

SIZE MAY NOT BE THE ISSUE

An Analysis of the Cost of Local Government
and Municipal Size in New Jersey

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Bloustein Local Government Research Center

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The Bloustein Local Government Research Center

New Jersey is served by more than 1,500 distinct local government agencies: municipalities, school districts, utilities, counties, and more. Yet, even with this wealth of opportunity, precious little substantive research has been done within the local government environment to inform some of our state's most pressing policy issues.

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- Encouraging and conducting applied and academic research on local government fiscal and administrative issues, emphasizing application and support to New Jersey local government.
- Developing resources that can assist others in conducting research and analysis.
- Organizing and hosting conferences and symposia on New Jersey local government fiscal and administrative issues.
- Supporting New Jersey local government fiscal and administrative policy development, implementation, and analysis through contract research and on-call advice for organizations and institutions that engage in local government policy setting and policymaking.
- Promoting and increasing public understanding of local government issues by partnering with and supporting civic and media organizations that inform and educate the public on local government matters.

A list of the Center's current projects may be found online at <http://blousteinlocal.rutgers.edu/projects/>.

Author Biographies

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Dr. Caprio also has extensive experience in higher education management, serving as department chair, associate academic dean, acting college dean, associate provost, interim University CIO, and research institute director. Most recently he served as University Vice President for Continuing Studies for more than 15 years, in which position he provided executive leadership for off-campus, distance learning, summer and winter session, and continuing education activities at the university.

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Marc H. Pfeiffer retired in 2012 from a 37-year career in New Jersey local government administration, having served as a municipal administrator in several municipalities, and 26 years of service in the State's local government oversight agency, the Division of Local Government Services. At DLGS he served as Deputy Director for 14 years, and periodically as Acting Director.

Marc has broad experience in many areas of local government policy and administration, including specific expertise in areas such as finance and property taxation, public procurement, shared services and consolidation, technology, energy, labor relations, and general government administration. He also has deep experience in the legislative process and as a regulatory officer. He is currently engaged in research concerning the use of technology in local government.

In addition to participating in Bloustein Local, Marc makes his extensive government experience available as a guest lecturer at the Bloustein School and other collaborative efforts. He is also assisting the Rutgers School of Public Affairs and Administration with the State's Certified Public Manager Program in curriculum development and instruction. He can be reached at marc.pfeiffer@rutgers.edu.

Introduction

“Everything is the way it is because it got that way” is a seminal aphorism from the field of biology, but has application throughout scientific study. Paul Zachary (“PZ”) Myers wrote:

It’s a subtle way of emphasizing the importance of process and history in understanding why everything is the way it is. You simply cannot grasp the concepts of science if your approach is to dissect the details in a static snapshot of its current state; your only hope is to understand the underlying mechanisms that generate that state, and how it came to be....

To understand how something works, you must first understand how it got that way.¹

This observation applies remarkably well to the study of New Jersey municipalities and their spending and taxation practices. It is also inconsistent with the way our public policies have been developed over time, ignoring what the authors of this report have come to term “New Jersey’s unique ‘political biology.’”² Municipalities, large and small, are what they are and do what they do; they have evolved over time to provide a range of goods and services that reflect local demands and wants, enveloped within a cocoon of state-imposed fiscal, policy, and operational standards.

This research paper is the first of several studies designed to contribute to an empirical understanding of the differences in costs among municipalities and the extent to which consolidation, shared services, or other strategies might be effective in controlling local government costs. As property taxes represent, on average, 60 percent of all local government revenue with which to pay these costs, a more insightful understanding of the determinants of these costs and the potential moderation of cost increases will contribute to a better understanding of possible solutions to our state’s property tax “problem.”

The challenge of controlling local government costs³ in New Jersey is thus inextricably linked to issues of the property tax, and vice versa; they cannot be discussed in a vacuum. Public discourse often reflects a “folk hypothesis” that New Jersey has “too many municipalities and too much government,” implying that sharing services and consolidating local governments are the remedies to the costs of municipal government. These solutions are presented as elixirs, ways (perhaps in part) for the state to solve its property tax challenges: hypothesizing that we have “too many governments” and, by extension, too many small governments.

Consolidation of small, inefficient municipalities has been advanced as a major strategy necessary in solving the New Jersey property tax problem. Yet, while such arguments are advanced, even to the point of elected officials proposing mandatory consideration of consolidation by municipalities, the basic premise that consolidations will solve the property tax problem remains empirically and largely unsupported.

The premise for these arguments is that there must be some inherent efficiency that will be achieved through increasing the size and scale of the state’s municipal governments, theoretically affording possibilities for efficiencies not possible within New Jersey’s [now] 565 municipalities. Stated differently, current public discourse assumes small municipalities do not operate “efficiently.”

If this premise is correct, there should be some measurable link between the size of government and the cost of government.

The goal of this first phase of research, then, is to determine whether there appears to be a measurable difference in the cost of local government across municipalities of different sizes.

Executive Summary

The results of this analysis of municipal government costs per capita in New Jersey for both the 2011 and 2012 fiscal years would seem to contradict the prevailing folk hypothesis in two fundamental areas: first, that the state may have too many municipalities, and second, that smaller municipalities are more expensive than larger municipalities, thus contributing to the overall state property tax challenge.⁴

First, the perception that the state has too many municipalities may be flawed, or perhaps filtered by our evolutionary success in serving more people in less geography than any other state. Yes, New Jersey is the most densely populated state in the nation, but when we look at the average population of “general governments” in the states, New Jersey actually ranks 15th of the 50 states. Put another way, measured by the number of general governments per 10,000 population, the state ranks 34th of 50. These rather remarkable rankings also apply across all units of government, such as special districts. Specifically, 35 other states have more total governmental units and special districts per 10,000 people than does New Jersey. Compared with the population of other states, we may actually not have too many general governments.

Second, the cost per capita of municipal government does not significantly vary between large and small municipalities in New Jersey. This is evident after considering the unique character of approximately four dozen municipalities, characterized by large seasonal but small year-round populations: the state’s coastal resort municipalities.⁵ Many of these communities reflect infrastructure, service costs, and taxable property value (tax “ratables”) far in excess of what would otherwise be expected given their permanent, year-round populations. Similarly, the costs of operating these communities *appear high*, especially when treated simply as data points on a spreadsheet. Yet these communities, although overwhelmingly among the state’s “small” towns, also tend to have among the lowest effective tax rates in

“...The perception that the state has too many municipalities may be flawed...”

New Jersey. Accordingly, unless they are understood to be what they are with regard to their unique characteristics, as a group they distort uninformed analyses.

Once resort communities are separated out from the approximately 500 remaining municipalities, we find that the average cost of municipal government per capita, as demonstrated in each of ten population size groups of municipalities, does not differ significantly between large or small government population groups. The cost of municipal government in 2011 for municipalities under 1,900 population averages \$1,271, while those over 40,000 population average \$1,340; municipalities having populations between 3,601 and 5,150 experience the least costly local government per capita costs at \$1,092!

Third, and most intriguing, is that while there are no strong individual correlations between municipal cost per capita and population size, we do find significant differences in the cost for municipal government when considered against two non-size variables: (1) the New Jersey Department of Education District Factor Group (DFG) that a municipality is in (i.e., a socioeconomic surrogate), and (2) the “type” of municipality, using the New Jersey State Police “character” classification (Urban Center, Urban Suburb, Suburban, Rural Center, and Rural). Significantly higher cost of local government was found in DFG Groups A and J municipalities, while DE group municipalities represented the lowest per capita cost of local government.⁶ Also, municipalities

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classified in the New Jersey State Police Uniform Crime Report as either Rural Center or Rural demonstrated low cost per capita of local government.

These findings should give pause, suggesting that we may need to rethink the conventional wisdom that forcing municipalities into larger organizations will be more effective, more efficient, and/or less costly. It should also give pause as to whether we should be advocating with uncompromising vigor that consolidation of municipalities is a solution to the state's high property tax problem. Other not yet well understood factors appear more intimately linked to variations in the cost of local government on a per capita basis.

Efforts aimed at forcing municipalities to consolidate might just as readily result in undesirable and/or unintended consequences emerging from consolidation. First, the average cost data suggest that for the most part, savings ultimately would be marginal,

if any. Second, consolidation would also require special circumstances to exist: Do candidates for consolidation see themselves as one community with two governments, or two communities with two governments? Like it or not, our political biology often reinforces a community's identity with its municipality, place names aside. Whether one's mailing address is Morristown or New Vernon, Harding Township is Harding Township. Third, should potential significant savings be anticipated, they should accrue simultaneously and without undue cost shifts from or to one or another of the municipalities considering consolidation.

The feared potential for increased costs in one of the two target communities has contributed to the failure of consolidation efforts once it becomes clear that property taxes in one of the municipalities could increase. That this circumstance (i.e., no undue cost shift) exists between two municipalities that are geographically adjacent adds an additional challenge. Fourth, while consolidation may result in some services to be performed more efficiently, the conventional wisdom ignores the fact that in post-consolidation circumstances, the newly formed larger municipality may also exceed a service threshold, requiring new or additional levels of services not previously anticipated. Fifth, and also a focus for future research, consolidation ignores additional potential cost control through cooperation and shared services, a form of “service specific consolidation” that does not necessitate effective disenfranchisement of a community.

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Online Resource

The full report can be downloaded in PDF format from the Bloustein Local website at <http://blousteinlocal.rutgers.edu/size-study/>.

The authors welcome a public discussion on the report. Comments can be posted at the site link above. The authors reserve the right to remove comments that are off-topic or inappropriate for discussion of the issue.

Background

Yet municipal institutions constitute the strength of a free nation. . . . A nation may establish a free government, but without municipal institutions it cannot have the spirit of liberty.

—Alexis de Tocqueville

More than 40 years ago the County and Municipal Government Study Commission dedicated its Fifth Report to “Consolidation: Prospects and Problems.”⁷ The Commission noted at that time:

- It is recognized that of the three strategies [modernizing county government, encouraging joint services, and consolidation] mentioned above, consolidation is the most far-reaching from a municipal point of view, in that it involves basic alterations to municipal corporations and basic changes in the powers and scope of local government. However, it is also believed that consolidation may strengthen local government better than other alternatives in certain situations.⁸

This report also cautioned:

- [W]here local units are numerous, individually small and urbanized, there is less to be gained through merging a few isolated pairs of municipalities than by streamlining the county itself and equipping it to handle problems that transcend local boundaries or abilities.
- Given the range of complex challenges facing the state, the Commission did “not believe that consolidation can be employed as a means to arrest severe urban problems and service deficiencies.”
- Above all, the Commission does not suggest that any municipality be “eliminated” according to some arbitrary standard. The decision to consolidate or not to consolidate should remain

the citizens’ prerogative to the greatest extent possible.⁹

Consideration of consolidation continues to be repeated every decade or so, most recently in the form of the Local Unit Alignment, Reorganization, and Consolidation Commission (LUARCC). The Commission’s enabling law passed in 2007 included the following legislative “findings”:

- The State . . . currently has 566 municipalities, 616 school districts, and 186 fire districts, each with its own layers of local bureaucracy that contribute to the high property tax burden suffered by New Jersey residents.
- Consolidating local units, structurally and administratively streamlining county and municipal government, and transferring services to the most appropriate level of government for delivery would help to alleviate the property tax crisis.
- Due to legal obstacles, conflicting interests, and local concerns about sacrificing community identity, current laws permitting consolidation of municipalities and sharing of services between local units are seldom used.¹⁰

LUARCC was initially directed to address problems of inefficiency and the inequities of housing that segmentation fostered, and to address (solve) regional challenges by borrowing aspects of the federal government’s Base Realignment and Closure (BRAC) process.¹¹ Eventually passed in a weakened form by allowing the electorate of each proposed consolidated

municipality to have the final say, what Senator Joseph Kyrillos described as a “poison pill,” LUARCC again failed to stimulate large-scale, serious debate, and failed to recognize our political biology, as discussed earlier.

The Commission ceased meeting in 2011 when its appropriation was stripped from the state budget, and its membership was not kept whole. During its short life, it produced a body of research that was unable to fully support the key principles of its legislative findings. Efforts at reviving and modifying its mission remain with the legislature.

New Jersey has been fully incorporated almost since its inception, while municipalities in most states have developed, and continue to develop, by annexation of unincorporated, often adjacent, areas. As a simple starting point, we observe that while it may be true that California has fewer municipalities than New Jersey, fully one in five California residents in 2014 continue to reside in unincorporated areas, a phenomenon that has not existed in New Jersey since 1798.

NEW JERSEY: THE SUBDIVISION STATE

What came to be known as New Jersey began with the British seizing land from the Dutch and Swedes in 1664, followed by conflicting charters and subsequently all its land being granted by the English Crown to Lords Carteret and Berkeley.¹² This was immediately followed by its first subdivision separating West Jersey and East Jersey. Many immigrant groups settled and established essentially self-sufficient agricultural communities, with their highest priority essentially of being left alone, and their primary “unifying” element being mutual safety from domination by either New York or Philadelphia.¹³ Subsequently, the British Crown reunited the two sections as a colony in 1702 (though maintaining two capitals until after the Revolutionary War).

During the colonial period, acts of the legislature accommodated property owners’ desire to sell their land and ultimately subdivided all of the colony’s land into formal municipalities. By the time the

United States took shape, there were more than 100 municipalities—mostly townships, some cities, some towns—all with legislated government forms. By 1798, when the legislature first recognized the state’s municipal boundaries, New Jersey’s original cities and 104 townships had claimed all 7,000 square miles between the Delaware and Hudson Rivers.¹⁴ Unlike other states, which often contained vast tracts of unincorporated land, New Jersey had no room for its own towns to expand beyond their original borders.¹⁵ This too, contributed to the inability of any city within the state to expand into a major metropolis, an additional element we discuss later.

By the commencement of the Civil War, this list had grown through “subdivision” to 244 municipalities. Driven by the economy and political dynamics of evolving industrial and societal patterns, subdivision continued under a myriad of circumstances into over 560 entities by the 1950s.¹⁶ The entities effectively institutionalized themselves into municipal governments with a diverse range and mix of services reflecting the needs and desires of their residents, only periodically buttressed by (mostly enlightened) state policies.

