

POTENTIAL IMPACT OF PROPOSED CONSTITUTIONAL AMENDMENTS ON NEW JERSEY STATE AND LOCAL SPENDING AND LOCAL PROPERTY TAXES

Report Submitted to:

**Empower the People,
Commerce and Industry Association of New Jersey**

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INTRODUCTION AND SUMMARY

Econsult Corporation, together with the Fels School of Government at the University of Pennsylvania,¹ undertook a study of two proposed amendments to the New Jersey state constitution, referred to herein as “The Amendments”, limiting the rate of spending growth by New Jersey state and local government, and mandating that savings associated with the limit on state spending growth be distributed to local governments. Local governments, in turn, would be required to use these additional funds to reduce property taxes. The combination of local spending limits and additional state aid is expected to result in significantly lower property tax burdens for local taxpayers. This paper provides an analysis of the potential impact of the Amendments on state and local spending and property tax burdens in New Jersey.

The paper is divided into five sections. The first section provides a description of the basic provisions of the proposed Amendments. The second and third sections provide a “retrospective” analysis of the impact of the Amendments. Specifically, these sections estimate what the impact of the Amendments would have been on state spending and property tax funding, and on local spending, from 1993 to 2005, had the Amendments been in effect during this period. The fourth and fifth sections provide a “prospective” analysis of the impact of the Amendments. Specifically, the fourth section provides an estimate of the Amendments’ potential impact over the next decade on state spending and property tax relief funding, and the fifth section ties this analysis of potential state level impacts with potential local level impacts, for an overall estimate of the potential future impacts of the proposed amendments on property taxes in New Jersey,

¹ See Appendix B for more details.

1. Description of the Amendments

This section describes the basic provisions of the Amendments. There are three basic elements of the Amendments: limits on state government spending growth; limits on local government spending growth; and distributions of excess state revenues to local governments that decide to adhere to the Amendments limits on local government expenditure growth.

Limits on State Government Spending. The Amendments limit the annual growth in spending by New Jersey state government for “core” programs. The state spending growth limit does not apply to spending for the interest or principal repayment of voter-approved debt (debt service) or to aid to local governments (including aid to school districts, municipalities, and counties). The remaining state spending, or “core” spending, is limited according to a formula. Under the formula, the state core spending limit in each fiscal year equals the state core spending limit in the prior fiscal year, or 103 percent of budgeted core state spending in the prior year, whichever is less, multiplied by the state “formula growth factor” (FGF), plus any limit increase approved by a majority of the state’s voters pursuant to a statewide referendum. The state FGF for each fiscal year equals the greater of 1.035 or the sum of: 1.0; plus, if positive, 130 percent of the average annual inflation rate over the previous two years, where each annual inflation rate is rounded to the nearest half-percent; plus, if any, the average annual increase, expressed as a percentage, in the state’s school age population over the previous two years. Any voter referendum authorizing spending increases beyond the FGF limit must be held not more than three months before the beginning of the fiscal year in question. State core spending can exceed the FGF limit in the event that the legislature approves “emergency” appropriations by vote of two-thirds of both houses of the state legislature.

Limits on Local Government Spending. The Amendments also limit spending by counties, municipalities, and school districts. The Amendments local spending limits are similar in structure to the Amendments state spending limits. Local spending limits do not apply to debt service payments (the pay down of debt interest and/or principal). The remaining local spending, or “core” spending, is limited according to formula. In the first fiscal period following the approval of the amendments, each local government’s core spending limit equals actual spending in the prior fiscal period, multiplied by the local government’s FGF, plus any amount approved by a majority of the voters of the jurisdiction in a referendum. In subsequent years, each local government’s core spending limit equals the core spending limit in the prior fiscal period, or 103 percent of budgeted core spending in the prior period, whichever is less, multiplied by the local government’s FGF, plus any amount approved by a majority of the voters of the jurisdiction in a referendum. A local government’s FGF equals the greater of 1.035 or the sum of: 1.0; plus, if positive, 130 percent of average annual inflation over the preceding two years, where the annual figures are rounded to the nearest half-percent; plus, if any, the average annual increase in school age population (in the case of counties and municipalities) or public school enrollment (in the case of school districts) over the immediately preceding two years, expressed as a percentage. Any voter referendum authorizing spending increases beyond the local government’s FGF limit must be held not more than three months before the beginning of the fiscal year in question. Local government core spending can exceed the FGF limit in the event that the governing body of the local government unit approves “emergency” appropriations by vote of two-thirds of the members of the governing body.

Distribution of State Funds to Local Governments. The balance of state revenues not otherwise appropriated for non-core spending, for core spending within the FGF limit, or for core spending beyond the FGF limit (either approved by voter referendum or for emergency purposes), shall be appropriated to provide additional state aid as “Fiscal Responsibility Awards” (FRAs) to local governments that have kept their core spending within their FGF limits in the last completed fiscal period. Local governments cannot receive FRA payments if, in the prior fiscal period, their spending exceeded the FGF limits due to an emergency appropriation or voter referendum. FRAs shall be awarded before the end of each state fiscal year, and paid no later than 30 days after the end of each state fiscal year. The total pool of state funds available for distribution as FRAs shall be divided among eligible local government units in proportion to the budgeted spending of each eligible unit. In other words, the amount received by an eligible local government unit shall be equal to a percentage of the statewide amount of funds available for distribution as FRAs, where that percentage equals the budgeted spending of the eligible local government unit, divided by the total budgeted spending of all eligible local government units statewide for the year in question. Amounts distributed as FRAs to local government units shall be used exclusively for the purpose of reducing local property taxes levied by each governmental unit.

