

Friends of Local Government

Policy Paper Series

**The Relationship of the Cost of Local Government and
Municipal Size in New Jersey**

By Raphael J. Caprio, PhD and Marc Pfeiffer, MPA

NJLM
EDUCATIONAL FOUNDATION, INC.

Volume 6, Number 4
December 2014

Preface

This is the 24th paper in NJLM Foundation's "Friends of Local Government" Policy paper series. This paper is a revised version of the authors' paper "Size May Not be the Issue: An Analysis of the Cost of Local Government and Municipal Size in New Jersey," published by the Bloustein Local Government Research Center, Issue Paper #1, November 2014.

This paper is authored by:

- Raphael J. Caprio, PhD, University Professor and Director
 - Marc H. Pfeiffer, MPA, Assistant Director and Senior Policy Fellow
- Bloustein Local Government Research Center
Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey

This and other papers are available on the Foundation's website at www.njlmef.org

On behalf of the Board of the NJLM Educational Foundation we thank Dr. Caprio and Mr. Pfeiffer for these contributions, and believe you will find this paper informative.

Michael F. Cerra, Policy Advisor
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608

Acknowledgments

The authors thank Rutgers Professor Emeritus Ernest Reock, Jr., PhD, and the long-running Property Tax Study Group he coordinates, for his personal and the group's individual and collective encouragement, comments, deliberation, and collegiality. Over the long gestation of this report, having had the members serve as a sounding board helped inform and guide the research.

Online Resource

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

About the Authors

Raphael J. Caprio is University Professor at Rutgers University's Edward J. Bloustein School of Planning and Public Policy, with active research in the areas of local and state budgeting, public finance, financial management, and public-sector management. He is active in labor and public-sector interest arbitration, providing expert testimony in more than 100 arbitration cases; Dr. Caprio also maintains a continuing interest and participation in media and public policy, for which he has received multiple New York and mid-Atlantic Emmy nominations and awards. 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. He has served on several community service boards and is currently a member of the St. Benedict's Preparatory School Board of Trustees. Dr. Caprio can be reached at ray@dceo.rutgers.edu.

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.

The Relationship of the Cost of Local Government and Municipal Size in New Jersey

Raphael J. Caprio, PhD and Marc Pfeiffer, MPA

Executive Summary

Two related policy positions have been cited repeatedly as a cause of New Jersey's high property tax; namely (1) we have too many local governments characterized by (2) too many small municipalities with inescapable high costs. The results of this analysis of municipal government costs per capita in New Jersey for both the 2011 and 2012 fiscal years seem to contradict this 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.¹

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 has more municipalities per square mile than any other state, but New Jersey is also the most densely populated state in the nation. Accordingly, 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 appear to significantly vary between large and small municipalities in New Jersey. This is evident after considering and adjusting for the unique character of approximately four dozen municipalities, characterized by large seasonal but small year-round populations: the state's coastal resort municipalities.² 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 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 1,600 population averages \$1,282, while those over 39,000 population average \$1,311; municipalities having populations between 6,200 and 8,200 experience the least costly local government per capita costs at \$1,075.

Further 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 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).

These findings suggest 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 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, ultimately savings 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 would need to accrue simultaneously and without undue cost shifts from or to one or another of the municipalities considering consolidation. 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.

Property Tax as Driver of Decisions

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. Since then 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 a typical homeowner, 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 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!*

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 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.³

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).

	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%

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

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

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 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, or choose not to provide.⁴

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 two 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 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 may 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: quality of public schools, 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.⁵

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 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 operating 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.⁶ The world was different 60 years ago and, over time, the Princetons had already become “one community,” arguably, 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).⁷

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

- *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.
- *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.
- *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.
- *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 bounda-

ries, 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.

- *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.
- *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.

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's 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.

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 literature⁸ provides the following major findings:

- Most consolidation attempts 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.