Not that there was a complete absence of annexation. Concurrent with rampant proliferation of municipalities in the late 1800s were much less well-known efforts aimed at enlarging the state’s major cities through annexation of all or portions of surrounding municipalities. Newark, for example, grew from about 12 square miles to over 24 square miles, and similar growth occurred in Jersey City, Paterson, Elizabeth, Trenton, and Camden. Toward the end of the nineteenth century this counter to subdivision abruptly stopped, and boundaries of the state’s older urban centers have remained almost static since, resulting in older central cities in New Jersey being among the smallest in the country in relation to their surrounding metropolitan area.¹⁷

Control over local education is often overlooked as one of many causes of municipal incorporations (though often not for particularly lofty reasons). As Republicans sought to equalize some of the imbalance in education funding that had developed across the state by 1894, and concurrently

through an unintended consequence of a poorly worded statute, dozens of new municipalities were incorporated/subdivided until 1897, when the state legislature corrected the statute and allowed future incorporations only when specifically authorized by the legislature.¹⁸

In his widely referenced observations on the topic, the late Alan Karcher, former State Assembly Speaker, summarized much of this subdivision activity into one or more of eight categories, including:

1. Ambition manifested as avarice.
2. Particular economic conditions, unique to the time, place and circumstance.
3. Actions of a single individual, or, in some cases, a tightly knit group of like-minded men engaged in a common venture, involving the implementation of a very narrow, personal and/or provincial agenda.
4. Attempts to impose a policy as to the sale or consumption of alcoholic beverages.
5. Preservation of existing tax benefits and/or the anticipation of a new tax system that held a special advantage.
6. Unique priorities of areas adjacent to railroad passenger stations, motivating commuters to want greater control over the expenditures of their property-tax dollars on those specific priorities.
7. Exercise of the political maxim: divide and conquer.
8. Use of municipal incorporation as a means to attain exclusivity and enforce de facto segregation along ethnic, racial, and economic lines.¹⁹

When combined with the development of the country that turned New Jersey into an industrial powerhouse during the first half of the twentieth century, this process was without equal in other states. It effectively explains the cracks and fissures of New Jersey's municipal boundaries and the evolution of our political biology.

PROPERTY TAX AS DRIVER OF DECISIONS

Since colonial times the power to tax property was the only general tax the legislature gave to municipal government. While the state held primary responsibility for funding schools, it did permit supplemental property-based taxes to be levied for public education purposes.

Historically, from the perspective of an individual taxpayer, the property tax was regarded as an equitable fair tax, and as a downright progressive one; there was a nexus between household income and value of the property people owned. The greater the value of property one owned, the greater the income. There was a positive relationship between the two: the value of property was positively correlated with the owner's income, and the political process ensured a reasonable, if occasionally a contentiously set, tax levy.

This model worked from pre-colonial times through the industrialization of the 1950s. What was important was that industry and commerce were located in cities, and it was the cities where most workers lived. Cities also concentrated commercial and industrial property wealth to provide the tax base for a high level of municipal services that served the wealthy who lived there and the working class that supported its commerce. Cities had the property values to pay for police, fire, public health, and social services needed in an urban environment. While there was always grumbling about taxes, the system generally worked. Until it didn't.

This system was slowly undermined with the advent of commuter rail, established at the turn of the twentieth century and then fully exacerbated by state-funded toll roads and federally funded interstate highways constructed in the 1950s and 1960s. As wealthy executives and the new middle class found they could leave the densely populated cities and move to suburbs, property value supporting jobs moved with them, depriving the cities of the property values and associated income that supported their services.²⁰ This draining of value and wealth led to the state's creation of a series of municipal aid programs that began

following the Newark and Plainfield riots of the late 1960s, and which continue today.

The challenge to the property tax didn't end there. With continuously improved health care in the latter twentieth century and resultant increase in life expectancy, senior citizens who previously might have lived with their families or in nursing homes until they passed away in their late '60s or early '70s were enjoying longer, healthier lives, often remaining in their homes (with vacant bedrooms). However, on fixed incomes, they often lacked the wealth to meet the obligation of rising property taxes as they did in their prime earning years. This challenge was partially addressed by state programs starting in the late 1970s. Programs to mitigate the burden on income-constrained seniors continue today through a constantly evolving, though inconsistent, series of property tax credits, rebate programs, and income tax policies.

The great diversity in the property tax base of each municipality benefitted the geographically well placed, whose municipalities attracted valuable development, while others suffered with limited diversity, reduced population, lower-income population, and perceived greater public fiscal stress. This was paralleled and complicated by myriad decisions by local elected officials on development applications (more subdivisions), public facilities and infrastructure construction, and the political environment with its challenge to public integrity, all in the country's mostly densely populated state. Arguably, the property tax was ill-equipped to meet these new stresses. But it has endured.

Additional complicating factors are change and obsolescence. First seen as a critical public policy challenge in our cities, industrial developments once the basis of substantial property tax revenues became obsolete and decayed, leaving in their wake continuing service support issues for the state's older moderate and large cities. The world cannot take what Trenton no longer makes. This challenge continues now as many once thriving suburban office parks search for new purpose and viability as technology and globalization have restructured the information age workplace.²¹

“ The world cannot take what Trenton no longer makes.”

WHAT'S SO BAD ABOUT THE PROPERTY TAX?

Economists generally like the property tax. Compared with other taxes is it easy to administer (taxpayers are easily identified through property ownership records), relatively simple to collect (assessments are placed, levies established, rates struck, and bills sent out), provides reliable revenue (as opposed to income taxes, which are highly elastic), easy to enforce through interest rates on delinquencies and placement of liens, and is conceptually, at least, economically equitable (both horizontally and vertically) and progressive. But the equity and progressivity rely on the initial theory of a nexus between the value of property one owns and income, particularly income growth that is able to match anticipated increases in costs in taxes, health care, and other consumer items. While this continual income growth was once assumed to be a universal “given” among those still working, it no longer appears valid as overall wages in New Jersey have seen little if any growth over the last decade. This reflects national trends.²²

Over the years, with the loss of the income–property value nexus, the property tax has become more regressive, absorbing a greater percentage of household and business income than in the past. This is in part due to:

1. Federal policies that encourage home ownership where income does not have a positive correlation with costs of ownership.
2. The effect of the mortgage industry abuse of the 2000s.
3. The impact of the Great Recession on seniors and their retirement funds, and the reduced rate of increase and net reduction of household income (leading to an increase in the

amount of income consumed by the property tax) in the middle class.

4. The loss of public confidence in government as sound fiscal stewards, as evidenced by the various anti-tax movements over the last 40 years.

CONTROL OF BUDGETS AND LEVIES – HISTORY AND IMPACT OF CAPS

New Jersey state government policy has been obsessively focused on the property tax over the decades. It has been the subject of countless policy reports, at least three blue-ribbon commissions, two special sessions of the legislature, and a range of constitutional amendments. For our purposes, it is the impact these activities had on municipal spending that warrants examination.

Until the mid-1970s, municipal elected officials were responsible only to their voters for spending increases that were paid by increased property taxes. The public school finance constitutional crisis of 1975 that led to the state imposing an income tax in 1976 included legislation that imposed appropriation limitations (spending cap) on municipal government. The laws also included a cap on school spending and county tax levies, subjects not part of this study.

While efficacious at the start, the arbitrary nature of the cap on then 567 very different municipalities, and

various exceptions to the cap, led to a series of study commissions and amendments over the next 30 years. Over time, new development, growth of property values, and creative budgeting by local officials in the 1990s and 2000s led to the 1977 appropriations cap having only a minimal effect on spending control in most municipalities (with so many diverse places, the impact of the cap ranged from strong to weak across the state).

These increases and the start of the Great Recession led the Corzine administration in 2007 to impose the first property tax levy cap on municipalities. Set at 4 percent, but subject to a detailed and specific list of exceptions, it did control levy increases, but not to the 4 percent envisioned by the public and legislature; increases of 7 to 9 percent were the norm, and while it did lower the rate of increases in many places, in the face of the recession the limited increases were generally unacceptable to the public.

Given the significant revenue challenges of the time, it was easy to ignore that external impacts on state revenue were actually contributing to the state's municipal property tax challenge and property tax increases. During 2007, for example, the state distributed more than \$1.7 billion in aid to municipalities (table 1), up from \$1.66 billion in 2004. By 2010, aid distributed to municipalities had decreased by more than \$423 million (25.4 percent) to approximately \$1.303 billion. State aid as a percentage of total municipal government revenue decreased from 15.4 percent to 10.6 percent of municipal revenue statewide. In effect, close to

TABLE 1
Property Tax and Aid Revenue Summary

	2007	2010
Total municipal purpose revenue	\$11.213 billion	\$12.282 billion
Unrestricted aid to municipalities	\$1.727 billion	\$1.303 billion
State aid as percent of revenue	15.4%	10.6%
Local purpose property tax	\$5.795 billion	\$7.156 billion
Property tax as percent of revenue	51.7%	58.3%
Property tax increase offsetting loss of state aid		\$423,670,657
Percentage of property tax increase offsetting loss of aid		31.13%

Source: New Jersey Division of Local Government Services and authors' analysis.

one-third of the statewide property tax increases experienced between 2007 and 2010 could be attributed to simply offsetting revenue loss from aid the state itself could not provide.²³

Nevertheless, without regard to what contribution state aid declines may have had on pressure for replacement municipal revenue, the perceived failure of the Corzine levy cap led the new Christie administration in 2010 to propose and shepherd through the legislature a more restrictive 2 percent cap, with fewer exceptions. This cap had serious bite and resulted in a continuation of policies initiated during the recession years: employee layoffs and furloughs, service reductions and realignments in order for municipal governments to meet the new, lower limits imposed on the revenue side.

Municipal officials received unanticipated levy cap relief in 2011, when the administration and legislature came together to impose a four-year phase-in of mandatory employee health benefit contributions. This effectively reduced employee fringe benefit costs over time (and reduced employee net income by as much as 8 to 10 percent). While the full statewide effect of the phase-in will take up to eight years, the levy cap and health benefit reductions are seen to have had the greatest impact in limiting municipal cost increases. Future studies in this series will document this claim.

One confounding aspect of cap laws is that they can skew spending decisions, specifically distorting operating and capital spending decisions. Because capital, lease, and debt service expenses are exceptions (outside both caps), government decision makers may tend to use capital spending accounts for items that, without the imposition of the cap, might be more appropriately funded as operating expenses. State law facilitates these decisions that can lead to higher-than-expected debt service substituting for what would have otherwise been operating appropriations. Has anyone noticed the proliferation of police SUVs (allowed as a capital expense) in lieu of traditional (operating expense) patrol vehicles?

THE CHALLENGE OF DIVERSE MUNICIPALITIES

Newark is not Howell Township, which is not Brooklawn, which is not Far Hills. The point is that making broad generalities about municipal finance in the state is an exercise of dubious reliability. Yet the need for consistent underlying state laws is complicated by this circumstance.

This diversity of municipal government provides a great degree of market competition to residents when looking for a place to live. A range of factors drives the inherent matrix of costs and municipal services: diversity of a uniform ratable base; the demographics of ethnicity, age, and income; proximity to jobs; or desired residential environment. A given municipality typically offers both a range and level of services that differs from neighboring towns. Is refuse collection provided and, if so, at what level? We have, in effect, a large number (now 565) of communities from which households can choose, and location decisions are made based on an assessment balancing costs against the range, type, and quality of services provided. New Jersey's municipalities do what they do, provide what they provide, and thus represent a mature market within which households have considerable choice.²⁴

This very diversity challenges the ability to make assumptions about *why* property taxes are “high” (depending on how one defines “high”) and should lead to informed skepticism of one-size-fits-all solutions to the challenge and the use of generalized data for policymaking decisions, contrary to the broad brush of state policy usually applied to local governments. This also ignores the likelihood that a major component in the post-recession reconstitution

“...Making broad generalities about municipal finance in the state is an exercise of dubious reliability.”

of the housing market—housing and property value—will likely adjust for total carrying costs, property tax inclusive. It is possible, likely even, that property value, as with any market, will adjust for total carrying costs vis-à-vis the range and quality of services found within each of the state’s 565 municipalities.

THE CHALLENGE OF CONSOLIDATION AS A REMEDY TO EXCESSIVE SPENDING

If municipal consolidation is practical there would have more than two in the last 60 years. Not to say we haven’t tried. In the last 30 years, Chester Borough and Township studied it twice and determined it would not work in part because it would increase school taxes in the Borough. Sussex Borough and Wantage Township formally studied it, and voters in Wantage decided against it. A study commission in Hardyston Township and Franklin Borough (and for a while Hamburg Borough) looked at it and found it would increase school costs and taxes and decided against it.

The consolidation of Vineland and Landis Township in the early 1950s and the recent merging of the two Princetons (the Township and Borough, after various attempts since the mid-1950s) are outliers.²⁵ The world was different 60 years ago and, over time, the Princetons had already become, arguably, “one community, with two governments.” The voters realized that and voted to merge (they already shared 13 separate services, had a single fire department, and a regional library, planning board, and board of education).²⁶

What weighs against consolidation as a solution to reduce the number of governments in the state?

1. *Experience.* With multiple studies over the past 25 years, only one true consolidation took place after detailed analyses were completed. Experience confirms that the devil is in the details, and the challenge to the folk hypothesis is evident.

“If municipal consolidation is practical there would have been more than two in the last 60 years.”

2. *Cost reduction and efficiency creation.*

While superficially the easiest to accomplish, cost savings may be low-hanging fruit, especially if potential retirees are not replaced or are replaced by lower-cost individuals. Such savings may provide the flexibility to provide additional services. Hiding in the cost-saving bush, however, lies the challenge of managing a larger workforce and enhanced citizen expectations of a consolidated organization. This implies the need for additional managers; improved communication; integrated technology; potential for greater influence of now larger, or newly organized labor unions; and increased costs from aligning collective bargaining agreements and “harmonizing” salary schedules.

3. *Taxes must go down.* Taxpayers in both municipalities need to be convinced that taxes will go down (or at least not go up) for both, and that implicates costs and property assessments. When municipalities consolidate, property values in both must be brought to market value to meet the state’s constitutional uniformity requirement. This adjustment corrects historical distortions that often result in shifts of levy burden between municipalities, likely imposing a greater share of the tax levy on one municipality than the other, and resulting in tax increases as a result of consolidation. Often, unachievable savings would be necessary to offset the difference. This leaves voters with the dilemma of voting to increase taxes. In these cases, experience has shown voter distaste for this alternative, leading to failure of the opportunity.

4. *Community counts.* To the resident, a municipality is more than its government structure; it is “my community.” A community is more than its government; it includes its social, education, cultural, religious, ethnic, business, and related components. Lacking community that overlaps consolidation-candidate municipal boundaries, the burden of justifying the concept, even with cost savings, can fail if the communities are not aligned. Remarkably, commentators advocating consolidation often ignore this critical issue.