2. Retrospective Analysis: Impact of The Amendments on State Spending and Property Tax Relief Aid, 1994- 2005

This section provides an estimate of the reduction in “core” state spending that would have occurred over the period from FY94-FY05, had the Amendments been in effect.

We first calculated the annual state FGFs for FY94-FY05. The FGF equals 1.3 times the rate of inflation, plus the rate of growth in the statewide school age population. Table 1 presents the data that were utilized to calculate the state level FGFs. The table shows that the state FGFs ranged from 3.91 percent to 6.38 percent during the FY94-FY05 period. The data sources and assumptions utilized in the calculations shown in Table 1 are detailed in Appendix A.

Table 1: Calculation of State Formula Growth Factor												
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Inflation	3.35%	2.86%	2.61%	2.66%	2.66%	2.14%	1.61%	2.14%	2.78%	2.50%	2.36%	2.36%
Formula Adjustment	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation Allowance	4.35%	3.71%	3.39%	3.46%	3.46%	2.79%	2.09%	2.78%	3.61%	3.25%	3.07%	3.07%
School-Age Population (millions)	1.348	1.376	1.402	1.431	1.459	1.484	1.513	1.537	1.564	1.582	1.595	1.609
Growth in School-Age Population	2.03%	2.03%	2.03%	2.02%	1.99%	2.00%	1.82%	1.82%	1.79%	1.69%	1.44%	0.99%
State Formula Growth Factor	6.38%	5.74%	5.42%	5.48%	5.45%	4.79%	3.91%	4.60%	5.40%	4.94%	4.51%	4.07%

We next applied the calculated FGFs to actual core state spending during the FY94-FY05 period, to calculate the extent to which actual state spending would have been reduced, had the Amendments been in effect during this period. Table 2 presents these calculations. Under the Amendments, the statewide growth limits apply to core state spending, which equals total state spending less spending for voter-approved debt service and for all state aid to school districts and municipalities. This “core” spending grew from \$8.17 billion in FY93 to a budgeted level of \$15.40 billion in FY05.

Under the Amendments, the state core spending limit in the first fiscal year after implementation of the Amendments is actual core state spending in the prior year multiplied by the FGF. If the Amendments had been in effect beginning in FY94, it would have had no impact on state spending in FY94 since actual core state spending in FY94 was \$8.63 billion, which was below the Amendments core spending limit of \$8.69 billion. In subsequent years, under the Amendments, the state core spending limit is calculated as the state core spending limit in the prior year, or 103 percent of actual state core spending in the prior year, whichever is less, multiplied by the FGF. These calculations were performed for each year beginning in FY95, and continuing through FY05, and are shown in Table 2. The data sources and assumptions utilized in the calculations in Table 2 are detailed in Appendix A.

Table 2 shows that actual core state spending would have exceeded the core spending limit under the Amendments in FY95 by \$90 million. In FY96-FY99, actual state spending was below the Amendments limit, so the Amendments would have had no effect on core state spending in these years. After FY99, however, the Amendments would have significantly reduced core state spending. In the period from FY00-FY05, the Amendments results in annual reductions in core state spending that range from \$490 million in FY00 to \$3.08 billion in FY05.

Over the six year period from FY00-FY05, core state spending would have been reduced by a total of \$7.66 billion as a result of the Amendments, assuming that there were no increases in the state spending limits due to voter referenda or emergency appropriations. This means that \$7.66 billion would have been available to increase aid to localities to reduce property taxes over that period.

Table 2: Calculation of Impact of the Amendments on Core State Spending, Fiscal Years 1993-2005 (\$ in Billions)													
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total State Spending	14.65	14.96	15.37	16.23	16.30	17.19	18.53	19.96	21.33	22.67	24.14	24.54	28.03
Less Debt Service	0.21	0.12	0.10	0.45	0.45	0.48	0.50	0.49	0.53	0.45	0.44	0.44	0.44
Less Direct Municipal Aid	1.68	1.64	1.62	1.56	1.56	1.56	1.58	1.70	1.67	1.72	1.73	1.73	1.76
Less School Aid	4.60	4.57	4.37	4.77	4.85	5.32	5.94	6.26	6.84	7.44	7.63	8.21	8.88
Actual Core State Spending	8.17	8.63	9.28	9.45	9.44	9.83	10.52	11.51	12.30	13.05	14.34	14.16	16.94
Lesser of:			8.69	9.18	9.68	9.73	10.12	10.60	11.02	11.53	12.15	12.75	13.33
State Core Spending Limit in Prior Year			8.69	9.18	9.68	10.21	10.26	10.60	11.02	11.53	12.15	12.75	13.33
1.03% of Prior Year Actual Core Spending			8.89	9.55	9.73	9.73	10.12	10.84	11.85	12.67	13.44	14.77	14.58
Formula Growth Factor		6.38%	5.74%	5.42%	5.48%	5.45%	4.79%	3.91%	4.60%	5.40%	4.94%	4.51%	4.07%
State Core Spending Limit		8.69	9.18	9.68	10.21	10.26	10.60	11.02	11.53	12.15	12.75	13.33	13.87
Core State Spending Over Limit		0.00	0.09	0.00	0.00	0.00	0.00	0.49	0.77	0.90	1.59	0.83	3.08