The Value of Shared Services

Unappreciated by many commentators is a practice that New Jersey state government has actively promoted and in which municipal governments have long participated since the first laws were passed in the mid-1970s: the concept of shared services (which, until a political 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 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, 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.⁹

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.¹⁰

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 this study we use a single dependent variable to measure: 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 as a measurement of demand for services. Further, this measure can be viewed as 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.¹¹ 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.

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?

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 uncollected revenue”) 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 counties and schools, 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.

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 officials and media comment. If not, it opens the door for fresh discussion and debate on how to control municipal property taxes if *not* by consolidation.

The Analysis

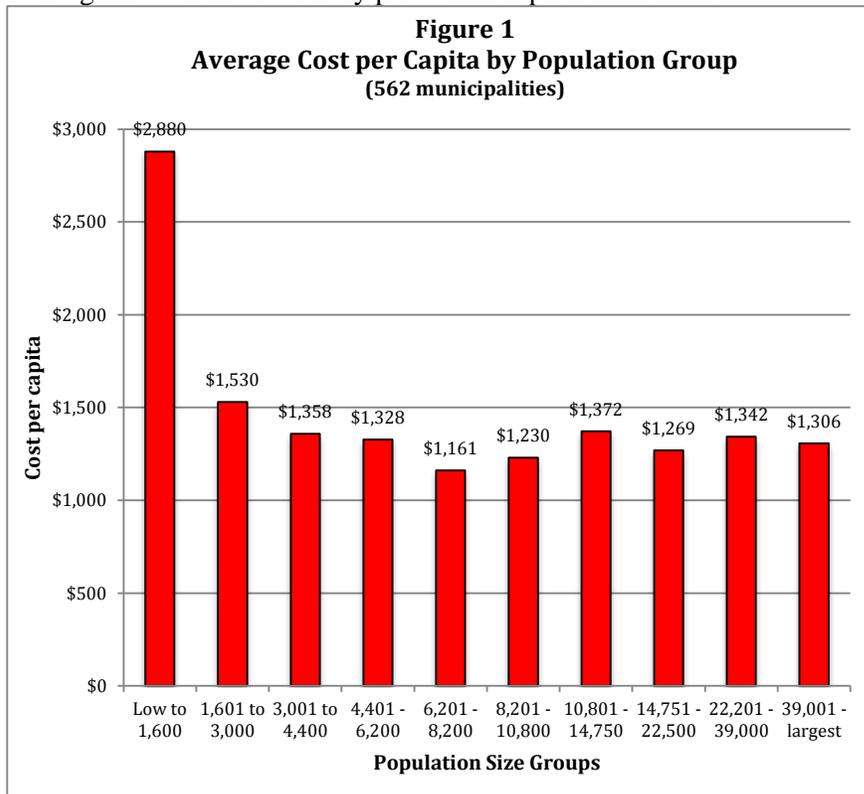
Research findings strongly suggest that our folk hypothesis, the hypothetical link between “too many” small governments that are inefficient and costly, resulting in “high” property taxes, must be seriously reconsidered. In many cases, data that is not fully understood can and may lead to inaccurate 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.¹² 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.¹³

Each of 562 municipalities was initially assigned to one of ten 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 appear to confer a high degree of veracity to the conventional wisdom supportive of the small-government-inefficiency premise except for two factors:



First, surprisingly the correlation between municipal cost per capita and population size was not statistically significant¹⁴ and second, this type of gross overview oversimplifies the character of the state, has done much to sustain the premise that small municipalities have disproportionately high costs, and 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 troubling