5. *Trust and confidence are critical.* If municipalities have significant differences (from any dimension), there is concern for one believing that they will be paying for or taking on problems of the other. Comfort with the partner and perception of trust are requisites for success.

6. *Uncertainty is certain.* Even if assessments, community, and cost savings align, and there is a certain comfort level (as in the Princeton example), there will always be a battle against fear, uncertainty, and doubt. Lacking alignment makes this challenge more daunting. Consolidation is forever, and that requires fear, uncertainty, and doubt to be minimized.

“...Consolidation...requires a unique alignment of community, cost savings, tax reduction, and comfort with the partner.”

As this study shows, there is no clear data that says a larger (or smaller) community is automatically more efficient or less expensive. Circumstance and details of each case are unique and mitigate against broad predictions or sweeping conclusions.

Thus, consolidation, as demonstrated by the successful Princeton effort but the failure of others, requires a unique alignment of community,

cost savings, tax reduction, and comfort with the partner. While consolidation has its place, experience shows it to be an outlier solution: worthy of study where appropriate, but given the challenges, not a universal solution. To advocate or promise otherwise diminishes the potential for consolidation in the right place and time, diverting attention from other actions that can address government costs.

THE VALUE OF SHARED SERVICES

Unappreciated by many commentators is that New Jersey state government has actively promoted and municipal governments have long participated since the first laws were passed in the mid-1970s: the concept of shared services (which, until a politically motivated name change in 2006, was known as “interlocal services”). Afforded varying degrees of attention by successive state administrations (studies, implementation grant programs, property tax relief), shared services are not a new innovation but have been an integral part of the local administration management toolbox, and are often implemented with great success.

Municipal governments have engaged in hundreds of shared services over the decades for a wide range of services with each other, and with their county government, boards of education, and local authorities. They take the form of specific services and are commonly framed as cooperative purchasing, joint insurance funds, or joint meetings, where management of a separate entity is shared between or among partners. A 1991 Department of Community Affairs report, *Directory of Interlocal Activity*, listed more than 800 jurisdictions including municipalities, school boards, and other various agencies that participated in a range of interlocal (shared) services. Insurance pools, shared library services, and regional sewage authorities represented additional services provided, and continue to be provided independent of municipal boundaries.²⁷

Many of these efforts have endured; some have failed. But virtually every municipality is engaged in some form of shared service agreement. It is an important

management tool, rooted in the age-old decision-making process of choosing whether to “make or buy” a service.

But shared services are not a panacea for all that ails municipal government. A shared service requires the trust of the parties: the confidence of a sound agreement with fiscal and management engagement, and a “Plan B” that provides protection and a dispute resolution process in case of dissatisfaction, a change in policy by a provider or recipient partner (often generated by a related public event or political change), a change in service demand or costs, or the inevitable “unintended consequences.”

An additional strategy for service delivery—outsourcing—may also be identified as a long-standing cost-reduction tool. Especially encouraged during the 1990s, this also embodies the same classic “make or buy” decision all business organizations face, public agencies included. A statewide study of outsourcing some 20 years ago confirmed that many municipal governments used this additional tool to control costs in a range of services including printing, engineering, and legal services, while preferring shared services in others.²⁸

The continuing advocacy of consolidation seems to be fairly unbroken, as is the premise that small municipalities are either inefficient or unable to sustain themselves, or both. In 1998 Alan Karcher reiterated this, absent any supportive data notwithstanding, noting that about a third of the state’s then 566 municipalities were geographically smaller than two square miles, and that more than 100 had fewer than 2,000 people (two groups that do not necessarily depict overlapping communities). He then proffered, most fatally and without supporting data, that “*more than 200 have tax bases so small, narrow, and unexpandable that their very existence is solely and exclusively a matter of state aid* (authors’ emphasis).²⁹ We should remind ourselves that recipients of emergency aid overwhelmingly are not the small and the many, but the Trentons, Camdens, Bayonnes, and Newarks, and that most small municipalities survived formula state aid cuts in the late 2000s.

“Overall, the literature indicates that there is no compelling evidence for consolidation, except as warranted on a case-by-case basis.”

According to Jun Choi, “It is a fairly ubiquitously held premise that the state must continue to advocate for improving local government efficiency through consolidation and shared services.”³⁰ Yet, another less well distributed position is that separation of consolidation from the discussion may actually enhance the likelihood of new or more creative shared services. A shared service agreement that may fail can be undone, whereas a consolidation cannot. “Just . . . talking about the possibility of merging towns creates major tension and detracts from the likelihood of approving new Shared Services,” noted Dan Mason in 2010.³¹

A 2011 study by Faulk and Hicks provided an analysis of local government consolidation exploring potential savings due to economies of scale and efficiency gains.³² Here the authors focused on Indiana and unique challenges of the Midwest (population declines, diminishing manufacturing, and changes in the employment base, among others) as local governments “attempt . . . to find ways to lower their spending and increase their accountability.”³³

Overall, the literature indicates that there is no compelling evidence for consolidation, except as warranted on a case-by-case basis. However, the interest in consolidation has often triggered a review of other mechanisms to provide government services efficiently and effectively.

Focused solely on consolidations, the literature³⁴ provides the following major findings:

- Most consolidation studies have not resulted in consolidation.
- The results in those that have resulted in consolidation are not consistently beneficial

in terms of long-term financial and political considerations.

- The financial costs of consolidation include costs of the transition, of salary and service harmonization, and of additional facilities, equipment, and infrastructure (both physical and administrative) resulting from the merger.
- The financial benefits of consolidation typically result from a reduction in workforce or a reduction in facilities or equipment, and include costs avoided.
- Politics is a major obstacle to consolidation, but it should be perceived in the broadest terms to include the interests of elected officials, employees, and the public, who value local control.
- Like any potential restructuring, the costs and benefits of consolidation will be specific to the conditions and issues of the governments that are included.
- The costs and benefits should be assessed with recognition of the results that can be achieved realistically.

DO WE REALLY HAVE TOO MANY GOVERNMENTS?

Discussions concerning whether there are too many municipalities in New Jersey seem to be as old as sightings of the Jersey Devil. Almost 80 years ago, a Princeton University report noted:

At the close of the year 1860 there were 244 municipalities and 21 counties in the state of New Jersey. Since the creation of the state's youngest county, Union, in 1857, the number of counties has remained constant. The increase in municipalities, however, has been the result of steady growth. New political units have been created every year from 1860 to 1930 with only two exceptions, 1862 and 1877. During the seventy-year period, an average of 4.56 new incorporations have occurred every

Where's our Boston?

The same subdivision dynamic that has created municipal divorce rather than municipal annexation has also yielded a political biology that prevented developing our own "Boston," i.e., a prevailing, dynamic central city around which planning and development might occur, and with the potential economic and political impact to drive the conversation toward regional services.

Examination of census data makes this point. While Newark, with a population of 277,140 ranks 32nd largest among "the largest city in each of the 50 states," a starkly different picture results when examining the percentage of each of the 50 states' populations that reside in their largest city. On average across the 50 states, almost 12 percent of each state's total population resides in its largest municipality. The median, Boston, with a population of 617,594, is home to 9.4 percent of the Massachusetts population. By contrast, were Newark the "median," its population would exceed 835,000 persons.

New Jersey ranks 48th, Newark serving as home to only 3.15 percent of the state's population. Only South Carolina and West Virginia have a lower proportion of the state's population residing in its largest city. Newark, thus, has a lower percentage of the total state population residing in it than 47 other "largest cities" within the 50 states (see table 13 later in this report). The absence of a major "central city" is as much of our subdivision biology as is our mosaic of 565 towns, villages, townships, cities and boroughs.

This lack of centrality in planning and development was cited by Bruck and Pinto in their Consolidation Review, noting:

Part of the problem was that New Jersey lacked a major metropolis. Any of the contenders—Jersey City, Newark, Trenton, or Camden—were hamstrung by tight municipal boundaries. The cities were too geographically compact [i.e., high densities] to become regional powers. Newark and Jersey City combined were still smaller than the island of Manhattan. . . . Unlike other parts of the country, there were no unincorporated areas adjacent to any of these cities, and so they had little room to grow as their populations surged.³⁶

The growing population of our state's older cities overwhelmed adjacent municipalities. Like a human tsunami, the population shifts created growth and change requiring adjustments to development and services in the adjacent municipalities. This demonstrates the principle of "we are the way we are because we got to be that way." We worry about "cost savings" and "optimal" size in a political biology that has evolved to a state where the stakes, having been so decentralized and unique to the niche, have become marginal at best! We submit that decentralized marginal savings are almost impossible to corral.

TABLE 2
Number and Ranking of Government Frequency

Governments per 10,000 population	Number General Purpose per 10,000	Number Special Purpose per 10,000	Total Government Units per 10,000	Rank General Government	Rank Special Government	Rank Total Government Units
New Jersey	6.7	8.6	15.2	34	37	36
New York	8.2	9.5	17.7	28	35	35
Pennsylvania	20.6	17.9	38.5	15	24	22
Delaware	6.6	30.6	37.2	36	16	23
United States	12.5	16.1	28.6			

Source: U.S. Census of Governments, 2012; <https://www.census.gov/govs/cog2012/>

year. Beginning with 1931, this epidemic of municipal divorces practically ceased, and only one incorporation (1933) has been effected since that year. . . . While this growth in the number of municipalities [a net of 320 municipalities from 1800 to 1936] may seem excessive, it has not kept pace with the growth of population.³⁵

During the same period (1860 through 1934), municipal incorporations increased 231 percent while the state's population increased more than 600 percent during the same time frame. The author went on to observe that "In view of these facts, it might be said that if New Jersey has 'too many' municipalities in 1936, the same situation existed a generation or more ago [i.e., now more than 100 years ago]."

“Discussions concerning whether there are too many municipalities in New Jersey seem to be as old as sightings of the Jersey Devil.”

ARE WE JUST “DENSELY DEVELOPED” OR TOO SMALL?

While New Jersey is a small state geographically, it is diverse and complex from almost any dimension one might consider. A corollary to the “too many, too small” government argument has been that we have too many governments, period. More than anyone else, even. Actually, these arguments are perhaps potentially as false as the small government inefficiency one.

The core of the folk hypothesis is that “Jersey has more municipalities per square mile than any other [state] in the country.”³⁷ That is factually correct. An appropriate corollary, however, is that New Jersey has more people per square mile than any other state. According to the 2010 census, with 1,210 persons per square mile, we are the most intensely developed state, being approximately 20 percent more densely settled than Rhode Island (number 2), and a staggering 40 percent more densely developed than the third most densely developed state, Massachusetts!

Asking the question about having too many governments from a different perspective may yield an entirely different conclusion. How many “general governments” does New Jersey have on a *per capita* basis? The answer is: surprisingly few. In fact, New Jersey ranks 34th in the number of general governments per capita. When all “special districts” (fire, water, sewer, and so on) are also considered,

TABLE 3
Total Raised and Spent in New Jersey for Municipal Government – 2011^a

Appropriations	Amount	Percentage
Debt service	\$1,096,415,943	8.75%
Reserve for uncollected taxes	\$584,355,686	4.67%
General appropriations	10,844,199,650	86.58%
TOTAL APPROPRIATIONS	\$12,524,971,279	100.00%
	Amount	Percentage
Revenue		
Local property tax (current)	\$7,437,008,418	59.38%
Municipal fund balance resources	\$772,463,100	6.17%
Delinquent local property tax collections	\$337,299,916	2.69%
Local miscellaneous revenue	\$1,042,874,723	8.33%
State aid	\$1,511,667,421	12.07%
Other revenue (i.e. grants) with offsetting appropriations	\$1,423,657,701	11.37%
TOTAL REVENUES	\$12,524,971,279	100.00%

Note: a. Data includes support of local government and fire districts, but exclude library and other minor revenue sources which are also omitted from the appropriation sum.

Source: New Jersey Division of Local Government Services and authors' analysis.

New Jersey ranks 36th of the 50 states. Specifically, about two-thirds of the states have more local government and/or total taxing districts per capita than New Jersey, with the neighboring states all having more government per person than New Jersey (table 2).

But at the end of the day, each state reflects its own evolution; they are the way they are because they got that way. While the data may be fodder to media and policy commentators, ultimately it does not provide any answers.

HOW MUCH DOES MUNICIPAL GOVERNMENT IN NEW JERSEY SPEND?

Data for each New Jersey municipal budget was obtained through a request to the New Jersey Department of Community Affairs, Division of Local Government Services, for fiscal years 2011 and 2012.³⁸ The database for both years includes detail for each municipality on a range of major municipal

revenues, as well as appropriation totals in specific categories consistent with reporting requirements; the financial data for 2011 for all the state's [then] 566 municipalities are summarized in table 3. During 2011, spending of municipal government in New Jersey represented approximately a \$12.52 billion enterprise.

Additional descriptive variables were used in the analyses from a variety of sources including the 2010 decennial census, the 2011 American Community Survey (data including population, density, average mean and median income by municipality, housing vacancy rates, percentage of various ethnicities/races, percentage of children, the number of households, and so on), and data provided by the New Jersey Division of Local Government Services. Included among the latter set were the average (assessed and equalized) residential and total values in each municipality, the average amount of property taxes paid, the percentage of total property value in housing, the amount of value exempt from taxation, and the number and type of parcels, among other measures.

If the folk hypothesis is correct—that smaller municipalities are inherently more costly—there

should be a measurable link between the size of government and the cost of government. How to measure this can itself be an extended discussion, as we know that the possible range of what local governments provide varies widely. Still, one must consider New Jersey's governmental landscape as mature and stable. Unlike many other states, New Jersey did not develop through the incorporation of unincorporated areas; it developed effectively through the subdivision of larger governments into smaller ones. Population growth occurred, and local officials responded to public and private demands for a wide range and depth of services; or put another way, local governments in New Jersey have come to do what they do.

DEFINING THE COST OF LOCAL GOVERNMENT: THE DEPENDENT VARIABLE

Exploring the issue of local government cost requires a standardized measure on which to compare municipalities across the state. For the purposes of this study we test a single dependent variable: the per capita cost of municipal government. Costs calculated on a per capita basis have the advantage of being easily understood. People generally generate costs—a measurement of demand for services. Further, this measure can be viewed as a measure that is fairly *equivalent* to one used in calculating education costs (representing a much larger portion of the total property tax liability for property owners), i.e., the cost per pupil. Other measures have been used, such as the cost of municipal government per residential line item.³⁹ We considered but rejected measures that relate to property tax rates as they directly correlate to property values in a municipality. They can distort comparisons where similar municipalities may have similar costs, but their tax rates vary solely due to property values. We do not believe this contributes to understanding the folk hypothesis.