The amount by which actual state core spending exceeded its allowable limits, as shown in Table 2, represents additional funds that would have been distributed to local governments as FRAs had the Amendments been in effect beginning in FY03. Table 3 below shows the impact that these FRA distributions would have had on the overall level of property tax levies statewide. Assuming that the additional FRA funds received by local governments would have resulted in dollar for dollar reductions in local property tax levies, then the average percentage reduction in local property tax levies due to the Amendments can be calculated. These calculations are presented in Table 3 for FY00-FY04.

Table 3: Impact of the Amendments on Statewide Property Tax Levy (\$ in billions)					
Fiscal Year	2000	2001	2002	2003	2004
Amount Distributed as FRAs	\$0.487	\$0.771	\$0.903	\$1.591	\$0.830
Actual Property Tax Revenues Collected	14.195	14.991	16.035	17.253	18.362
Percentage Reduction in Property Taxes Due to the Amendments	3.4%	5.1%	5.6%	9.2%	4.5%

We do not have data on FY05 aggregate statewide property tax collections, but if we assume that they grew at a 6 percent annual rate (average of annual growth rates from FY00-FY04), we can estimate the percentage reduction in property taxes due to the Amendments for FY05 to be $(3.08/19.4)=15.9$ percent.²

² Note that we assume a lower growth rate for local and school district property taxes from 2005-2016. See Section 5.

3. Retrospective Analysis: Impact of The Amendments on Local Governments, 1993-2002

An analysis provided to Econsult Corporation (Econsult) by Empower the People detailed the impact of the proposed Amendments on local governments in New Jersey over the period from 1993 to 2002, a period during which state tax rates were cut dramatically³. This analysis estimated the reduction in local government spending that would have occurred as a result of the Amendments spending growth limits for local government. It also estimated the amount of Fiscal Responsibility Awards that would have been received by local governments under the Amendments, even at a time when state tax rates were falling. The results of the analysis are shown in Table 4.

To estimate the impact of the Amendments on local spending, the analysis provided the actual spending growth for counties, school districts, and municipalities from FY93-FY02, and the spending growth that would have occurred assuming every jurisdiction adhered to the FGF spending limits under the Amendments. The difference between actual spending and allowable spending under the Amendments during the entire 1993-2002 period was calculated at \$399 million for counties, \$3,015 million for school districts, and \$3,242 million for municipalities. The combined reduction in local government spending that would have occurred under the Amendments spending growth limits for the 1993-2002 period was \$6,656 million – a reduction of 3.2% relative to the total \$208,935 million of county, school and municipal spending during this period. It is important to note that this analysis measures the impact of the Amendments on local spending under the assumption that all local governments would have adhered to the spending growth limits under the Amendments had they been in effect during this period. To the extent that any governments would have chosen to exceed the growth limits under the Amendments, the actual spending reductions would have been lower than estimated.

The analysis also estimated that, under the Amendments, during the entire 1993-2002 period, counties would have received \$612 million in FRAs, school districts would have received \$2,136 million in FRAs, and municipalities would have received \$1,781 million in FRAs. The combined level of FRAs received by all local governments over the 9-year period was estimated at \$4,529 million. The analysis assumes that all local governments would have adhered to the spending growth limits under the Amendments, and would therefore have been eligible to receive FRAs. To the extent that some governments would have chosen to exceed the Amendments spending limits, they would not have been eligible for the Amendments. This would have changed the distribution of FRA payments across jurisdictions, but would not have affected the total level of FRA payments to local governments statewide.

The total impact on property taxes of the Amendments would have been the sum of reduced spending by local governments as a result of the Amendments spending growth limits and the additional aid received by local governments as FRAs. This analysis shows that even during a nine-year period during which state tax rates were cut dramatically, and which ended with a sharp economic contraction, the Amendments would have produced significant tax savings for property owners. Indeed, the combined total of reduced spending and FRAs statewide for the 1993-2002 period would have been \$11.2 billion, as shown in Table 4 below:

³ This information was provided by Steve Mucchione, who conducted a study of local government and school district spending and property tax collections over the period. His analysis suggested that the constraints imposed on the Amendments on local or school district spending would not be bidding for the vast majority of local governments and school districts.