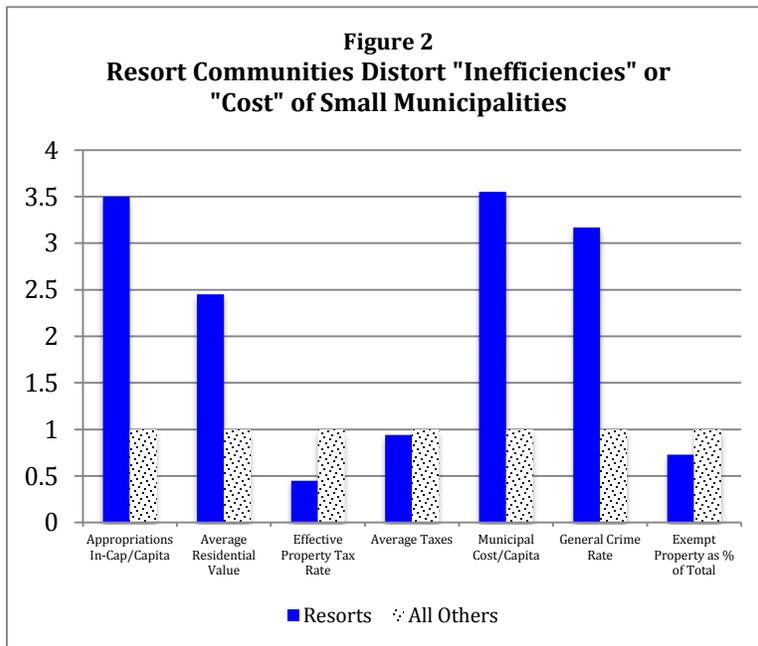
characteristic of our resort communities is that their year-round populations misrepresent who they are, what they do, as well as the relationship between costs of operations. These communities are characterized by off-season housing vacancies that are high; year-round populations on which per capita measures (such as crime rates) are based; that are small 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 Jersey¹⁵

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.¹⁶

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 resident as out of state.¹⁷

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 significant differences from mainland communities in the “cost per capita.” In doing so 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. Figure 2 shows key differences between resort communities and all others. Section 1 of the Appendix highlights detailed conclusions from the analysis.



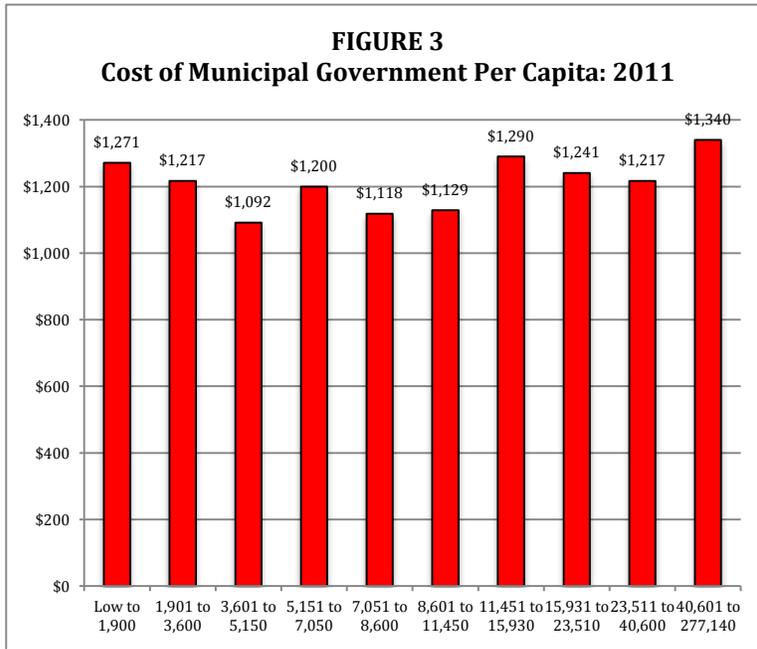
As an example (a) the average taxes paid are slightly less than the average non-resort municipality, yet (b) the average value of residential properties is 2.5 times greater than the non-resort group, thus (c) resulting in an effective property tax rate that is half of non-resort communities.

Accordingly, from our statistical analysis of 34 different variables (T-test results)¹⁸ 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.

We submit that 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.