Costs, as measured by total appropriations made by governments, have the advantage of measuring not the decisions of what to do but rather are an

objective measure of the costs of doing business once those services have been identified. This study accepts as given that the range of services between one municipality and another may differ but that the cost of whatever each municipality does can be determined and analyzed against other municipalities, as each of these municipalities represents market decisions by citizens or businesses: How close to my work? How much can I afford? What is the range of services? Are some services in the property tax or user based (garbage collection best represents this)? Are there paid or volunteer fire services? What are the property taxes? (Here, property values play a role.)

Recognizing the variation in services, this study needed to define a reasonable and broadly understood measure of “cost” upon which to base our analyses. In order to normalize some of the variation in service choices and costs, our definition of “cost of municipal services per capita” (cost per capita) involved two modifications beyond simply taking the “total appropriations” in each municipality and dividing by the population.

The first adjustment deducts the “reserve for uncollected taxes” (also known as an “allowance for bad debts”) from total appropriations. The “reserve” is a statutorily required, non-spending appropriation. It ensures that the municipality, as tax collector for the county and public school share of tax levy in its jurisdiction, raised the full tax levy necessary for all taxing jurisdictions, despite the fact that some taxpayers will not pay their taxes on time. In short, the burden for delinquent tax payment falls entirely on municipal government. In times of extraordinary change such as the housing market collapse, followed by loss of billions in value due to Superstorm Sandy, it is municipal government that is responsible for absorbing the bulk of shortfall in property tax collection to ensure that the schools and county remain fiscally whole.

The second adjustment takes into account the unique institution of “fire districts” in approximately 100 municipalities. In these municipalities, taxpayers fund a separate service through a separately elected governing body. Some municipalities have multiple districts with different tax rates in the same municipality. Since public safety typically represents more than marginal costs, the

total fire district budget(s) for each municipality with one or more fire districts was added into the adjusted total appropriation, as is the case for municipalities providing fire protection within the municipal budget. This modification effectively ensures that fire costs, to the extent they are voter controlled, are represented in all municipal budgets to the extent they exist at all.

The resulting calculation of cost (total appropriations, less reserve, plus fire costs if outside the municipal budget, was divided by the 2010 population to determine the net cost per capita for municipal services. Costs per capita, as defined, were analyzed for both 2011 and 2012.

Thus, returning to the primary purpose of the study, this report focuses on what might be simply stated as “The cost per capita of government in larger municipalities should be lower than the cost per capita of government in small communities.” More specifically, by extension, if we find that larger municipalities indeed have lower per capita costs, we might then have preliminary support for economies of scale and consolidation. If true, it supports the folk hypothesis represented by generations of elected state officials and media commentators. If not, it opens the door for fresh discussion and debate on how to control municipal property taxes if not by consolidation.

Though New Jersey has had decades of debate and discussion around this issue and the “need” for consolidation, whether real or perceived, little objective evidence has emerged other than opining

that the reason for New Jersey’s high property tax is the size and number of the state’s local government units. We advance the premise that the high property tax challenge might not be caused by the large number and small size of the state’s municipalities, but rather by other socioeconomic factors including location, diversity, income, density, and expectations. This leads to a new discussion on how to “solve” the property tax dilemma.

We also view this report as a first of a series of analyses that will seek to further our understanding of the challenges of providing government services in the twenty-first century. As stated in an earlier analysis sponsored by the Council of New Jersey Grantmakers, “Is the state—and are the government institutions created in the 19th century—efficient, effective, affordable and capable of meeting the needs and requirements of New Jersey’s citizens in the 21st century?”⁴⁰

These questions remain paramount, but the answers require sound analyses of what we are doing and how we are doing it. Future research will need to expand beyond determining costs and explore the revenue side of the equation. Might it be, for example, that one reason we have high property taxes is not because government is operating inefficiently, but because, vis-à-vis patterns of revenue in other states, our revenue mix is less robust and overly dependent upon one major source? Or have other state policies created cost dynamics that resulted in unanticipated cost consequences?

The Analysis

Research findings strongly suggest that our folk hypothesis, the hypothetical link between “too many” small governments that are inefficient and costly, resulting in “high” property taxes, must be seriously reconsidered. In many cases, data that is not fully understood can and may lead to inaccurate conclusions. Cost per capita of municipal government in New Jersey is an example of this, as we found and will demonstrate.

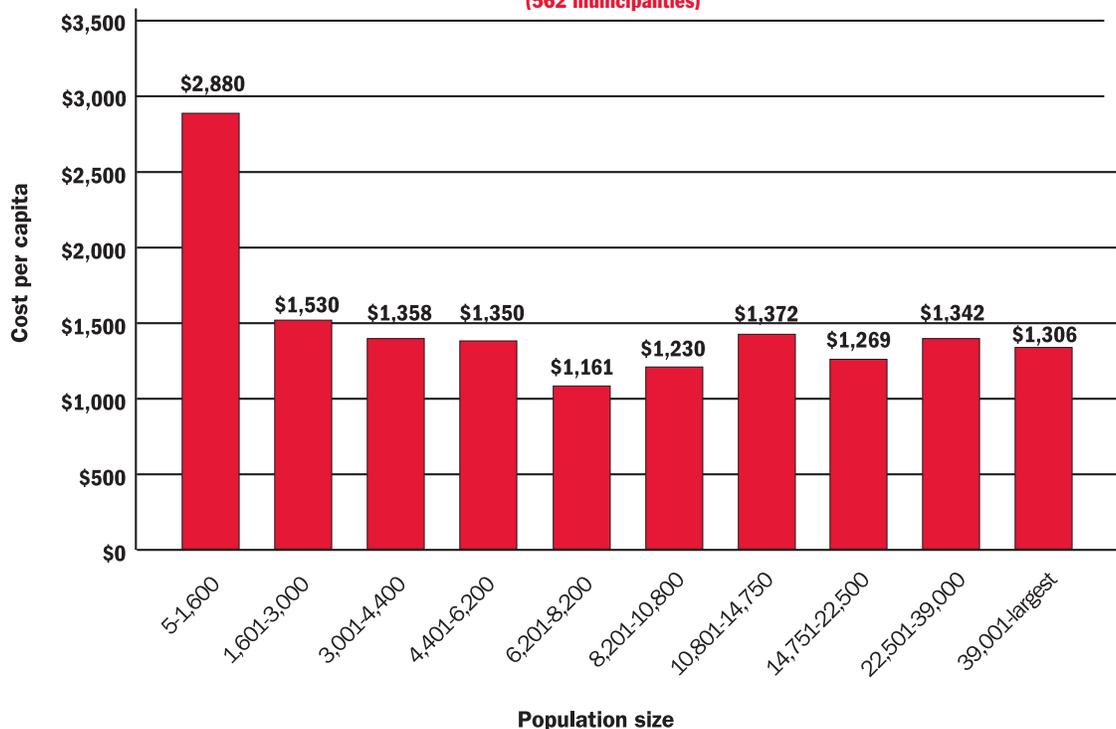
One final disclosure prior to discussing our results. As is the case with most social and financial explorations, one can always find outliers. Most informed observers would agree that aside from all sorts of other unique distortions, there are four New Jersey municipalities that may be characterized as extreme outliers. Teterboro, Pine Valley, Walpack, and Tavistock each represent such extreme definitions of municipalities as to warrant exclusion, lest results be distorted.⁴¹ Accordingly, virtually all of our analyses exclude these

four and engage 562 of the state’s 566 municipalities extant at the time of the analysis.⁴²

Each of 562 municipalities was initially assigned to groups by population, and the average cost per capita for each population group was calculated. The results, illustrated in figure 1 below, would seem to reinforce the long-held premise that the largest grouping (72 municipalities), with populations below 1,600, have an average municipal cost per capita of \$2,880, *slightly more than twice that of the unweighted average of the remaining nine groups, of \$1,322 per capita.*

This would confer a high degree of veracity to the conventional wisdom supportive of the small-government-inefficiency premise. Surprisingly, though, the correlation between municipal cost per capita and population size was not statistically significant ($r = -.067$, significance level of .113, $n = 562$).

FIGURE 1
Average Cost per Capita by Population Group
(562 municipalities)



Source: New Jersey Division of Local Government Services; analysis by authors.

We contend that such prior rough “correlations,” where small-population municipalities appear to have higher average per capita costs, have done much to advance and sustain the premise that small municipalities have disproportionately high costs. Since most municipal revenue in New Jersey comes from property taxes, the consolidation of these small, high-cost municipalities would advance at least in part a solution to the high property tax problem.

We argue that this type of gross overview oversimplifies the character of the state, and in particular ignores a major unique category of municipalities in New Jersey: resort communities. As a coastal state, a valued New Jersey resource is, in fact, its shore communities. That said, one confounding characteristic of our resort communities is that their year-round populations misrepresent who they are and what they do.

Off-seasonal housing vacancies are high; year-round populations, on which per capita measures (such as crime rates) are based, are exceptionally low vis-à-vis the built infrastructure and the improvement base upon which resources may be generated. Further, in many of these communities, there is an ample tax base that, for much of the year, generates little or no service demand.

THE RESORT COMMUNITY FACTOR IN DISTORTING COST OF GOVERNMENT IN NEW JERSEY⁴³

In exploring the relationship between population and per capita costs, it became obvious that resort communities would need to be examined in greater detail to determine the degree to which they are like “other” New Jersey communities, or whether they represent a unique group of municipalities that contribute distorting views of costs and services. We conclude without reservation that resort communities are indeed a unique class of municipalities that greatly distort the analysis of local government costs.

“...Resort communities are indeed a unique class of municipalities that greatly distort the analysis of local government costs.”

Resort communities are sufficiently and significantly different from all other 513 municipalities on a wide range of indices that one has no other choice but to conclude that, on any per capita or other comparative basis, they must be treated as a separate and distinct group.⁴⁴

The Atlantic coast of New Jersey is home to approximately 50 municipalities (almost 9 percent of all municipalities in the state). Risking oversimplification, most of these communities are typically characterized by year-round populations that are one-third to one-fifth of their “full-service” seasonal populations for which infrastructure exists. The Borough of Longport, for example, has 1,595 residential units with only 531 year-round households (representing a population of 895). Two-thirds of the property (residential infrastructure), and cost of government, are predominantly vacation or investment homes that remain vacant for a good portion of the year. Further, many municipalities on Long Beach Island and south also have a comparatively high percentage of property owners reporting their primary residence as out of state.⁴⁵ Since many of these municipalities tend to be among the state’s smaller communities (although the range in population size is fairly large) and they concurrently show many significant differences from mainland communities (see table 4, summarizing a range of factors) in the “cost per capita,” they inappropriately contribute an overall, and mistaken, impression that small is more costly. Hence, including these unique coastal towns in an analysis of municipal costs as part of the larger group of year-round communities is both inappropriate and significantly distorts results. Accordingly, our analyses first explored resort

TABLE 4
Comparison of Coastal Resort Communities to All Other Municipalities

	Resorts (49)	Others (513)	T-test Significance (2-tailed)
Simple in-cap cost per capita	\$ 3,602	\$ 938	0.000
Percent appropriations in-cap	74.27%	72.55%	0.177
Equalization ratio	96.04%	83.35%	0.000
Property tax as % of total municipal revenue	62.90%	57.57%	0.022
Percentage of value in residential items	87.55%	78.27%	0.000
Vacancy rate	52.567%	6.249%	0.000
Ratio of housing units to residential line items	1.192	1.387	0.056
Debt as percentage of appropriations	10.94%	8.81%	0.008
Fund balance as percentage of total revenue	9.50%	10.33%	0.531
Delinquent tax as % total revenue	2.96%	4.36%	0.005
Local revenue as % total revenue	11.39%	6.18%	0.000
State aid percentage of revenue	5.75%	10.68%	0.000
Reserve as percentage of appropriations	5.85%	7.96%	0.008
Effective tax rate	1.12%	2.33%	0.000
Value per square mile (in millions)	\$1,120.00	\$306.17	0.000
Average residential line item value	\$741,510	\$320,370	0.000
Average residential taxes paid	\$6,960	\$7,789	0.082
Base cost per \$100 of value	\$0.659	\$1.766	0.141
Municipal tax as % of total tax levy	34.94%	25.03%	0.000
Percentage children	19.02%	23.59%	0.000
General crime rate	56.93	18.61	0.000
Major crime rate	2.686	1.652	0.008
Percentage white	90.87%	79.52%	0.000
Percentage black	3.33%	8.13%	0.008
Percentage Hispanic	7.16%	11.46%	0.021
Percentage Asian	1.35%	6.07%	0.000
Diversity index	0.2109	0.3757	0.000
2010 Density	2,263.14	3,541.13	0.105
2010 Population	5,402	16,590	0.001
Per capita cost including fire districts, less reserve for uncollected taxes	\$4,760	\$1,210	0.000
Median household income	\$67,859	\$84,569	0.000
Mean household income	\$98,604	\$105,782	0.294
Debt per capita	691.83	113.26	0.000
Land area	6.795	13.655	0.011

Source: Data is 2011 unless other noted: Abstracts of Ratables, Line Items of Ratables; American Community Survey; 2011 Crime in New Jersey (NJ State Police); and 2010 Census.

communities as a group, substantiating that they are, indeed, a unique class of municipalities, and subsequently explored their costs as a group separate from the remaining 513 municipalities.

Our analyses examined 34 different variables within the 562 subject municipalities to determine the degree and extent to which resorts differed from year-round communities. Each of the 562 municipalities was assigned to either the resort or non-resort category (i.e., two initial groups of municipalities, with Ns of 49 and 513 respectively). These 34 indices represent a broad range of social, economic, crime, tax base, revenue and appropriation data for all municipalities. T-test results confirmed a significant difference between the two groups on 25 of the 34 measures. Accordingly, we comfortably conclude that resort communities are significantly different as a group from the remaining municipalities and must be treated separately in analyses of municipal costs. In particular, our findings illustrate:

- Year-round populations in the resort communities on average are significantly smaller than the statewide average (5,402 versus 16,590, thus contributing to the impression that smaller is more costly).
- Because of this significantly smaller year-round population base, combined with greatly expanded seasonal populations, resort communities are reported to have significantly higher general crime rates and major crime rates (56.93 versus 18.61 general crime, 2.69 versus 1.65 major crime). No one would argue that these rate differentials reflect a generally less safe environment in most of the resort communities but rather a corollary to disproportionately high seasonal populations.⁴⁶
- Non-seasonal vacancy rates among resort communities as a group are significantly higher (52.6 percent versus 6.25 percent) than among the state's non-resort communities.
- Land and improvement values per square mile in resort communities are on average 3.6 times higher than in non-resort communities,

providing a considerably higher base on which to fund required services.