Table 4: Impact of the Amendments on Local Governments, 1993-2002 Aggregate Impact (\$ in Millions)	
County Fiscal Benefit	
Budget Reduction	\$399
Fiscal Responsibility Rewards	\$612
Total	\$1,011
School District Fiscal Benefit	
Budget Reduction	\$3,015
Fiscal Responsibility Rewards	\$2,136
Total	\$5,152
Municipal Fiscal Benefit	
Budget Reduction	\$3,242
Fiscal Responsibility Rewards	\$1,781
Total	\$5,022
Total Fiscal Benefit	
Budget Reduction	\$6,656
Fiscal Responsibility Rewards	\$4,529
Total	\$11,185

4. Prospective Analysis: Potential Impact of Amendments on State Spending, 2006-2015

This section provides projections of the potential impact of the Amendments on core state spending and average statewide property tax burdens over the next decade. This projection is based on a projection of state revenues, state non-core spending, and state core spending in the base case (assuming the Amendments are not implemented) and under the Amendments scenario.

Projections of Formula Growth Factor. Tables 5 and 6 present projections of the FGF likely to be applied to future core state spending growth over 2006-2015 period, assuming the Amendments are in effect. As shown in the tables, we forecast inflation at 2.5 percent annually. This is the average forecast for inflation over the next ten years from the most recent Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia. Under the Amendments' growth factor formula, inflation is multiplied by 1.3, to produce 3.25 percent as the contribution of inflation to the FGF.

Growth in statewide school age population has declined from around 2.0 percent annually in the late 1990s to 1.4 percent in the 2003-04 school year, and 1.0 percent in the 2004-05 school year. According to projections by the U. S. Census Bureau, the statewide population age 5 to 17 in New Jersey is projected to *decline* from 1,489,000 in 2005 to 1,459,000 in 2015, which represents an annual decline of 0.2 percent over the period.⁴ This suggests that it is reasonable to project flat or declining growth in school age population in the state over the next decade. However, under the Amendments, the statewide FGF cannot drop below 3.5 percent. Given that the contribution of projected inflation to the FGF is 3.25 percent, the state FGF will exceed 3.5 percent only if statewide school age population increases by more than 0.25 percent in any year. If school age population increases by less than 0.25 percent, is unchanged, or decreases by any amount over the 2005-15 period, then the FGF will equal 3.5 percent. Given the recent declines in growth in school age population, and the Census Bureau projections for actual declines in school age population in New Jersey, we believe that a reasonable range of scenarios for school age population growth over the next decade is growth of between 1.0 percent, the growth rate in the most recent year, and zero. Assuming 1 percent annual growth in school age population produces a projected FGF of 4.25 percent each year, and assuming no growth in school age population produces a projected FGF of 3.5 percent, the minimum allowed under the Amendments. These two scenarios are presented in Tables 5 and 6.

⁴*Projections of the Population, By Age and Sex, of States: 1995 to 2025.* U. S. Census Bureau website: www.census.gov/population/projections/state/stpage.txt.

Table 5: Projection of State Formula Growth Factor, Fiscal Year 2006-2015 (1% Annual School Age Population Growth Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Formula Adjustment	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation Allowance	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
School-Age Population (millions)	1.609	1.625	1.641	1.658	1.674	1.691	1.708	1.725	1.742	1.760
Growth in School-Age Population	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
State Formula Growth Factor	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Table 6: Projection of State Formula Growth Factor, Fiscal Year 2006-2015 (No School Age Population Growth Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Formula Adjustment	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation Allowance	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
School-Age Population (millions)	1.609	1.609	1.609	1.609	1.609	1.609	1.609	1.609	1.609	1.609
Growth in School-Age Population	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
State Formula Growth Factor	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Projections of State Revenues. The largest elements of New Jersey’s revenue structure are taxes on personal income and sales. It is reasonable to assume that the state’s overall revenue growth rate over the next decade will approximate the growth in statewide employee compensation and personal income, assuming no changes in the state’s basic revenue structure – tax rates and bases, and the level of fees and other types of revenue. The analysis below is based on this assumption of no changes in the basic revenue structure.

The revenue projections for FY06-FY15 are based on projected growth in inflation, employment, and productivity growth. Inflation is projected to grow at 2.5 percent annually, consistent with the Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia. Employment growth is projected at 1.1 percent annually, based on projections by the New Jersey Department of Labor and Workforce Development.⁵ We assume an annual productivity growth rate of 2% in the high growth scenario and 0% in the low growth scenario.

⁵ *State of New Jersey Employment Projections by Major Industry Division, 2002-2012.* New Jersey Department of Labor and Workforce Development website: <www.wnjin.state.nj.us/OneStopCareerCenter/LaborMarketInformation/lmi04/state/majorind.pdf>

We utilize these projections to develop low and high range estimates of projected state revenues for the period from FY06-FY15.⁶ Under the low range projection, annual revenues are projected to grow at 3.6 percent, the sum of projected inflation and employment growth. This assumption assumes that state revenues track employee compensation, and that per employee compensation will increase only at the rate of inflation. Under the high range projection, revenues are projected to grow at 5.6 percent annually, the sum of workforce growth, inflation, and productivity growth.⁷ We believe that these forecasts represent a reasonable range of possible revenue growth rates over the next ten-year period, a period that will likely encompass both expansionary and contractionary periods in the business cycle.