Cost of Municipal Services per Capita among Non-Resort Communities

Once resort communities are removed from the analysis, a 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 each population size group. The results are illustrated in figure 3 (next page).



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 (\$1,282 for towns fewer than 1,600 persons) and the average per capita cost among the largest group of municipalities (\$1,311 for towns 39,243 or larger). Municipalities with populations of between 6,201 and 8,200 persons represent the lowest per capita cost group, with municipal per capita costs averaging \$1,075.

Further statistical analysis to determine variables that drive cost

are discussed in Section 2 of the Appendix.

As a result of the analysis, *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: (a) the per capita property tax base upon which revenue may be assessed, and (b) 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 evi-

dence 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 Capita¹⁹

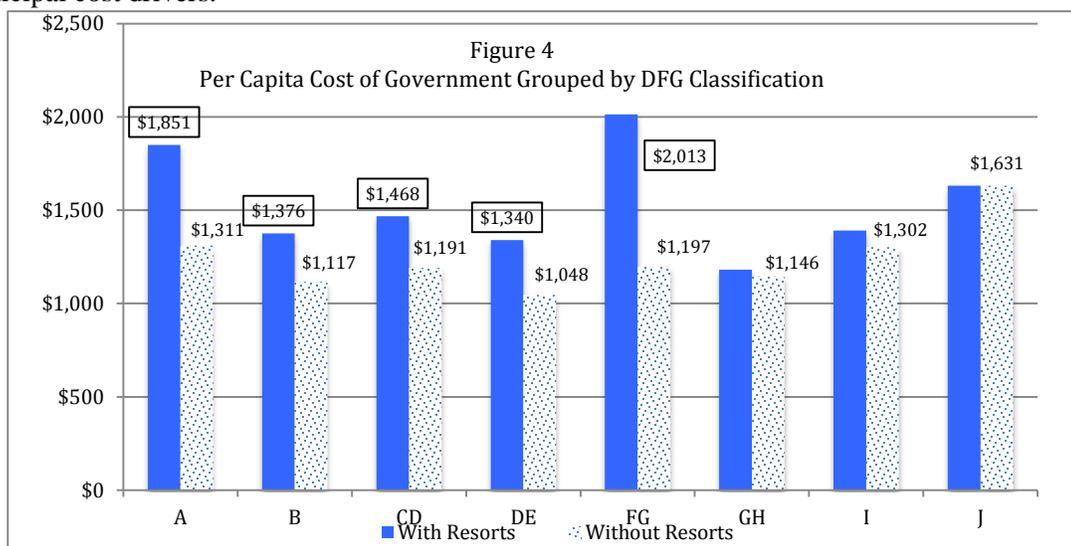
The District Factor Groups (DFGs) discussed earlier in this report were developed in 1975 for the purpose of comparing students’ performance on statewide assessments across demographically similar school districts and, as such, operated as a surrogate for socioeconomic status of the municipality and/or 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:²⁰

- 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

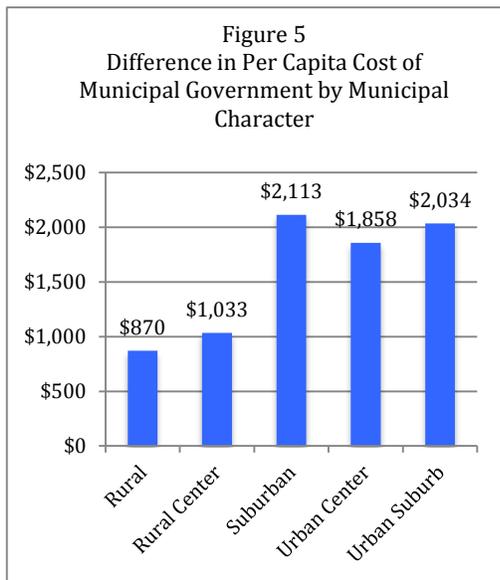
The analysis (figure 4) confirmed what we had expected, that higher per capita costs in both the lower-income “A” (higher state subsidized aid) and the higher-income “I–J” districts (willing to spend more money for higher services), the use of socioeconomic status-driven DFG groups shows the same consistencies of the per capita cost model; there is a consistent cost pattern across DFG socioeconomic groups “B” to “GH.” Figure 4 shows the resort vs. non-resort comparison for key elements. Additional details of our analysis are in Section 3 of the Appendix.