- Annual debt payment per capita in resort communities is significantly higher (\$692 versus \$113) than in non-resort communities, again a distortion caused by their small year-round populations.
- State aid as a percentage of revenue in resort communities is significantly lower than the non-resort communities (5.75 percent of revenue versus 10.68 percent of revenue).
- Although municipal cost per capita may be 3.5 times higher in resort communities, *these communities concurrently have an average effective tax rate that is less than half that of non-resort communities.*

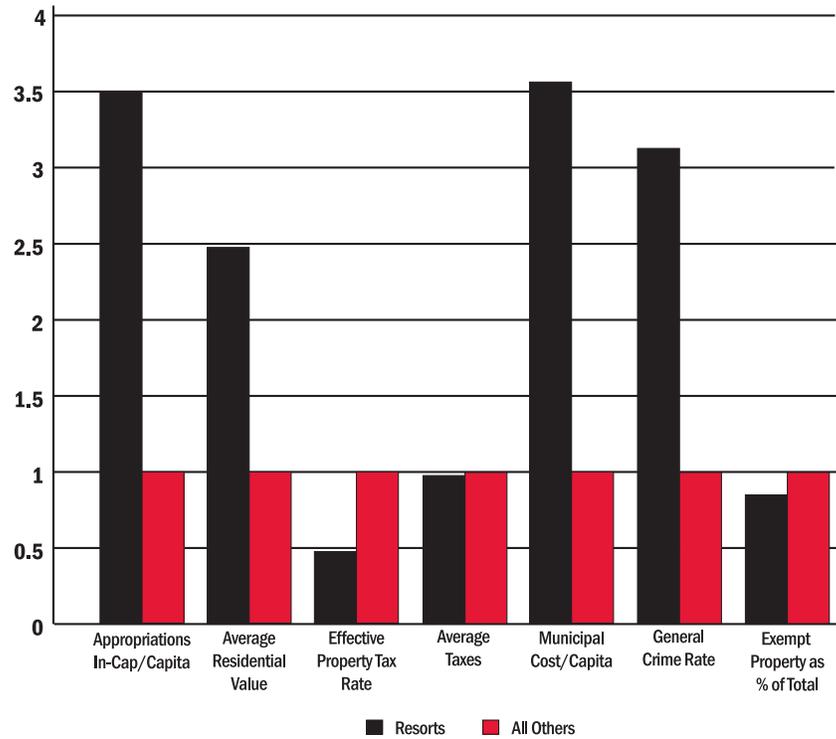
Table 4 provides a detailed listing of each of the 34 measures and t-test results.

It would also be inappropriate to conclude that the apparent high cost per capita of municipal costs places an undue burden on these typically smaller resort communities; hence, consolidation might be a prime strategy to reduce costs within this group of municipalities. Nothing could be further from the truth.

As a group, resort/coastal communities are among the least “tax challenged” communities in the state. Figure 2 illustrates this by “normalizing” the comparison of resort to non-resort ratios on seven critical variables: per capita inside-cap appropriations, average residential value, effective tax rate, average municipal government taxes paid, municipal cost per capita, general crime rate per capita, and amount of exempt property as a percentage of total property and improvement value. The chart is normalized for the non-resort municipalities having a common base value of 1.0 for each variable, against which resorts are measured.

As an example above, for the first variable—Average In-Cap Appropriations per Capita—the chart illustrates that resort communities, on average, have an in-cap appropriations per capita level 3.5 times

FIGURE 2
Resort Communities Distort “Inefficiencies” or
“Cost” of Small Municipalities



Source: New Jersey Division of Local Government Services; analysis by authors.

higher than non-resort communities. Similarly, resort community “Average Residential Value” is 2.5 times that of non-resort communities.

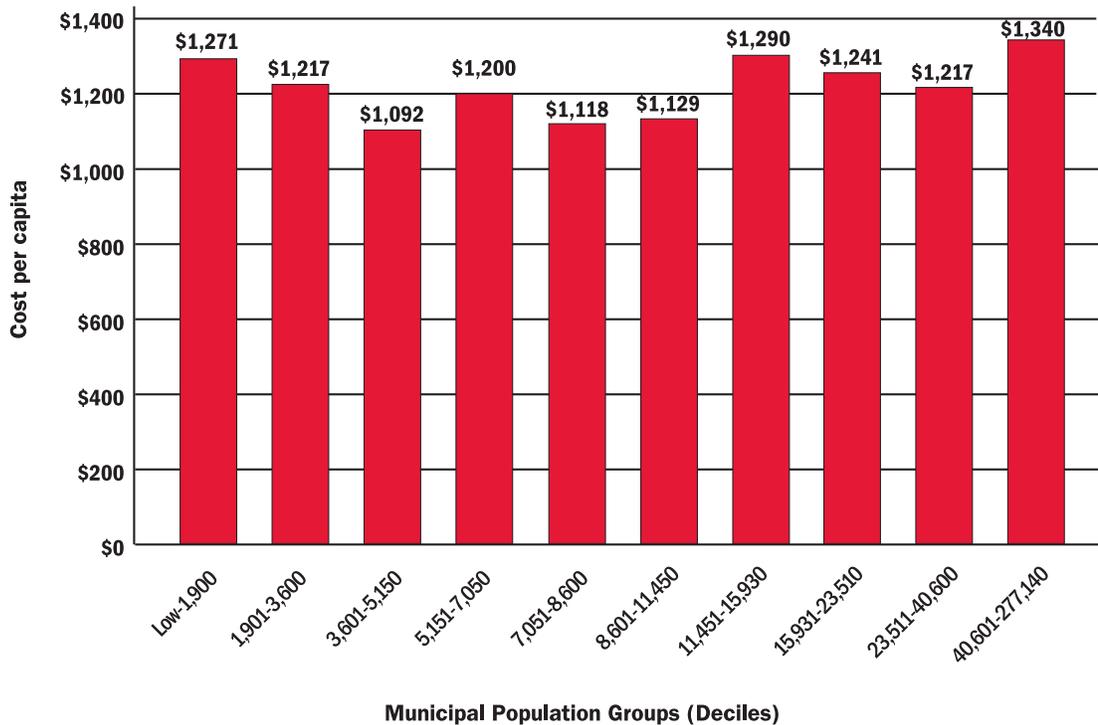
Several other variables would also appear to undermine any suggestion of a serious property tax challenge in most resort communities where (a) the average taxes paid are slightly less than the average non-resort municipality, yet (b) the average value of residential properties is 2.5 times greater than the non-resort group, thus (c) resulting in an effective property tax rate that is half of non-resort communities. In short, while significantly smaller in size than the non-resort municipalities, the significantly higher municipal cost per capita does not necessarily suggest a greater resource challenge. Quite the contrary: the resort communities are—on average—blessed with high property values, no greater taxes than other communities with much less expensive infrastructure, and an effective tax one-half that of non-resort communities.

Accordingly, resort communities were separated from non-resort communities, the latter being analyzed separately with respect to potential relationships between population size and average cost of municipal services per capita.

COST OF MUNICIPAL SERVICES PER CAPITA AMONG NON-RESORT COMMUNITIES

Once resort communities are removed from the analysis, an entirely different picture emerges from the data. The remaining 513 municipalities were allocated to one of ten groups based upon their population, with each group representing approximately 10 percent of the 513 municipalities. Simply put, each municipality was assigned to its appropriate population decile group, and the average cost per capita of municipal government was calculated for

FIGURE 3^a
Cost of Municipal Government Per Capita: 2011



Note: a. Population size categories in figure 3 and subsequent differ slightly from figure 1 because resort communities are placed into a separate grouping, and the remaining 513 municipalities assigned to deciles.

Source: New Jersey Division of Local Government Services; analysis by authors.

each population size group. The results are illustrated in figure 3.

A cursory look at average costs, particularly in contrast to the total distribution presented in figure 1, yields surprisingly very little difference between the average per capita cost among small municipalities (\$1,271 for towns fewer than 1,900 persons) and the average per capita cost among the largest group of municipalities (\$1,340 for towns 40,601 or larger). Municipalities with populations of between 3,601 and 5,150 persons represent the lowest per capita cost group, with municipal per capita costs averaging \$1,092.

A series of t-tests were performed to determine whether any of these seemingly minor variations are significant and, if so, to what extent (table 5). We determined that as an initial exploration, comparing the mean and variance of each population size group

to every other would potentially yield the greatest insight into patterns. Hence, all ten groups were analyzed against all other groups, yielding 45 sets of results. The folk hypothesis would suggest that the average cost per capita would be lower among municipalities that were larger.

Statistical significance emerged in only the following instances:

1. In no case was there a statistically significant difference in the average per capita municipal cost as expected. Specifically, no “larger” population group had a statistically significant lower mean per capita cost than any smaller population size group.
2. Statistically significant differences in average costs were, however, found in four instances, and in each of these four instances, the relationship was contrary to conventional

TABLE 5
T-test Analyses (Means in Upper Right, Variance in Lower Left)
Each Population Size Group Analyzed against All Other Population Size Groups

Means (Upper right) Variances (Lower left)	(1) Up to 1,900	(2) 1,901 to 3,600	(3) 3,601 to 5,150	(4) 5,151 to 7,050	(5) 7,051 to 8,600	(6) 8,601 to 11,450	(7) 11,451 to 15,930	(8) 15,931 to 23,510	(9) 23,511 to 40,600	(10) 40,601 to 277,140
Population Size Group Average	\$1,271	\$1,217	\$1,092	\$1,200	\$1,118	\$1,129	\$1,290	\$1,241	\$1,217	\$1,340
(1) Less than 1,900		NO	NO	NO	NO	NO	NO	NO	NO	NO
(2) 1,901-3,600	NO		NO	NO	NO	NO	NO	NO	NO	NO
(3) 3,601-5,150	NO	NO		NO	NO	NO	NO	NO	NO	INVERSE
(4) 5,151-7,050	NO	NO	NO		NO	NO	NO	NO	NO	NO
(5) 7,051-8,600	NO	NO	NO	NO		NO	NO	NO	NO	INVERSE
(6) 8,601-11,450	YES	YES	YES	YES	YES		INVERSE	NO	NO	INVERSE
(7) 11,451-15,930	YES	YES	NO	NO	NO	NO		NO	NO	NO
(8) 15,931-23,510	YES	NO	NO	NO	NO	NO	NO		NO	NO
(9) 23,511-40,600	YES	YES	NO	YES	YES	NO	NO	NO		NO
(10) 40,601-277,140	YES	NO	NO	NO	NO	NO	NO	NO	YES	

Notes: (1) Yes indicates significance at 0.05 or better at expected level, (2) INVERSE = a significance level equal to or better than 0.05 but also where the smaller population size group has a lower average cost per capita than the larger municipal population group, i.e. opposite what would be expected.

Source: New Jersey Division of Local Government Services; analysis by authors.

In addition to the analyses of average cost per capita by population size group, an extended number of correlations were run in an effort to unmask possible reasons for these findings. Also, as mentioned earlier, the ungrouped correlation among all 562 municipalities did not yield a significant correlation between municipal size and cost per capita.

A two-tailed Pearson r correlation was run between the per capita cost of government against more than 60 variables representing a range of budgetary, property value, economic, and demographic data, results of which are summarized in table 6 for variables with a statistically significant correlation with the per capita cost of local government. This analysis was performed on the 513 non-resort municipalities, with results providing some additional insight, including the absence of municipal population being significantly correlated to cost per capita.

Several of the variables are worth comment. There is a clear cluster of economic well-being variables: mean and median household income, average residential value, ratable value per square mile, net equalized value per capita, all positively correlated with cost per capita. Municipalities with higher income, higher equalized value, and higher residential value would appear to be correlated with higher per capita costs. Density, multiunit residential characteristics (ratio of households to residential line items), and crime indices also are positively correlated with higher per capita cost municipalities.

TABLE 6
Pearson Correlations (2-tailed test), n=513
Significance at 0.000 unless otherwise indicated

Positive correlations	
Debt per capita	0.458
Net equalized value per capita	0.367
Ratable value per square mile	0.277
Percentage exempt property	0.276
Average residential value	0.274
Mean household income	0.266
Vacancy rate	0.225
Median household income	0.186
2010 Density	0.164
Major crime rate (0.001)	0.147
Current property tax as percentage of revenue (0.023)	0.101
Ratio of household to residential line items (0.039)	0.091
General crime rate (0.042)	0.090
Negative correlations	
Fund balance as a percentage of revenue (0.020)	-0.103
Percentage white	-0.160
Effective tax rate	-0.175
Percentage value in residential	-0.43
Reserve as a percentage of appropriations	-0.411
Delinquent taxes as a percentage of revenue	-0.436
Selected variables without a significant correlation	
Debt as a percentage of appropriations	
State aid as a percentage of revenue	
Equalization ratio	
Average taxes	
2010 Population	
Percentage black	
Percentage children under 16	

wisdom, i.e. the mean cost per capita for the larger population municipal group was significantly higher than it was for the smaller municipal group. This occurred in the following paired comparisons: the largest population group (more than 40,600 persons) had a significantly higher average cost (\$1,340) than population groups [3] 3,600 to 5,150 persons (\$1,092), [5] 7,050 to 8,600 persons (\$1,118), and [6] 8,600 to 11,450 persons (\$1,129), while population group [7] 11,450 to 15,930 had a significantly higher cost (\$1,290) than group 6 (\$1,129).

3. There was a tendency for the smallest two population groups to have a larger variance around the group's mean.

Concurrently, higher cost per capita municipalities also appear to have lower "effective tax rates," meaning the amount paid in property taxes per one hundred dollars of equalized value tends to be lower. The reserve for uncollected taxes and the percentage of revenues generated from delinquent taxes are inversely correlated with high per capita cost; or high per capita municipalities also have lower required budgeted reserves (i.e., higher tax collection rates) and a lower percentage of delinquent taxes. Use of the fund balance also appears to be inversely correlated. While we are not prepared to advance a causative link, this finding did lead us to ask the question from a different perspective. Do we have here a simple matter of local service preference and/or local service need, totally aside from municipal size?

In attempting to gain some further insight, we explored the universe of non-resort municipalities exhibiting a per capita cost of more than \$2,000 per person (i.e., roughly in excess of 50 percent over the average cost among non-resort communities). The list includes, among others, the communities shown in table 7.

