 Weekly Round-Up](#).

- Require state and local governments to pay the first \$15,000 of remaining earned sick leave immediately and spread the remaining amount over five years. In addition, permit local governments to allocate it on a pre-tax basis to retiree healthcare premiums for qualifying employees.
- Shift new state and local government employees and those with less than five years of service in Public Employee Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) from the current defined benefit pension system to a sustainable hybrid system. Preserve the current system for employees with over five years of service who have vested contractual pension rights. Create a blended benefit/defined contribution plan for new employees and those with less than five years of service.
- Require the merger of municipal courts with small caseloads into regionalized joint courts to achieve efficiency and cost savings. Also consider other recommendations proposed by the [Supreme Court Committee on Municipal Court Operations, Fines, and Fees](#).

The League has previously objected to the Supreme Court recommendations. For more please see our [July 19 "Urgent Alert."](#)

- Create a Property Tax Assessment Study Commission to study the State's tax assessment practices and make recommendations for countywide or regional tax assessment to ensure consistency and efficiency.
- Develop legislation to lay the framework for any future public asset transfer, including a procedure to permit local governments to dedicate local assets in lieu of cash pension payments.
- Require all new state and local government retirees to pay the same percent of health benefits premium costs they paid when they were working.
- Shift all state and local government employees and retirees' State Health Benefits and School Employees Health Benefits care coverage from Platinum level to Gold level. Further recommends that the state develop Silver and Bronze level health benefit plans to offer employees with a lower premium sharing.
- Merge all K-4, K-5, K-6, K-8, and K-9 school districts into the K-12 regional districts to improve the quality of education and promote efficiency.
- Re-establish the Legislature's County and Local Government Study Commission, which disbanded in 1992, and consolidate it with LUARCC. This Commission would study local government service costs, service levels, geography and related metrics to identify economic scale and minimum service standards that will drive

opportunities for shared service agreements and joint meetings that would reduce local government expenditures. Initial focus should be on public safety 9-1-1, public health, and construction code services. Authorize a study of formal and informal shared services currently provided by local governments.

- Reestablish a program within the Division of Local Government Services (DLGS) to effectively promote and encourage shared services and the recommendations of the Commission and provide fiscal and personnel resources to support the activities.
- Study the role and capacity of the DLGS and the Local Finance Board.
- Require municipalities, their board(s) of education and any local authorities to meet at least twice a year to discuss shared services and other matters of mutual concern and encourage these groups to meet with their neighboring entities for the same purpose.
- Require shared service agreements to have alternate dispute resolution provisions, performance evaluation criteria, a formula based or defined negotiating process for fee schedules and exit provisions.
- Prioritize resolving how civil service and tenure issues get managed when local units want to share services.
- Authorize county governments to provide the full range of local police services (in full or in part) to help municipalities lower their costs and/or find ways to encourage neighboring municipalities to share police services, such as overnight patrols for joint policing.
- Encourage “joint meetings” for public service agencies and change name to “regional service agencies.” Also, encourage counties, boards of education, and higher education institutions to engage in providing regional services to local government agencies.
- Allow municipalities and counties to provide their annual audits using the reporting standards of the Governmental Accounting Standards Board (GASB), Generally Accepted Accounting Principles (GAAP), and the New Jersey Comprehensive Annual Fiscal Report (CFRA) in lieu of the current annual audit in order to facilitate uniformity. Develop a process to ensure that data used in the annual budget that is derived from the current annual audit is maintained.
- Review the effectiveness and fairness of New Jersey’s property tax relief programs to ensure equity, reduce administrative complexity, and target property tax reduction for owner-occupied households to the greatest extent possible. Two options include combining existing property tax relief programs or providing a direct increase in municipal aid to reduce property taxes.
- Permit a revenue neutral county or multi-county/regional 1% sale tax option paid partly by out-of-staters to be used to potentially cut property taxes by more than \$1 billion if all counties participate.

In issuing the report Senate President Sweeney noted that this is the first step of an ongoing process. Senate President Sweeney also noted that he will be meeting with Mayors around the state to discuss the report.

We would be remiss in not pointing out some action points, identified by local leaders that would lead directly to property tax relief, that are not addressed by the report, such as:

- The need to renew the 2% cap on interest arbitration awards;
- The State’s continued diversion of municipal revenues, such as the energy tax

- receipts, to the State's general fund for State budget relief;
- The need for a more efficient and rational system to replace the costly and dysfunctional court process which municipalities must navigate in order to meet their state imposed affordable housing obligations; and
 - While the report recommends relief in regard to accumulated sick leave and proposes significant reforms to pension and health benefits, it does not identify unfunded mandates on local governments.

On balance, the report includes a number of recommendations worthy of discussion and consideration. Some of the suggestions do address issues that the League has raised before, but it also contains some recommendations that are objectionable, such as what is noted above.

The League appreciates the efforts of the Senate President Sweeney, Co-Chairs Senators Oroho and Sarlo and Assemblyman Greenwald, and other members of the Legislature and the dozens of experts who volunteered their time and efforts. The report will undoubtedly serve as a launching point going forward for significant and long-overdue discussion of achieving property tax reform. The League looks forward to engaging the Legislature on our areas of agreement, our objections, and the topics which were not addressed.

The League will continue to advise you on any developments regarding this report and will provide further analysis. In the meantime, we encourage you to begin to discuss the report's strengths and shortcomings with your State legislators.

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