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.²¹ 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. Appendix Section 4 discusses the impact of municipalities that receive State Police coverage in lieu of providing it themselves.



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,”²² 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:

Diversity in High Spenders

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.

Table 7
Selected 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
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
Harding Township	\$2,010	3,838
Harrison	\$2,839	13,620
Linden	\$2,265	40,499
Millburn	\$2,399	20,149
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.

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

“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 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](#).”²³ 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.²⁴

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.

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, should we design improved need-based property tax relief programs? Past and current policies have various programs focused on senior citizens, some of which are need-based, to address that sector; are there other places 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.

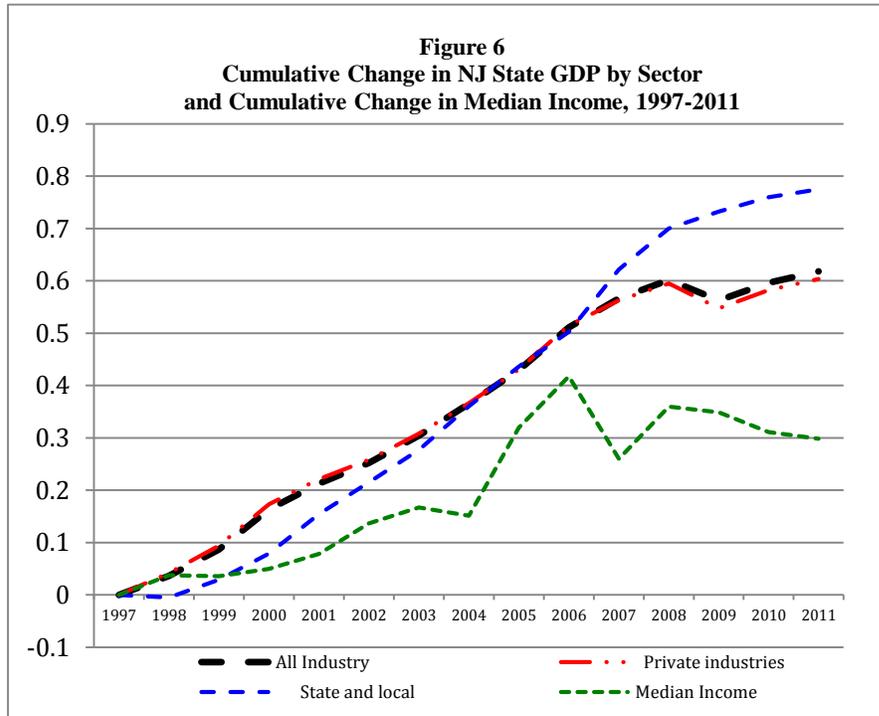
Is the problem the property tax administration system (from parcel management to assessment practices to tax billing and receipting)? Is it rooted in a system designed generations ago that does not reflect the current economy and technology tools, hampered by a lack of symmetrical information between 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”²⁵). Arguably, the time is ripe for a fresh look at the whole system, rather than the piecemeal approach currently used by state policymakers.²⁶

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 to state purposes. These revenues were originally a means of compensating municipalities for regulated utility use of the public right-of-way—revenues intended to offset the exemption of utility property from property taxation. The flaw was exacerbated by the state retaining growth of the revenue for its own purposes while freezing the municipal portion.