Projections of Non-Core State Spending. Non-core spending is composed of three components: debt service, municipal aid, and school aid. The projected annual growth rate for debt service and municipal aid is 3.12 percent, the sum of the projected growth rate of inflation (2.5 percent) and population (0.62 percent). The projected growth rate for school aid is 2.3 percent, the sum of projected inflation and the projected growth rate in school-age population (-0.2 percent).

Projections of Core State Spending. We make two projections of core state spending, one projection under the assumption that the Amendments are implemented, and the other under the assumption that the Amendments are not implemented. Under the Amendments, core state spending is projected to grow at the annual FGF levels. Assuming the Amendments are not implemented, core spending is projected as the difference between state revenues and non-core spending. In other words, under the scenario in which the Amendments are not implemented, the state is assumed to spend all available revenue that exceeds the level of non-core state spending.

Impact of Amendments on Core State Spending. Tables 7 through 10 present the impact of the Amendments on core state spending under four scenarios: (1) low revenue growth, low FGF; (2) high revenue growth, low FGF; (3) low revenue growth, high FGF; and (4) high revenue growth, high FGF. Each table presents projected revenues, projected non-core state spending, projected core state spending assuming the Amendments are not implemented, projected core state spending assuming the Amendments are implemented, and the projected impact of the Amendments on core state spending.

In all four scenarios, the Amendments would result in reduced core state spending in all years. The impact of the Amendments increases over time. The scenarios with high projected state revenue growth show a higher impact of the Amendments on core state spending. The scenarios with lower projected FGFs also show a higher impact of the Amendments on core state spending. By FY15, the Amendments are projected to result in reduced core state spending by 2015 in amounts ranging from \$300 million (the low revenue growth, high FGF scenario) to \$8.9 billion (the high revenue growth, low FGF scenario).

⁶ Our revenue forecasts utilize a base of \$24.7 billion in total state revenue in FY05, which is total FY05 budgeted revenue, excluding \$1.52 billion in budgeted revenue from "new revenue securitizations."

⁷ This estimate range can be compared to the 4.1% average annual increase in New Jersey per capita income for the 1993-2003 period. We note also that state revenues grew at an average annual rate of 5.1% from 1994 to 2004, a decade of significant tax rate reductions and that also included significant economic contraction near the end of the period.

Table 7: Projected Impact of the Amendments on Core State Spending Fiscal Year 2006-2015 (\$ in Billions) (Low Revenue Growth, Low Formula Growth Factor Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total State Revenues	25.6	26.6	27.5	28.5	29.5	30.6	31.7	32.8	34.0	35.2
State Spending										
Voter-approved debt service	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Municipal Aid	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.4
School Aid	8.9	9.1	9.3	9.5	9.7	9.9	10.2	10.4	10.6	10.9
Core State Spending (Without the Amendments)	14.5	15.2	15.8	16.5	17.3	18.0	18.8	19.6	20.5	21.4
Core State Spending (With the Amendments)	14.4	14.9	15.4	15.9	16.5	17.0	17.6	18.3	18.9	19.6
Reduction in Core State Spending Due to the Amendments	0.2	0.3	0.5	0.6	0.8	1.0	1.2	1.4	1.6	1.8

Table 8: Projected Impact of the Amendments on Core State Spending Fiscal Year 2006-2015 (\$ in Billions) (High Revenue Growth, Low Formula Growth Factor Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total State Revenues	26.1	27.6	29.1	30.8	32.5	34.3	36.2	38.3	40.4	42.7
State Spending										
Voter-approved debt service	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Municipal Aid	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.4
School Aid	8.9	9.1	9.3	9.5	9.7	9.9	10.2	10.4	10.6	10.9
Core State Spending (Without the Amendments)	14.8	16.0	17.2	18.5	20.0	21.5	23.1	24.8	26.6	28.5
Core State Spending (With the Amendments)	14.4	14.9	15.4	15.9	16.5	17.0	17.6	18.3	18.9	19.6
Reduction in Core State Spending Due to the Amendments	0.4	1.1	1.8	2.6	3.5	4.5	5.1	6.5	7.7	8.9

Table 9: Projected Impact of the Amendments on Core State Spending Fiscal Year 2006-2015 (\$ in Billions) (Low Revenue Growth, High Formula Growth Factor Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total State Revenues	25.6	26.6	27.5	28.5	29.5	30.6	31.7	32.8	34.0	35.2
State Spending										
Voter-approved debt service	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Municipal Aid	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.4
School Aid	8.9	9.1	9.3	9.5	9.7	9.9	10.2	10.4	10.6	10.9
Core State Spending (Without the Amendments)	14.5	15.2	15.8	16.5	17.3	18.0	18.8	19.6	20.5	21.4
Core State Spending (With the Amendments)	14.5	15.1	15.7	16.4	17.1	17.8	18.6	19.3	20.2	21.0
Reduction in Core State Spending Due to the Amendments	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3

