



March 07, 2010

## N.J. municipalities raise taxes despite state cap

Staff writers Sharon Adarlo and Chris Megerian contributed to this report

TRENTON — When New Jersey announced that property taxes went up by an average of 3.3 percent last year — the smallest increase in a decade of rapid growth — some hailed it as evidence that a 3-year-old law capping annual increases at 4 percent had finally taken hold.

But a closer look shows the law is hardly a fire wall.

Nearly a third of the state's 566 municipalities raised property taxes above the cap with the state's permission last year, many because they were able to show they were facing virtual civic dysfunction, a Star-Ledger review shows. Through hundreds of pages of applications asking to exceed the cap, school and town officials spared no adjectives when describing what would happen without relief: The police force would be cut. Special education aides would be fired. Fire hydrants would not be installed.

"Impossible" one town said of the budget it would produce under the cap. "Catastrophic" disruptions to basic services, warns another.

Still others envisioned Armageddon scenarios:

Carlstadt, where property taxes rose 10 percent, claimed it would "have no alternative but to shut down all operations in the borough." Lake Como, where taxes jumped nearly 9 percent, said denying a waiver to spend more "would jeopardize the public health and safety."

Of 76 towns that asked to exceed the cap last year, 62 were approved, according to state records. Of 33 school districts, 25 were approved — though many at a far smaller dollar amount than they asked for. The state granted \$12.3 million of the requested \$35.4 million in waivers for schools — down from \$33.2 million of a requested \$58.6 million in 2008. Towns that were approved asked for more than \$47 million in exceptions.

Other local governments did not need state permission because the costs driving their tax hikes — such as health care or rising school enrollments were not subject to the cap.

Last year's cap could be mild when compared to what's ahead as Gov. Chris Christie prepares to push some of the deepest budget cuts the state has ever seen. The Star-Ledger's review found towns and schools said high employee costs were squeezing their budgets — a big issue in Trenton as Christie attacks the price tag for public employee salaries, pensions and benefits.

"The only way we are going to stop school boards and municipalities from continuing to raise property taxes is if the state stops subsidizing them to the large extent we are without having reforms at the same time," the Republican governor said last week. He has promised to give towns and schools the "tools" to reduce spending,

The 4 percent limit was imposed in 2007 by then-Gov. Jon Corzine and the Legislature, which allowed temporary exemptions for scheduled pension payments and pay raises in existing contracts. Other items, such as health care costs and debt payments, were permanently outside the limit. Where the state's judgment comes in is deciding whether "extraordinary" circumstances — like skyrocketing energy costs or opening a new school — qualify for a waiver. And while school districts have to fit within specific

categories of need, towns can also claim any purpose that is "essential to protect or promote the public health, safety or welfare."

## Clamping down

Fed up that property taxes continued to rise, Corzine last March told the Local Finance Board to be firm in granting only requests that "represent extreme cases where the fiscal integrity of the government agency would be at risk."

Local officials waded through pages of "efficiency standards" to prove they are in line with expectations on benchmarks like overtime pay, cost per pupil, and competitive bidding for contracts. They chronicle their efforts at good behavior, from worker furloughs and hiring freezes to sharing courts and garbage collectors.

They also explain their reasons for a one-time shortfall that nothing but higher taxes could fix: contractual salary increases or retirement packages, the loss of state aid, the global recession cutting into revenues, an influx of autistic students, a broken boiler.

## 'Revenue problem'

Several applications contended they had a "revenue problem and not a spending problem" — in direct contrast to Christie's views.

Many vented frustration in the forms. A Bernards Township official told Department of Education officials he "almost lost my mind" preparing the request. South Brunswick's application slammed the rules, saying the town was penalized for decreasing debt. Their request was denied.

State officials, including executive county superintendents, often identified other savings or questioned local budget figures. One wrote to the West Orange school district that "something doesn't make sense." Another asked Allamuchy Township, "Where is the savings?"

## Getting the OK

More often than not, local officials were granted permission to raise taxes.

"It's certainly not a rubber stamp," said Karen Perkins, school business administrator in Clifton, which asked to exceed the cap by \$1.3 million and was allowed \$576,000.

Perkins said the money was to staff and supply a new annex for the high school, but without the full amount and with a defeated budget, the district had to move existing staff members around to man it. The school district had wanted more guidance counselors, a vice principal, janitors, and administrative staff. Overall property taxes rose by 4.9 percent last year.

In Bloomfield, school business administrator Michael Derderian called the cap "a necessary evil" despite having to forego facility upgrades and new textbooks.

"People are struggling with property taxes in the state," he said, adding that although the state only approved \$100,000 in waivers last year, the effect wasn't as severe for Bloomfield because it later received a 5 percent state aid hike. Property taxes rose about 3.6 percent.

While pushing other property tax reforms like pension and benefit cuts for public workers, Christie also says the state should have tougher caps on local governments.

## Rethinking waivers

Senate President Stephen Sweeney (D-Gloucester) said the caps have helped cut average annual increases from the 7 percent range. But while "there has to be a little bit of flexibility" for dire circumstances, he said, the waivers are ripe for a "second look."

"When we started this, people said they couldn't live with it, and they're living with it and they're making it work," Sweeney said. "It really comes down to, 'Yes, we know you want lower taxes, but lower taxes can't come with the amount of government that we have.'"