



## Christie's 2012 budget will still leave New Jerseyans with nation's highest property taxes

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Gov. Chris Christie has become a national Republican star on the basis of his confrontations with the teachers union, his willingness to slash school and municipal aid, and his demands that public employees take wage freezes, accept pension cuts and pay more toward their health care. His outspoken anti-tax, smaller-government philosophy has catapulted him into discussions for the Republican presidential nomination.

But on the issue that counts most to New Jerseyans — and to New Jersey's economic future — Christie, like almost every governor who preceded him, is just tinkering at the margins.

New Jersey had the highest property taxes in the nation when he took office, and it will still have the highest property taxes when he leaves, whether he serves one term or two.

That's because New Jersey has two property tax problems, and while Christie has been vocal about taking on the first, he has shown no willingness to tackle the second.

The first problem, as Christie constantly points out, is spending: New Jersey spends more than any other state on K-12 education, has more police per capita than any other state, and invokes the mantra of "home rule" to excuse the mind-numbing inefficiency of jamming 566 municipalities, 591 school districts and hundreds of independent authorities into a state some 166 miles long and 65 miles wide.

Christie's cap on property tax increases, pension and benefit proposals, new arbitration law, and his vociferous call for school districts and local governments to negotiate hard contracts with their unions are all designed to hold the line on local government spending. His cuts in municipal aid are driving towns to consider regionalization of services that would have been unthinkable two years ago, such as the proposed consolidation of Somerset County's 19 local police departments into three regional forces.

But the second challenge — the more difficult one — is that reducing property taxes will also require raising other taxes, likely the sales and income taxes. New Jersey's reliance on property taxes is so lopsided today that spending cuts alone can't do the



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job. That's the hard math the state faces. To actually cut the property tax, rather than slow the increases, Trenton would have to raise state taxes and shoulder a bigger share of local costs.

New Jersey is the only state other than New Hampshire where local property taxes are higher than state income, sales and corporate taxes combined, and it is that imbalance that is driving people and businesses to leave the state.

The fiscal year 2012 budget Christie unveiled Tuesday projects New Jersey will collect \$10.52 billion in personal income tax, \$8.08 billion in sales tax and \$2.43 billion in corporate income taxes — a total of just over \$21 billion.

In contrast, New Jerseyans will be billed \$25.8 billion in property taxes in calendar year 2011 to support their local school districts and municipal and county governments. That number has grown steadily from \$14.2 billion in 2000 to \$19.6 billion in 2005 to \$24.0 billion in 2009 and \$25.0 billion in 2010. Furthermore, while New Jerseyans received more than \$2.2 billion in homestead rebates and payments to offset high property taxes in the middle of the decade, Christie provided only \$851 million in direct relief this year and proposes just \$1.03 billion next year.

The \$1 billion property tax increase in the first year of the Christie administration represents a 4.0 percent increase over the previous year — far less than the 7 percent hikes of 2005 and 2006, but higher than the 3.7 and 3.3 percent increases in 2008 and 2009.

The 2 percent cap with exemptions for health insurance and pensions hammered out by Christie and state Senate President Stephen Sweeney (D-Gloucester) last summer is still expected to translate into an average property tax increase of 3.3 to 3.5 percent. That means the gap between local property taxes paid by New Jerseyans and collections of other major taxes is likely to continue to grow, adding to what is the most daunting — and important — fiscal problem facing the state.

No tax is perfect. Income taxes best capture ability to pay, but do not tax wealth, and New Jersey's income tax is so highly graduated that a little more than 1 percent of the wealthiest citizens pay 50 percent of the tax. Property tax bills do not reflect ability to pay, which hurts senior citizens on fixed income and those who lose their jobs, and residents of inner cities pay much higher taxes than suburbanites on homes of comparable value.

And while the sales tax was set up as a tax on consumption, it is a shrinking revenue source because it does not fully reflect our society's shift in spending from goods to services.

A good tax system is generally considered to be one in which income, property and sales taxes are in some rough balance, with each providing 30 to 40 percent of total revenue for these three major taxes. That is the case in most states, but not in New Jersey, where property taxes actually make up 58 percent of the income/property/sales tax pie, with income taxes accounting for 24 percent and sales 18.

The only way to actually lower property taxes in New Jersey to a competitive level with other states is to shift billions of dollars of the cost of K-12 education or municipal or county services to another major tax or taxes while simultaneously making sure that an effective cap prevents any increase in school district and local government spending.

That is what Democratic Gov. Jim Florio tried to do in 1990 when he dedicated half of his \$2.8 billion tax package to property tax relief, but most of the money was quickly eaten up by school districts and municipalities for new spending, and by the second year property taxes were rising again as rapidly as ever. Voter repudiation of Florio led to the election of a Republican Legislature and GOP Gov. Christie Whitman, and scared politicians in both parties away from any meaningful attempt at overall

tax reform.

In the years since, there have been calls for a constitutional convention to overhaul the tax system, but Christie made it clear during his campaign that he would oppose efforts to raise any state tax. He sharply criticized conservative Steve Lonegan's proposal to replace the state's graduated income tax with a 2.9 percent flat tax because it would raise taxes on some citizens.

He denounced independent Chris Daggett's proposal to raise sales taxes by \$4 billion in order to cut property, income and corporate taxes by \$5.4 billion — a net tax cut of \$1.4 billion — as a "\$4 billion tax increase."

And Christie absolutely ruled out an increase in New Jersey's gas tax, which is the third-lowest in the country.

Democrats are staking their battle to maintain control of the Legislature on property taxes. They will criticize Christie for not doing enough, pass the millionaires tax and force Christie to veto it again. But truly lowering property taxes would require a massive multibillion-dollar tax shift, and Democrats did not have the stomach to do it when they controlled the Statehouse.

Will Christie be the governor to undertake the needed overhaul? It's not likely. He'll go as far as he can on spending cuts, but his unbending opposition to state tax hikes means New Jersey will continue to have the highest property taxes in the nation. Christie may slow the growth of this beast, but he won't kill it. That job, it seems, will again be punted to the next governor.

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