Table 10: Projected Impact of the Amendments on Core State Spending Fiscal Year 2006-2015 (\$ in Billions) (High Revenue Growth, High Formula Growth Factor Scenario)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total State Revenues	26.1	27.6	29.1	30.8	32.5	34.3	36.2	38.3	40.4	42.7
State Spending										
Voter-approved debt service	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Municipal Aid	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.4
School Aid	8.9	9.1	9.3	9.5	9.7	9.9	10.2	10.4	10.6	10.9
Core State Spending (Without the Amendments)	14.8	16.0	17.2	18.5	20.0	21.5	23.1	24.8	26.6	28.5
Core State Spending (With the Amendments)	14.5	15.1	15.7	16.4	17.1	17.8	18.6	19.3	20.2	21.0
Reduction in Core State Spending Due to the Amendments	0.3	0.9	1.5	2.2	2.9	3.7	4.5	5.4	6.4	7.5

5. Prospective Analysis: Potential Impact of Amendments on Local Property Taxes, 2006-2015

The previous section provided estimates of future state monies that could be made available under various growth scenarios.

Impact of The Amendments on Local Property Tax Burdens. We estimated the impact of the Amendments state spending growth limit on local property tax burdens for the period from FY06-FY15. For this estimate, we assumed that the estimated reduction in core state spending is entirely distributed to local governments as FRAs, and therefore results directly in a reduction in local property taxes. We also projected total statewide property tax collections for the period from FY06-FY16. We then calculated the ratio between the estimated FRAs distributed in each year and the total projected property taxes that would otherwise be collected in that year. This percentage is the estimated percentage reduction in total statewide property taxes in each year.

Property taxes were projected on the basis of 2003 actual statewide property tax collections for counties, school districts and municipalities (\$3.3 billion, \$9.5 billion and \$4.4 billion, respectively). Projections for the period through 2016 were made on the following basis. The assumed growth rate for county and municipal property tax collections was equal to the actual or projected rate of inflation in each year, plus the projected rate of total annual population growth (0.62 percent), based on U. S. Census Bureau projections. The assumed growth rate for school district property tax collections was equal to the actual or projected rate of inflation in each year, plus 1 percent, the assumed rate of growth of public school enrollment.

Table 11 presents the projected percentage reduction in total statewide property tax revenues as a result of the state spending growth limit in the Amendments and the resultant increase in state property tax relief aid to local governments, for the period from FY06-FY15⁸. These represent average reductions in property taxes statewide. This is a conservative estimate of potential property tax reductions under the Amendments since it does not take into account additional property tax reductions that may result from the local spending growth limits under the Amendments.

Further, actual percentage reductions in those localities that do adhere to the local spending limits under the Amendments could be larger than shown in Table 11. It is possible that some jurisdictions will not adhere to the local spending growth limits under the Amendments, and consequently will not receive FRAs. In this case, FRAs will be distributed to a more selective group of jurisdictions, so that the actual percentage reduction in property taxes made possible by FRA distributions in those localities that do maintain spending growth within the Amendments limits could be even greater than shown in Table 11.

Gradual elimination of property taxes. If these amendments are enacted, and the general revenue expenditure trend assumptions hold, we can estimate how long it could take for the annual FRA's to be large enough to completely replace local property taxes. Assuming a high revenue growth rate, combined with annual 1 percent local reductions, we estimate this would take between 20-25 years.

⁸ All else equal, the forecasted percentage decreases in property taxes would continue beyond the 10-year horizon used in this analysis, however, the further out we forecast, the more unlikely the "all else equal" condition holds. The 10-year horizon effectively illustrates the power of constraining state and local spending and applying additional revenues to property tax reduction.

Table 11: Projected Percentage Reduction in Statewide Property Tax Levies Resulting from the Amendments State Spending Limits, Under Four Scenarios Fiscal Year 2006-2015										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
High State Revenue Growth, Low Formula Growth Factor Scenario	2.1%	5.7%	9.1%	12.8%	16.8%	21.0%	23.2%	28.7%	33.1%	37.2%
High State Revenue Growth, High Formula Growth Factor Scenario	1.7%	4.7%	7.6%	10.8%	13.9%	17.3%	20.4%	23.9%	27.5%	31.4%
Low State Revenue Growth, Low Formula Growth Factor Scenario	0.5%	1.1%	1.7%	2.2%	2.8%	3.4%	4.0%	4.5%	5.1%	5.7%
Low State Revenue Growth, High Formula Growth Factor Scenario	0.2%	0.4%	0.6%	0.7%	0.8%	1.0%	1.1%	1.2%	1.3%	1.4%

These data (high revenue, low FGF) suggest that 2015 statewide property taxes could be almost \$8.9 billion lower than they would otherwise be, a reduction of over 37% in the next 10 years. It is impossible to forecast individual local or school district behavior in the future (to estimate further potential reductions in future local property taxes). However, we can note that if an average of 1 percent were to be reduced each year by locals (below the rate of growth that would have occurred) an additional \$2.5 billion in statewide property taxes could be reduced. This would represent a 45 percent reduction in statewide property taxes below what they would forecast without the amendments.