Alpine, Camden, Harding, Newark, the Princetons, Trenton – all are on a common list and inconveniently undermine the conventional wisdom while supporting what seems to be emerging. The list includes, by population size, the small (Rockleigh, Far Hills,

TABLE 7
Non-resort Higher Cost Per Capita Municipalities

Municipalities with > \$2,000 Per Capita Cost	Per Capita Cost	Population
Alpine Borough	\$2,662	1,849
Asbury Park	\$2,470	16,116
Bayonne	\$2,017	63,024
Camden	\$2,095	77,344
Carlstadt	\$3,118	6,127
Chester Borough	\$2,633	1,649
Englewood	\$2,085	27,147
Englewood Cliffs	\$2,474	5,281
Essex Fells	\$2,146	2,113
Fairfield	\$2,626	7,466
Far Hills	\$2,960	919
Greenwich Twp. (Gloucester)	\$2,122	4,899
Harding Township	\$2,010	3,838
Harrison	\$2,839	13,620
Linden	\$2,265	40,499
Millburn	\$2,399	20,149
Moonachie	\$2,941	2,708
Morris Plains	\$2,013	5,532
Newark	\$2,167	277,140
Paramus	\$2,073	26,342
(Princeton Borough)	\$2,069	12,307
(Princeton Township)	\$2,170	16,265
Rockleigh	\$2,304	531
Roseland	\$2,147	5,819
Saddle River	\$3,524	3,152
Secaucus	\$2,785	16,264
Trenton	\$2,162	84,913
Watchung	\$2,113	5,801
Weehawken	\$2,893	12,554

Source: New Jersey Division of Local Government Services; analysis by authors.

“...In New Jersey it is nearly impossible to draw universal conclusions about the cost of local government.”

Chester, and Alpine); the medium (Englewood, Millburn, Paramus, and the Princetons); and the large (Trenton, Newark, Camden, and Bayonne).

We submit that in New Jersey it is nearly impossible to draw universal conclusions about the cost of local government, particularly as communities evolve. High-income municipalities perhaps desire a higher quality of services and are prepared to pay for them; other municipalities require a diverse range of services due to the heterogeneity of residents. If this sort of loose causal situation existed, we would hypothesize that the cost of local government services, rather than being dependent upon size per se, is more dependent on two other factors:

- (1) the per capita property tax base upon which revenue may be assessed, and
- (2) certain socioeconomic characteristics of the communities.

If these are the drivers of the per capita cost of municipal government, this study introduces political challenges of sensitive issues. This would include consideration of the need for increased state aid to municipalities with higher social service costs.

This observation also introduces another issue: legislatively restricted revenue sources. Nationwide, the property tax represents about a third of municipal revenue, with municipalities in other states having access to other revenue sources that are far more diverse than in New Jersey. Local sales taxes, personal property taxes, and other revenues are common in other states and are in stark comparison to New Jersey, where the property tax now represents more than 60 percent of revenues collected for local government services.

Do we have a cost problem, or do we have a revenue problem?

Regrettably, the state’s own fiscal challenges prevent this discussion from even taking place. Concurrently, other solutions—consolidation among them—are advanced. Yet, the surprisingly consistent average per capita cost from among our smallest to our largest municipalities raises a fundamental question of whether savings incurred go beyond the margin: Are they meaningful, long-lasting, and sufficient to even advance the core premise that consolidation is a major strategy in reducing the New Jersey property tax problem? Our findings are not intended to dissuade such discussions, nor do we wish to impede other discussions on effective provision of services through strategies such as sharing of services between jurisdictions, or outsourcing. But with the paucity of evidence that size is in some way a major determinant of cost per capita, consolidation as a major strategy to “solve” the property tax problem becomes a highly suspect political policy.

With the folk hypothesis not standing up to scrutiny as a strategy for long-term cost reduction, we turned to a long established (and quite independently constructed) surrogate for local socioeconomic status, the State Department of Education District Factor Group, to assess whether municipal costs might exhibit a stronger association with socioeconomic status than municipal size.

DFG GROUPS AND COST PER CAPITA⁴⁷

The District Factor Groups (DFGs) discussed earlier in this report were developed in 1975 for the purpose of comparing students’ performance on statewide assessments across demographically similar school districts and, as such, operated as a surrogate for socioeconomic status of the municipality and/or district. DFG groupings were also used, subsequent to *Abbott v. Burke*, to define the group of school districts to which the parity remedy aid would be focused. DFG categories were updated every ten years based on data from the decennial Census.

Unlike municipal boundaries that may be visualized as a flat plain, school districts exist at a range of levels (K-8, regional, consolidated, and so on). Still, with minor qualifications, municipalities can be assigned to the DFG group of their “primary” district, and accordingly are a surrogate of municipal socioeconomic status (SES). The DFGs were calculated using six variables that are closely related to SES:⁴⁸

- 1) Percentage of adults with no high school diploma
- 2) Percentage of adults with some college education
- 3) Occupational status
- 4) Unemployment rate
- 5) Percentage of individuals in poverty
- 6) Median family income

As a general rule, socioeconomic status may be estimated with municipalities assigned to DFG group “A” as being less well-off, higher proportions of the population living in poverty, and the like. Status increases, with group “J” representing communities

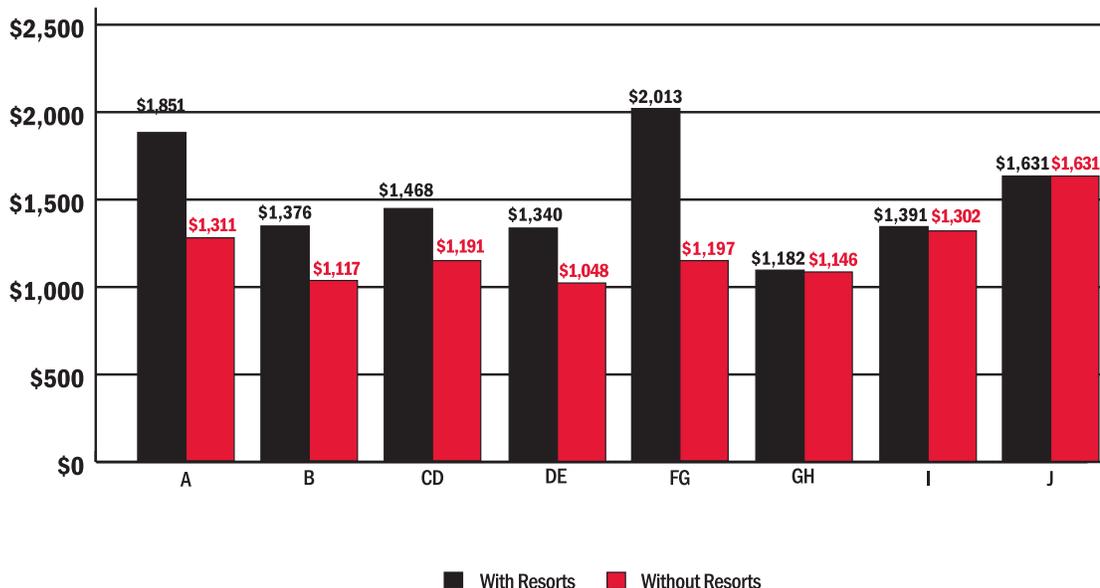
with the highest income, lowest poverty rates, highest percentage of college educated adults, and so on.

If our preliminary contention that available taxing resources, on the one hand, and high social costs on the other, were two important factors in the variation in the cost per capita of local government in New Jersey, we would expect to find a higher cost per capita among “A” and “B” DFG areas (because of the social costs), and also higher cost per capita among “I” and “J” districts. Accordingly, a series of analyses were completed to determine whether the average cost of local government per capita varied significantly among municipalities in different DFG groups.

Results were both as expected but also surprising, as illustrated in figure 4. As anticipated, both “A” and “J” municipalities had higher municipal costs than most other DFG municipalities.

When all municipalities are considered, however, it appears that municipalities with “FG” classified schools actually have the highest average cost of local government, at \$2,013. Again, without looking deeper, this rather puzzling finding could generate incredible new urban myths. What would be the

FIGURE 4
Per Capita Cost of Government Grouped by DFG Educational Classification



Source: New Jersey Department of Education; analysis by authors.

cause of higher local government costs among “FG” municipalities? Again, the answer is the unique nature of the state, which cannot be extracted simply through summary data. In fact, 14 of the 99 “FG” municipalities are resort communities, and eight of the 14 alone are on Long Beach Island.

This makes sense on several levels. First, the socioeconomic status of many year-round residents in some of the state’s resort communities is frequently below that of their seasonal neighbors. These are communities with affluent property-owner nonresidents. Year-round populations are low relative to the equalized value of these municipalities’ infrastructure, but per capita costs are high. Concurrently, as we have already demonstrated, these communities also have among the lowest effective tax rates in the state.

Removing resort communities from the analysis yields a more consistent picture of what type of municipality might yield high costs: municipalities with high socioeconomic status, followed by those with the lowest socioeconomic status. In the case of “J” district municipalities, their average of \$1,631 is highest, followed by “A” districts, averaging \$1,311.

Other than what we had expected, i.e., higher per capita costs in both the lower-income “A” (higher state subsidized aid) and the higher-income “I–J” districts (willing to spend more money for higher services), the use of socioeconomic status-driven DFG groups shows the same consistencies of the per capita cost model; there is a consistent cost pattern across DFG socioeconomic groups “B” to “GH.”

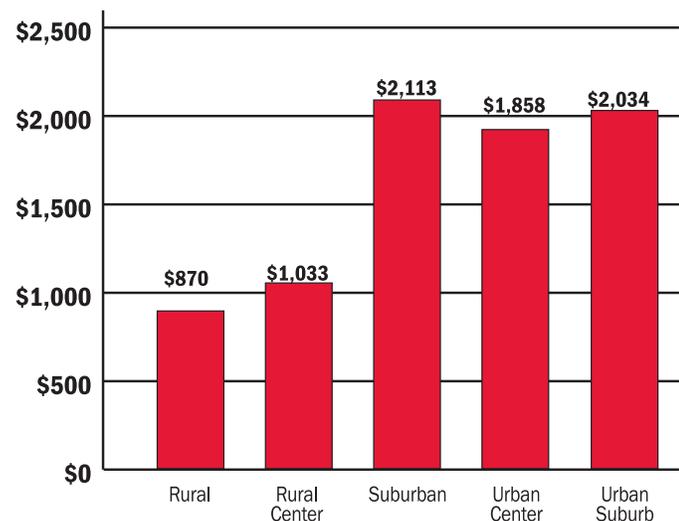
So far, we are zero for two when it comes to proving the validity of *commonly held beliefs* about municipal cost drivers.

MUNICIPAL “CHARACTER” AS A DETERMINANT

A final determinant explored in our current analysis was the municipal character of each municipality as reported by the New Jersey State Police Uniform Crime Reports.⁴⁹ Here, data reveal a pattern of significantly lower costs among municipalities classified as either “rural” or “rural centers” (figure 5). These two categories include 151 municipalities with an average population size of 7,155 (Rural) and 4,597 (Rural Center), respectively, compared with an average population of 18,945 for the remaining 363 municipalities.

An underlying factor among these two groups of municipalities is the provision by the State Police of what otherwise would arguably would be one of the most significant municipal costs: full-time police and public safety services.⁵⁰ Specifically, 57 of the 104 (54.8 percent) municipalities classified as “Rural” receive full state police coverage, as do 13 of 47 “Rural Centers” (27.7 percent), and seven of 207 “Suburban” municipalities (3.3 percent).

FIGURE 5
Difference in Per Capita Cost of
Municipal Government by Municipal Character



Source: New Jersey Division of State Police, *Crime in New Jersey*, 2011; analysis by authors.

As expected, the municipal cost per capita is examined we find that the per capita cost is higher in these lesser developed communities where police are a local cost, and state police coverage is not provided (table 8). Still, the weighted average per capita cost, combining both rural municipalities and rural centers not provided state police coverage is very low, at \$1,017.

Over the last twenty years several state government administrations attempted to charge state police-covered municipalities for the services they received. A decision of the Council on State Mandates⁵¹ determined that charging these municipalities for services violated the state-mandate/state-pay provisions of the New Jersey State Constitution. This decision prevents the State of New Jersey from shifting costs and adding a new cost to those municipalities.

OTHER SUPPORTIVE ANALYSES

It is worthy to note that these conclusions are not new. While our methodology is new, others have employed different methodology and reached similar conclusions. Rutgers Professor Emeritus Ernest Reock, one of the state's most experienced practitioners of municipal fiscal data collection and analysis, has, since 2004, studied what causes spending disparities across municipalities. In a series of monographs entitled "Determinants of Property Tax Burden in New Jersey,"⁵² Dr. Reock studied municipal demographic and fiscal data from 2004, 2008, and 2011. While he included municipal, county, and school tax data in his analysis, he observed that:

The heaviest property tax burdens are found in small, older suburbs that have low property tax bases and limited personal incomes among their residents; excessive spending is rarely found in such places, and the only feasible assistance must come from outside the community. State school aid is of considerable help in many places, especially in urban communities, but State municipal aid is insufficient and poorly

TABLE 8
Average Cost Per Capita
by State Police Coverage

	Police funded locally	Police funded by State
Rural municipalities	\$1,004	\$747
Rural centers	\$1,074	\$919
Suburban	\$1,268	\$854

Source: New Jersey Division of State Police, Crime in New Jersey, 2011; analysis by authors.

distributed, and State tax rebates do not redress the imbalance.

Dr. Reock makes the point that the heaviest property tax burdens are in places that do *not* have excessive spending. This too weighs against assumptions that high property taxes are due to local spending decisions.

Robert Casey, a long-time municipal issues policy advisor to several state commissions that studied local government, researched and authored a study for LUARCC (of which he was a member) entitled "The Municipal Operational Tax Index—a Municipal Comparison Tool."⁵³ It was intended to "be used by local taxpayers to compare their local municipal tax burden with the comparable tax burden of their neighboring municipalities as well as relevant countywide averages." While his study focused on tax burden, not strictly costs, Casey did address the issue of the reserve for uncollected taxes as a variable that was not relevant to calculating the costs of a government.