APPENDIX A

Data sources and assumptions for Table 1

Inflation rates are calculated based on the average monthly CPI for the New York City and Philadelphia metropolitan areas, from the U. S. Department of Labor, Bureau of Labor Statistics. July through June monthly averages were calculated to correspond with the state fiscal year. The inflation rate for FY05 is assumed to be 3.0 percent. Statewide school age population is the sum of public and private school enrollments. Public school enrollment figures for FY93-FY98 are from the 1998 New Jersey Comprehensive Annual Financial Report. Public school enrollment for the period from FY99-FY04 are from the New Jersey Department of Education website. Public enrollment figures for FY05 are not yet available. We assumed that statewide enrollment would increase 1.0 percent in FY05. Private school enrollment figures are from U. S. Department of Education publications, and *Vital Education Statistics*, published by the New Jersey Department of Education. Inflation and school age population growth rates shown represent the average growth rates for the two previous years.

Data sources and assumptions for Table 2

Total state spending represents all spending within “budgeted funds” (General Fund, Property Tax Relief Fund, Casino Control Fund, Casino Revenue Fund, and the Gubernatorial Elections Fund). State school aid, municipal aid, and debt service expenditure amounts for FY93-FY03 are from the New Jersey state Comprehensive Annual Financial Report, and represent actual amounts. Figures for FY04 are based on adjusted appropriations from the FY05 Budget in Brief, and figures for FY05 are based on proposed appropriations in the FY05 Budget in Brief.

NJ AMENDMENTS FOR PROPERTY TAX RELIEF (1993-2003) OTHER DEFINITIONS AND SOURCES

Total Exempted Spending = Repayment of voter approved debt + ALL municipal aid + ALL school aid + ALL county aid

Annual Core State Spending = Total State Spending - Total Exempted Spending

Rate of Inflation from BLS (average of NY and Philadelphia PMSA)

Formula Adjustment from legislation

Inflation Allowance = Rate of Inflation x Formula Adjustment

Estimated Student Enrollment (from OLS-Martin Poethke)

Growth Factor (Spending Growth Limit) = Inflation Allowance + % Change in Enrollment

Formula Limit on Core State Spending = Prior Year’s Base Spending * (prior year’s Growth Factor)

Prior Year's Base Spending = lesser of the prior years actual core state spending plus 3% or the prior year's limit * (prior year's growth factor)

Your Property Tax Relief = Actual Core State Spending – Formula Limit Core State Spending

Total = sum of yearly relief (no negatives)

New Jersey State Recent Spending Trends
(\$ in billions)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total State Spending	21.327	22.669	24.142	24.542	28.027
Less ALL Municipal Aid	(1.668)	(1.725)	(1.731)	(1.733)	(1.757)
Less ALL School Aid	(6.837)	(7.441)	(7.632)	(8.212)	(8.884)
Core State Spending (including debt service)*	12.822	13.503	14.780	14.598	17.386
Less local tax relief programs:					
Direct Taxpayer Relief (\$ in millions)					
NJ SAVER Program	(336.7)	(727.4)	(679.1)	(299.6)	-
Homestead Rebates	(335.1)	(500.6)	(514.3)	(517.7)	-
Homestead Property Tax Rebate for Homeowners (Statutory Program Revisions)					(1,501.3)
Homestead Property Tax Rebate for Tenants (Statutory Program Revisions)					(188.0)
Veterans and Senior/Disabled Citizens' Property Tax Relief	(77.3)	(91.9)	(118.7)	(132.0)	(157.0)
Property Tax Deduction Act	(301.0)	(316.8)	(335.1)	(341.0)	(361.0)
Sub-total	(1,050.1)	(1,636.7)	(1,647.2)	(1,290.3)	(2,207.3)
Core State Spending less Direct Taxpayer Relief (Adjusted Core)	11.77	11.87	13.13	13.31	15.18

2005 Growth Rate: (Adjusted Core)

Base Year 2001	
Increased Spending (actual less total direct taxpayer relief)	3.41
Percentage Increase (over 4 years)	29%
Base Year 2002	
Increased Spending (actual less total direct taxpayer relief)	3.31
Percentage Increase (over 3 years)	28%

APPENDIX B

Econsult Corporation, a consulting firm in Philadelphia comprised of several University of Pennsylvania economists, in conjunction with the Fels School of Government at the University of Pennsylvania, conducted this study. The study team included the following professionals:

Stephen P. Mullin, Senior Vice President and Principal:

Stephen P. Mullin is Senior Vice President and Principal of Econsult Corporation. His consulting practice concentrates on state and public finance and policy analysis, economic and real estate development, tourism, convention center and sports facilities impacts and financing, project and program evaluation, business strategies utilizing government programs, public-private partnerships, and economic impact and feasibility analyses. His clients include local governments, not-for profit institutions, and government development agencies.

Mr. Mullin currently serves as Treasurer of the Historical Society of Pennsylvania and of the Independence Visitor Center Corporation, and as President of the Harvard Radcliffe Club of Philadelphia. He serves on the boards of the Union League of Philadelphia, the Optimum Trust Mutual Funds, the Philadelphia Sports Congress, the Charter School Resource Center and Curtain Call Creations. He serves on the advisory boards of the Haverford Trust Company, the Washington Investment Advisors, and the Philadelphia Regional Review. He co-chairs Ben Franklin Technology Partners' Research Advisory Committee, and serves on the Preservation Alliance Advocacy Committee and the PENJERDEL Real Estate Committee. He formerly served as Finance Committee chair for the University City Science Center and as Chairman of the Commercial Realty Review Corporate Advisors.