Richard Kaluzny, PhD, the retired director of the New Jersey Office of Tax Analysis and former assistant treasurer in the New Jersey Department of the Treasury, took a different approach in an unpublished paper from 2009, titled "The Case for Consolidation of New Jersey Municipalities." The draft paper was circulated to an informal group of policy analysts interested in property tax issues.⁵⁴

In it, Kaluzny analyzed revenues used to support municipal services, the average property tax on residential parcels, and the total tax levy, with the goal of examining the proposition that municipal size has a statistically significant effect on the cost of local services. He too wanted to test the “popular hypothesis that consolidation of the then 566 New Jersey municipalities into larger aggregate units could have a positive impact on lowering municipal costs and the property tax burden.” His analysis focused on property tax impact, taking into account school and county tax burdens.

At the end of his analysis, using various advanced statistical tools, he reached the following conclusions:

- There is evidence that local municipal costs bear some significant statistical relationship to the size of the community. Local expenditures per capita decline as municipal size increases. *(Note: Regrettably, Kaluzny’s analysis did not take into effect the distorting influence of the reserve for uncollected taxes.)*
- Even a narrow measure of tax burden on homeowners (i.e., average residential property tax) does not indicate substantial saving.
- This suggests that consolidation of small municipalities into larger municipalities by itself will not lead to a reduced tax burden.

While Reock’s, Casey’s, Kaluzny’s, and our methodologies vary to different extents, the direction is the same. We concur with Kaluzny as he recognized the complexity of the issue and the challenge of the folk hypothesis when he wrote:

This is not to say that consolidation of municipalities is not a good thing or that it may lead to savings for some communities. Consideration of more factors than the handful of easily measured ones examined here is needed before a final assessment can be rendered.

SO, WHERE DOES THIS LEAVE US WITH RESPECT TO CONSOLIDATION SAVINGS?

While our primary goal in this research effort was to determine the extent to which municipal size may contribute to higher or lower costs of local government, and whether many local governments with a high degree of local accountability are necessarily a contributing factor to a “property tax problem,” we determined it necessary at least to explore some hypothetical implications from our findings. The first, of course, is that size may not matter nearly as much as the conventional wisdom would have us believe. That said, let’s look at a simple hypothetical example: a municipality with a \$10 million budget.

Data from detailed municipal budgets for the subject years would suggest that in any consolidation instance, approximately one-third of municipal budgets are inflexible, and in most of these areas considerable “squeezing” has already been accomplished. The major areas are summarized in table 9.

Accordingly, one can anticipate that whatever the municipalities, approximately one-third of all costs are unlikely to be affected by a consolidation. The reserve for uncollected taxes, for example, represents actual required appropriation based upon collections and is generally unrelated to size and management decision. Likewise, debt is real and inviolate; although over time refinancing might yield savings, it would likely happen regardless of these discussions. On the revenue side, the property tax (current and delinquent) represents, on average, 62 percent of all municipal revenue. As the data in table 10 show, the major contributor to the property tax dilemma is not local government, but education. Again, exploring the statewide average distribution of the property tax, local government represents only 28.5 percent of the total levy.

“...Size may not matter nearly as much as the conventional wisdom would have us believe.”

Using these data as a base for our hypothetical case with a \$10 million budget, consolidation can target only about 66 percent of the budget, or some \$6.635 million in appropriations. Concurrently, with a \$10 million budget, we would expect the property tax to generate \$6.2 million in revenue. However, since the municipal portion represents only a small portion of the total tax levy, for this instance our average allocation of the tax levy projects a total levy of \$23.280 million that would include county, education, and other special district levies.

In this hypothetical, we hope to achieve a 5 percent savings from consolidation, or a savings of \$331,750 from the fungible \$6.635 million portion of the budget. Appropriating savings to revenue sources would result in a reduced revenue requirement of \$331,750, of which \$205,685 would be credited to the property tax. Thus, if 5 percent savings could be achieved through a perfectly executed consolidation to the variable portion of appropriations, the net savings for the municipal property tax portion would yield a 3.32 percent savings. Of course, this would not translate into a 3.3 percent reduction in taxes, since municipal-purpose property taxes represent only 28 percent of the total levy.

Accordingly, in our hypothetical, a 5 percent savings would translate into a 0.88 percent reduction in the total levy. Using a \$7,500 property tax bill as a reference, this translates into a possible annual savings of \$66.26. Base data used are summarized in table 11.

TABLE 9
2011 Review of Municipal Budgets

Expense Category	Average Percentage of Budget (%)
Reserve for uncollected taxes	5.13
Debt service	8.79
Utilities	3.41
Insurance	14.09
Miscellaneous	2.24
TOTAL	33.66
Revenue category	
Current and delinquent property taxes	62.0

Source: New Jersey Division of Local Government Services; analysis by authors.

TABLE 10
2011 Distribution of the Property Tax by Jurisdiction

Jurisdiction	Tax (in billions)	Tax as a Percentage of Total (%)
Municipal	\$7.550	28.5
School	\$13.845	52.2
County	\$4.777	18.0
Special district/ assessments	\$0.332	1.3
Total	\$26.504	100.0

Source: New Jersey Division of Local Government Services; analysis by authors.

TABLE 11
Hypothetical Budget Impact

\$10,000,000	Budget
66.35%	Hypothetical unrestricted appropriations
\$6,635,000	Budget amount within which decisions can be made
\$6,200,000	Expected revenue from the property tax
\$3,800,000	Revenue from other sources
5.0%	Target savings from consolidation
\$331,750	Savings to be accrued if all works well
\$205,685	Savings allocated to property tax
\$126,065	Savings allocated to other revenue
3.32%	Local property tax savings
\$23,280,702	Total property tax levy
0.88%	Effective savings on the total property tax bill

Source: Analysis by authors.

Policy Implications

With the folk hypothesis in question, where can policymakers look to respond to the political imperative? Is the discussion about “consolidating our way to savings” a way of avoiding discussion of other possible solutions to a broader problem? Is it a response to general public perceptions that “property taxes are too high,” “government spending is out of control,” and “government employees earn too much and have expensive benefits?” We think it is a response that avoids focusing on other, harder solutions to deeper and more intractable problems.

We submit that policymakers need to focus on the underlying problem that “consolidating our way to savings” is intended to solve. For example, if the issue is one of municipal costs being high, answers may lie in policy options relating to state policies that drive costs. Since 2006, the Corzine and Christie administrations with their legislatures (along with the impact of the Great Recession) enacted pension and healthcare–related cost controls through policies that increased costs to employees and forced government to economize through property tax levy caps and public safety interest arbitration reforms. These

policies have worked well and should be continued. Their value should not be underappreciated and ignored. That said, those policies are deserving of study to determine their actual impact beyond the superficial attention they have received.

If the problem is that certain groups are penalized by the broken nexus of property wealth serving as a surrogate for income wealth, do we need to design improved need-based property tax relief programs? Past and current policies focused various programs on senior citizens, some of which are need-based; are there other sectors where attention of this type should be paid? Should such programs be modified or extended to lower-income property owners as well? Direct tax relief or general state aid solutions, of course, require ongoing appropriations from the state budget. In our current environment, without revenue enhancement, such programs may be challenging given existing budgetary stresses.

Is the problem the property tax administration system (from parcel management to assessment practices to tax billing and receipting)? Is it rooted in a system designed generations ago that does not reflect the

An Informative Anecdotal Study

An informal survey administered to a Rutgers graduate class of school officials some 20 years ago provides a superficial but elegant analysis of the difference between small and large jurisdictions and spending decisions. The inquiry was of elected and appointed officials in districts with different sizes of schools to assess their priorities of service demands. They found that:

1. Officials in smaller organizations focused efforts on cost controls and limiting services.
2. Officials in larger organizations focused on range of services being provided and paid less attention to detailed cost controls.

We leave it to the reader’s own assessment of government decision making to conclude the accuracy and interpretation of the survey.

current economy and technology tools, hampered by a lack of symmetrical information between those who set value, property owners, and adjudicators? If so, should we seriously address these issues with a comprehensive study of our property tax system? Such an effort was undertaken in the mid-1980s (“Equity 21”⁵⁵). Arguably, the time is ripe for a fresh look at the whole system, rather than the piecemeal approach currently used by state policymakers.⁵⁶

There are a host of other possible answers to the question of why costs or taxes are “high.” These include:

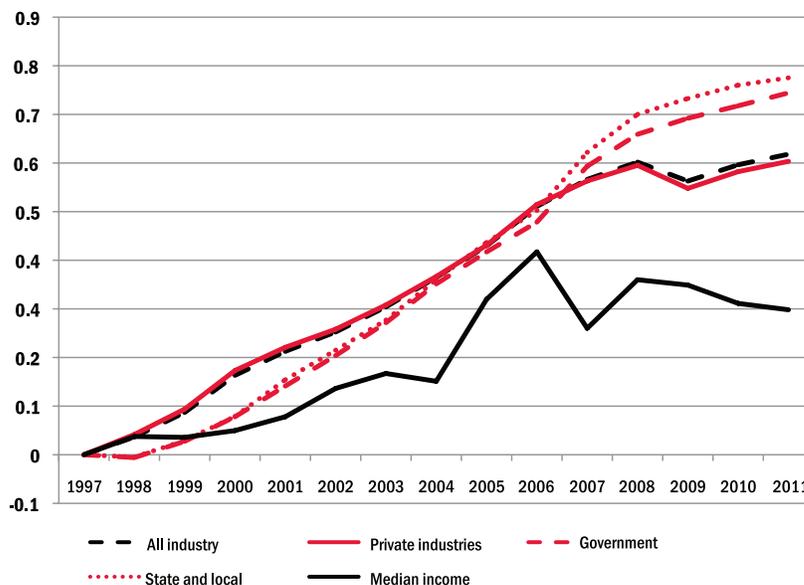
1. Inefficient delivery of certain municipal services that could be improved with investment in technology; technologies that can be shared or acquired through improved public procurement practices.
2. State laws that drive personnel costs through collective bargaining policy, civil service rules, health insurance requirements, and other policies.
3. State and local political decisions that favored employee groups for political gain—placing short-term political agendas ahead of long-term costs (i.e., increased pension benefits

in the early 2000s, an initiative driven by public employee organizations that coincided with a gubernatorial/legislative election cycle).

4. State mandates that incrementally or substantially increase costs, regardless of equity or fairness (i.e., prevailing wages in construction contracting, minimum health insurance standards, open public record laws). There are approaches that can reduce the impact of costs imposed by outlier actions (they tend to drive up costs) without affecting the important values that these mandates represent.

5. Economically or politically flawed policies to fund local services primarily through property taxes. Most significantly this is found in the reclassification and diversion of energy consumption taxes paid to utility companies for state purposes. These revenues were originally a means of compensating municipalities for regulated utility use of the public right-of-way and to offset the exemption of utility property from property taxation. The flaw was exacerbated when the state started retaining the growth for its own purposes while freezing the municipal portion.

FIGURE 6
Cumulative Change in NJ State GDP by Sector
and Cumulative Change in Median Income, 1997-2011



6. Dependence on the property tax in New Jersey compared with other states creates an extraordinarily large major revenue source while not concurrently focusing on the impact of income growth or capital value. For example, between 1997 and 2011, New Jersey's GDP increased approximately 60 percent while median income, mirroring national trends of the flatlining of wages, increased only 30 percent, with virtually no change between 2005 and 2011, as shown in figure 6.

Property taxes are assessed on value. Between 1999 and 2013, the average statewide effective tax rate actually decreased from \$2.54 per \$100 of value

to \$2.26 per \$100 of value.⁵⁷ Even with the loss of millions of dollars of value from the housing market crash, total value on which property taxes are based increased proportionately more than the total property tax levy. Income, conversely, did not grow at the same pace.

Nationwide, the criticality of this is less obvious, as significant municipal resources are generated from sources other than the property tax. Elsewhere, the property tax represents some 30 percent of revenue, as compared with 62 percent of municipal revenue in New Jersey. In effect, the property tax is high because it is the overwhelming source of revenue for most municipalities, unlike elsewhere.

Final Observations

New Jersey has been wrestling with the property tax challenge for decades and generations. Every generation of political leaders commissions a study of the issue, the most recent being the Special Legislative Session on Property Tax Reform in 2006 and 2007.⁵⁸ Rutgers Professor (and SLERP Commission Executive Director) Henry A. Coleman, PhD, prepared an instructive study for the New Jersey State League of Municipalities in 2003 entitled “A History of Tax Reform in New Jersey: The Commission Approach.”⁵⁹ Table 12 is taken from that report. Our research found studies on the issue going back to 1946, including a formal Commission on State Tax Policy that issued regular reports from 1946 until the late 1950s.

So, this is not new.

Our findings highlight that the folk hypothesis is one of the more contemporary politically discussed solutions to the “property tax problem.” It is more challenging than the superficial and speculative analysis on which its advocates rely. We further highlight gaps in research and policy attention that

when filled, may help policymakers focus on solutions that can help stabilize or even reduce the cost of municipal government services. Policymakers should move on from citing what we conclude to be a fully discredited hypothesis and focus on other lines of inquiry to address the challenge.

We submit that this research is an objective starting point for more inquiry aimed at spurring informed and thoughtful discussion of the issue. Contrary to some public opinion, well-constructed task forces have provided valuable insight, often resulting in immediate, though sometimes delayed, implementation. Consideration of this approach is overdue and warranted once again.

This study indicates, and we maintain that there is not a single “solution” to municipal property tax levels. Rather, there is potential for a range of policies that, after appropriate study and the requisite hard political work, can lead to consensus on actions state and local officials can take to address the “property tax problem.”

It just won’t be easy. Which also is not new.