Mr. Mullin served from 1993 to 2000 as the City of Philadelphia's Director of Commerce, chairing the Mayor's Economic Development Cabinet and Executive Committee and coordinating activities of the City's various development agencies. He served on many Board and Commissions, including the City Planning Commission and the Philadelphia Industrial Development Corporation, the Philadelphia Commercial Development Corporation (Chair), the Airport Advisory Board, the Convention and Visitors Bureau, the Historic Commission, the Port of Philadelphia and Camden and the Penn's Landing Development Corporation. Mr. Mullin also served as Philadelphia's Director of Finance from 1992 to 1993, during the City's fiscal turnaround. He chaired the Municipal Pension Board and was ex-officio member of the PICA Board and the Pennsylvania Convention Center Authority.

He was Budget Director for the City of St. Louis (82-88) and Director of Corporate Development for the Laclede Gas Company (98-90), where he developed merger and acquisitions strategies for the investor-owned utility. From 1990 to 1992, he served as Deputy Director of the St. Louis Development Corporation, where he was responsible for commercial and industrial development programs for St. Louis.

Mr. Mullin is a 1973 *cum laude* graduate of Phillips Exeter Academy, and a 1977 *magna cum laude* in Economics graduate of Harvard University, and he earned an M.A. in Economics from the University of Pennsylvania in 1982. He teaches or has taught public finance at the Wharton and Fels Schools of the University of Pennsylvania, at Drexel University, and at Bryn Mawr College. He teaches urban and regional economics and economic development at Penn's City Planning Department and Widener University, and economics at Philadelphia University and Peirce College.

He has authored articles, delivered speeches and participated on panels discussing local government policy, environmental issues, education, sports and convention center facility finance, and e-commerce.

Richard Voith, Ph.D. Senior Vice President and Principal:

Dr. Voith is Senior Vice President and Principal of Econsult Corporation. He is an economist whose contributions to transportation and urban economics span both the academic and popular press. In particular, Dr. Voith is a well-known expert in transportation and real estate economics, including the impacts of transportation and other policies on the real estate market and development patterns. Dr. Voith is also the Executive Director of the Greater Philadelphia Transportation Initiative, the region's first independent organization dedicated to transportation policy analysis and research in Greater Philadelphia. Prior to joining Econsult, Dr. Voith held the position of Economic Advisor at the Philadelphia Federal Reserve Bank of Philadelphia where his responsibilities included analysis of Philadelphia's regional economy. Dr. Voith frequently teaches courses in Economic Development at the Wharton School of the University of Pennsylvania.

Dr. Voith served on the Board of Directors of the Southeastern Pennsylvania Transportation Authority (1992-2000) as one of two representatives for the city of Philadelphia on the Board. He served as Vice Chairman of SEPTA for 3 years, 1996-1998. On the Board, Dr. Voith with his fellow board members was responsible for approval of all capital and operating expenditures, fare and service policies, and management oversight. During his tenure, he participated in the procurement of a new fleet of subway cars, the hiring of a new management team, development of financing mechanisms for an ambitious capital plan as well as efforts to dramatically streamline the authority to reduce costs while expanding service throughout the Greater Philadelphia region.

Dr. Voith is currently on the editorial board of Real Estate Economics and an associate member of the Urban Land Institute. Over the last 15 years, Dr. Voith has served on several National Academy of Science Foundation Advisory Panels addressing topics such as the interrelationships between highway and transit investment and land use, valuing the costs and benefits of transit investments, and the relationships between land use and public health. He has been a guest speaker at numerous forums probing issues central the patterns of metropolitan development, including those sponsored by the Lincoln Land Institute, the Brookings Institution, the Urban Land Institute, and the Department of Housing and Urban Development.

Brigit Martin, M.A., Research Analyst, Econsult Corporation.

Ms. Martin obtained her Master of Arts in Economics concentrating in regional economic development and urban greenspace preservation. Her academic and professional experience focuses on regional development and urban revitalization issues. As part of the firm's research analyst team, Ms. Martin's work includes economic impact studies and strategic development plans, focusing on background project research, data collection and analysis, model design and implementation. She is responsible for assisting with the development and presentation of client proposals and project materials, and she contributes to overall database management and general assessment of economic impacts and public policy initiatives. Ms. Martin has assisted courses in Micro- and Macroeconomics.

Fels School of Government (University of Pennsylvania) Research Participation.

In the data collection and initial analysis portion of the study, Econsult utilized the research assistance of graduate (MGA) student Marko Paunovic of the Fels School of Government, University of Pennsylvania. This research assistance was provided for via a grant to the Fels School of Government, and was jointly directed by Econsult and Mr. Christopher Patusky, J.D., M.G.A., Deputy Director Program Director.