TABLE 12
Major Fiscal Study Commissions in New Jersey (1970–2000)

Name	Alias	Year	Number of Members	Number of Recommendations
Tax Policy Committee	Cahill Committee	1972	32	105
Commission on Government Costs and Tax Policy	Leone Commission	1977	16	32
Property Tax Assessment Study Commission	Glaser Commission	1986	18	37
State and Local Expenditure and Revenue Commission	SLERP Commission	1988	33	111
Quality Education Act Commission	QEA Commission	1991	29	20
Education Funding Review Commission	EFRC	1994	15	26
Property Tax Study Commission	Cannon Commission	1998	25	60

Source: *New Jersey State League of Municipalities.*

TABLE 13
Impact of Primacy City on the Total Number of Local Governments

	Largest City	Population	Rank of Major City by Size	Largest City as % State Population	Rank of Largest City	Exclude Largest City	Adjusted # General Governments	Remaining Gen Gov't per 10,000	Adjusted rank
Alabama	Birmingham	212,237	33	4.4%	44	4,567,498	527	1.15	27
Alaska	Anchorage	291,826	31	41.1%	2	418,405	161	3.85	8
Arizona	Phoenix	1,445,632	6	22.8%	5	4,883,381	105	0.22	47
Arkansas	Little Rock	193,524	36	6.6%	40	2,722,397	576	2.12	17
California	Los Angeles	3,792,621	2	10.2%	24	33,461,335	538	0.16	48
Colorado	Denver	600,024	16	11.9%	18	4,429,172	332	0.75	33
Connecticut	Bridgeport	144,229	41	4.0%	47	3,429,868	178	0.52	42
Delaware	Wilmington	70,851	46	7.9%	29	827,083	59	0.71	36
Florida	Jacksonville	821,784	7	4.4%	45	17,979,527	475	0.26	46
Georgia	Atlanta	420,003	24	4.3%	46	9,267,650	687	0.74	34
Hawaii	Honolulu	390,738	26	28.7%	3	969,563	3	0.03	50
Idaho	Boise	205,671	34	13.1%	15	1,361,911	243	1.78	22
Illinois	Chicago	2,695,598	3	21.0%	8	10,135,034	2830	2.79	12
Indiana	Indianapolis	820,445	8	12.7%	16	5,663,355	1665	2.94	11
Iowa	Des Moines	203,433	35	6.7%	39	2,842,917	1045	3.68	10
Kansas	Wichita	382,368	28	13.4%	14	2,470,750	1996	8.08	3
Kentucky	Lexington	295,803	30	6.8%	36	4,043,559	535	1.32	26
Louisiana	New Orleans	343,829	29	7.6%	32	4,189,543	363	0.87	30
Maine	Portland	64,249	47	4.8%	43	1,264,112	503	3.98	7
Maryland	Baltimore	620,961	13	10.8%	19	5,152,591	179	0.35	45
Massachusetts	Boston	617,594	14	9.4%	25	5,930,035	355	0.60	40
Michigan	Detroit	713,777	11	7.2%	33	9,169,858	1855	2.02	20
Minnesota	Minneapolis	382,578	27	7.2%	34	4,921,347	2725	5.54	5
Mississippi	Jackson	173,514	39	5.8%	41	2,793,783	378	1.35	25
Missouri	Kansas City	459,787	22	7.7%	30	5,529,140	1380	2.50	13
Montana	Billings	104,170	45	10.5%	21	885,245	182	2.06	19
Nebraska	Omaha	408,958	25	22.4%	6	1,417,383	1041	7.34	4
Nevada	Las Vegas	583,756	19	21.6%	7	2,116,795	34	0.16	49
New Hampshire	Manchester	109,565	43	8.3%	28	1,206,907	243	2.01	21
New Jersey	Newark	277,140	32	3.2%	48	8,514,754	586	0.69	38
New Mexico	Albuquerque	545,852	21	26.5%	4	1,513,328	135	0.89	29
New York	New York City	8,175,133	1	42.2%	1	11,202,971	1597	1.43	24
North Carolina	Charlotte	731,424	10	7.7%	31	8,804,051	652	0.74	35
North Dakota	Fargo	105,549	44	15.7%	11	567,042	1723	30.39	1
Ohio	Columbus	787,033	9	6.8%	35	10,749,469	2333	2.17	16
Oklahoma	Oklahoma City	579,999	20	15.5%	12	3,171,355	666	2.10	18
Oregon	Portland	583,776	18	15.2%	13	3,247,298	276	0.85	31
Pennsylvania	Philadelphia	1,526,006	5	12.0%	17	11,176,373	2626	2.35	15
Rhode Island	Providence	178,042	38	16.9%	10	874,525	38	0.43	43
South Carolina	Columbia	129,272	42	2.8%	49	4,496,092	314	0.70	37
South Dakota	Sioux Falls	153,888	40	18.9%	9	660,292	1283	19.43	2
Tennessee	Memphis	646,889	12	10.2%	23	5,699,221	436	0.77	32
Texas	Houston	2,099,451	4	8.3%	27	23,046,110	1467	0.64	39
Utah	Salt Lake City	186,440	37	6.7%	38	2,577,445	273	1.06	28
Vermont	Burlington	42,417	50	6.8%	37	583,324	293	5.02	6
Virginia	Virginia Beach	437,994	23	5.5%	42	7,563,030	323	0.43	44
Washington	Seattle	608,660	15	9.1%	26	6,115,880	319	0.52	41
West Virginia	Charleston	51,400	49	2.8%	50	1,801,596	286	1.59	23
Wisconsin	Milwaukee	594,833	17	10.5%	22	5,092,153	1921	3.77	9
Wyoming	Cheyenne	59,466	48	10.6%	20	504,160	121	2.40	14

Source: U.S. Bureau of the Census, 2010, and authors' analysis.

Endnotes

1. Paul Zachary ("PZ") Myers, in John Brockman (ed.), *This Explains Everything: Deep, Beautiful, and Elegant Theories of How the World Works* (New York: HarperCollins, 2013), pp.172–3.
2. The term "political biology" has several meanings in academic and contemporary literature, none of which apply here. For our purposes it serves as a convenient shorthand to mean the consistent long-term (i.e., going back centuries) patterns of political behavior and traditions that span multiple generations of New Jersey's political leadership, rooted in our history, and evolved to meet the needs of each generation.
3. This paper focuses exclusively on municipal government spending and the property tax burden imposed by municipal government. It does not address matters of public school or county spending or property tax burden. Thus, all references to property taxes and spending refer to municipal government, and no other level of government.
4. Calendar 2010 and 2011 for calendar fiscal year municipalities, and SFY2010 and 2011 for state fiscal year municipalities.
5. State law provides a formula for identifying these resort municipalities; we used the formula (employed by the N.J. State Police), found in P.L. 1998, c.50.
6. DFG categories for the 603 operating public school districts in New Jersey (2012–13), as characterized by socioeconomic status (U.S. Census data), are (from lowest to highest): A, B, CD, DE, FG, GH, I, and J.
7. William Musto et al., *Consolidation: Prospects and Problems, Fifth Report of the County and Municipal Government Study Commission* (Trenton, NJ: State of New Jersey, February 1972). This study may be found at: <http://www.njspottlight.com/stories/10/1006/2044/> http://nj.gov/dca/affiliates/luarcc/pdf/cmgs_c_consol_prospectsandproblems.pdf.
8. William V. Musto, Chair, County and Municipal Government Study Commission. *Fifth Report, Consolidation: Prospects and Problems* (Trenton, NJ: State of New Jersey, February 1972), p.1.
9. Ibid.
10. <http://www.state.nj.us/dca/affiliates/luarcc/pdf/n.j.s.a.52.27D-502.pdf>.
11. Andrew J. Bruck and H. Joseph Pinto III, "Overruled by Home Rule: The Problems with New Jersey's Latest Effort to Consolidate Municipalities," *Seton Hall Legislative Journal*, Vol. 32, No. 2 (2008). pp.3-5.
12. Bruck and Pinto, *ibid.*, p.18.
13. Bruck and Pinto, *ibid.*, p.19.
14. Bruck and Pinto, *ibid.*, p.19.
15. Bruck and Pinto, *ibid.*, pp.19–20.
16. Deborah Mercer, New Jersey State Library Collections Librarian E-mail to Caprio dated 9/5/2013 with citation for "Growth of Municipal Incorporations in New Jersey."
17. Ernest Reock, unpublished research proposal citing annexation of former municipalities adjacent to several of New Jersey's largest, oldest cities, 2004; and Alan J. Karcher, *New Jersey's Municipal Madness* (New Brunswick, NJ: Rutgers University Press, 1998), chs. 13 and 14.
18. Karcher, *ibid.*, p.83; Bruck and Pinto, *op.cit.*, p.26.
19. Karcher *ibid.*, pp.13-14.
20. The reader is referred to a broad range of urban ecological research on intrametropolitan movement beginning with the work of Ernest Burgess and Robert Park, *Introduction to the Science of Sociology* (1922), describing the "outward" movement of the wealthy from central cities.
21. See James W. Hughes and Joseph Seneca, *Reinventing the New Jersey Economy: New Metropolitan and Regional Employment Dynamics*, Rutgers Regional Report No. 33 (New Brunswick, NJ: Rutgers University, Edward J. Bloustein School of Planning and Public Policy, December 2012).
22. Heidi Shierholz and Lawrence Mishel, "A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class." EPI Briefing Paper No. 365 (Economic Policy Institute, August 21, 2013). This is one of many contemporary articles and research papers documenting the disconnect between increases in productivity and flatlining of wages.
23. The reader is referred to the DCA/DLGS Information Resources website at: <http://www.state.nj.us/dca/divisions/dlgs/resources/>.
24. Henry J. Raimondo, *Economics of State and Local Government* (New York: Praeger, 1992), pp.59–61.
25. Coincidentally, the Princetons first started discussions around the same time Landis and Vineland merged.
26. Prior to his retirement from the New Jersey State Division of Local Government Services in 2012, author Pfeiffer was involved in all the consolidation studies dating back to 1995.
27. New Jersey Department of Community Affairs, *A Directory of Interlocal Activity* (Trenton, NJ: State of New Jersey, Department of Community Affairs, 1991); also see Bruck and Pinto 2008, p.36.
28. Raphael J. Caprio and Marc Holzer, *Outsourcing and Shared Services Among New Jersey Municipalities: A Preliminary Assessment of Potential Privatization, Partnership, and Productivity in Government*. Research Series (Newark, NJ: Rutgers University, 1995).
29. Karcher, *op.cit.*, p.134.
30. Jun Choi, "Opinion: A Bold Plan for Local Government Consolidation," NJ Spotlight, Oct. 7, 2010 at: <http://www.njspottlight.com/stories/10/1006/2044/>.
31. Dan Mason, *New Jersey Municipalities* (April 2010), p.10.
32. Dagny Gail Faulk and Michael Hicks, *Local Government Consolidation: Potential Savings Due to Economies of Scale and Efficiency Gains* (Center for Business and Economic Research, Ball State University, October 2011).
33. *Ibid.*
34. Marc Holzer et al., "Literature Review and Analysis Related to Municipal Government Consolidation." Report prepared for the New Jersey Local Unit Alignment, Reorganization, and Consolidation Commission (Rutgers University, Newark, New Jersey, May 6, 2009), p.1.
35. Charles Erdman, *Princeton Local Government Survey: Growth of Municipal Incorporations in New Jersey* (Princeton: Princeton University, 1937), pp.3-4. Reader is referred to the State Archives J352 E66.
36. Bruck and Pinto, *op.cit.*, p.28.
37. Stephen Sweeney, "Can New Jersey Afford Its Small Towns," *The County Freeholder* (May 2008), p.57.
38. The data represents calendar year 2011 for most municipalities and the state fiscal year 2012 for those remaining few municipalities on a SFY.
39. LUARCC Study, Municipal Operational Tax Index; <http://www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX081310.pdf>.
40. Nina Stack et al., *Facing Our Future* (Trenton, NJ: Council of New Jersey Grantmakers, January 2011), p.5. Dr. Caprio contributed the municipal and county analyses to this report.

41. Population in all four are less than 100, with Teterboro being an industrial enclave consisting primarily of an airport and related businesses with 67 residents; Tavistock and Pine Valley being golf courses incorporated as a municipality with 5 and 12 residents, respectively; and Walpack with 16 people, being the most rural and remote municipality in the state.

42. With the fiscal data in the study coming from 2010 and 2011, the dataset includes both the preconsolidated Princeton Borough and Princeton Township as separate entities, as their consolidation did not take effect until 2013. This accounts for the use of 566 municipalities, instead of the current 565.

43. Used for this study is the classification of resort communities specified in the New Jersey State Police Annual Crime Data Report, which in turn used Department of Labor definitions. Two adjustments which we believe appropriate were made by adding Atlantic City (Atlantic County) as a resort municipality, and removing Woodbine (Cape May County), yielding a "resort community" set of 49 municipalities. We recognize that other coastal municipalities such as Spring Lake or Asbury Park are year-round "destinations." The differentiating variable, however, is the disproportionate percentage of residential units that are vacant "off-season."

44. We are not the first to suggest this; see Reock and Kaluzny below (51 and 53).

45. We infer this from an overview of state MOD4 files for the resort communities versus a few random non-resort communities.

46. Resort communities are defined in the Uniform Crime Report of the New Jersey State Police at http://www.njsp.org/info/ucr2011/pdf/2011_sect_8.pdf, per P.L. 1998, c. 50. This list was used with two appropriate changes. Woodbine (Cape May County) was removed as a Resort, while Atlantic City (Atlantic) was added. The total count, 49, remained unchanged.

47. Source for DFG definitions and explanatory material may be found at: <http://www.state.nj.us/education/finance/rda/dfg.shtml>.

48. Although initially included in the DFG determination, density was subsequently dropped as a characteristic.

49. New Jersey Uniform Crime Reports, Section Seven, 2012 Edition, http://www.njsp.org/info/ucr2012/pdf/2012_sect7.pdf.

50. Several municipalities have part-time State Police service; these municipalities are grouped with the "local cost" group. Hence the category of municipalities with State Police support are those with full-time State Police coverage.

51. <http://nj.gov/localmandates/decisions/12-12-08ShilohOpinion.pdf>.

52. Ernest C. Reock, Jr., "Determinants of Property Tax Burden in New Jersey—2008" (New Brunswick, NJ: Rutgers University, Center for Government Services). <http://www.cgs.rutgers.edu/sites/cgs.rutgers.edu/files/images/68015-Property%20Tax%20Determination%20Final.pdf>

53. LUARCC, August 2010, <http://www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX%20081310.pdf> and data files at <http://www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX%20081310.XLS>.

54. R.L. Kaluzny, unpublished research paper presented to the Property Tax Study Group, 2009. (Caprio and Pfeiffer are members of the group, which is coordinated by Ernest Reock.)

55. The report is online at: http://www.njleg.state.nj.us/legislativepub/reports/property_tax_assessment.pdf.

56. We refer here to the Division of Taxation's mid-2000's failed effort ("PAMS") to reinvent the statewide parcel management system (currently a 40+ year-old COBOL program known as "MOD IV"); a current pilot program in Gloucester County to centralize tax assessment at the county level under the control of the Board of Chosen Freeholders; another pilot program currently under way in Monmouth County to centralize administration with the County Board of Taxation and using a modified assessment calendar; and a failed effort in the 1990s to consider "dual-rate" taxation, allowing separate tax rates on land and improvements; and other legislative initiatives.

57. The effective tax rates were calculated from data at the Information Resources site of the Division of Local Government Services. The 1999 data are the earliest readily available.

58. <http://www.njleg.state.nj.us/PropertyTaxSession/specialsessionpt.asp>.

59. http://www.njslom.org/tax_reform_04-2003.html.

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