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.²⁷ 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 2007.²⁸ Rutgers Professor (and SLERP Commission Executive Director) Henry A. Coleman, PhD, prepared an instructive study for the New Jersey Municipalities Magazine in 2003 entitled “A History of Tax Reform in New Jersey: The Commission Approach.”²⁹ Our further 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 problem.

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 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.

Appendix – Detailed Analysis and Findings

1. Findings Concerning Resort Municipalities

1. 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).
2. 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.
3. 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.
4. 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.
5. 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.
6. 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).
7. 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.*

2. Findings Concerning Cost of Municipal Services per Capita among Non-Resort Communities

Further statistical analysis³⁰ to determine what variables are significant in driving costs resulted in the following conclusions:

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 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.

There are several variables, surrogates for “economic well-being” that are positively correlated with cost per capita: mean and median household income, average residential value, ratable value per square mile, and net equalized value per capita. Municipalities with higher income, higher equalized value, and higher residential value would tend to appear to have higher per capita costs. Density, multi-unit residential characteristics (ratio of households to residential line items), and crime indices also are positively correlated with higher per capita cost municipalities. Population size of municipality, on the other hand, contributed little.

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?

3. Analysis and Findings Concerning District Factor Groupings

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, are two 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” districts 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 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 “FG” districts 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.

4. Findings Concerning Municipal “Character” as a Determinant

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.³¹ 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).

When 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 Mandates 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.

	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.

ENDNOTES

1. Calendar 2010 and 2011 for calendar fiscal year municipalities, and SFY2010 and 2011 for state fiscal year municipalities.
2. 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.
3. 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).
4. The reader is referred to the DCA Information Resources website at: <http://www.state.nj.us/dca/divisions/dlgs/resources/>.
5. Henry J. Raimondo, *Economics of State and Local Government* (New York: Praeger, 1992), pp.59–61.
6. Coincidentally, the Princetons first started discussions around the same time Landis and Vineland merged.
7. Prior to his retirement from the New Jersey State Division of Local Government Services in 2012, Marc Pfeiffer was involved in all the consolidation studies dating back to 1995.
8. 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.
9. 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.
10. 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).
11. LUARCC Study, Municipal Operational Tax Index; <http://www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX 081310.pdf>.
12. 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.
13. 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.
14. $r = -.067$, significance level of .113, $n = 562$
15. 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.”
16. We are not the first to suggest this; see Reock and Kaluzny below (51 and 53).
17. We infer this from an overview of state MOD4 files for the resort communities versus a few random non-resort communities.
18. Raphael J. Caprio and Marc H. Pfeiffer, *Size May Not Be the Issues: An Analysis of the Cost of Local Government and Municipal Size in New Jersey* (New Brunswick, NJ: Rutgers University, 2014) p. 26.
19. Source for DFG definitions and explanatory material may be found at: www.state.nj.us/education/finance/rda/dfg.shtml.
20. Although initially included in the DFG determination, density was subsequently dropped as a characteristic.
21. New Jersey Uniform Crime Reports, Section Seven, 2012 Edition, http://www.njsp.org/info/ucr2012/pdf/2012_sect7.pdf.

22. Ernest C. Reock, Jr., “Determinants of Property Tax Burden in New Jersey—2008” (New Brunswick, NJ: Rutgers University, Center for Government Services). www.cgs.rutgers.edu/sites/cgs.rutgers.edu/files/images/68015-Property%20Tax%20Determination%20Final.pdf
23. LUARCC, August 2010, www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX%20081310.pdf and data files at www.nj.gov/dca/affiliates/luarcc/pdf/MUNICIPALOPERATIONALTAXINDEX%20081310.XLS.
24. 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.)
25. The report is online at: www.njleg.state.nj.us/legislativepub/reports/property_tax_assessment.pdf.
26. We refer here to the Division of Taxation’s mid-2000 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 only in Monmouth County to centralize administration with the County Board of Taxation and using a modified assessment calendar; a failed effort in the 1990s to consider “dual-rate” taxation, allowing separate tax rates on land and improvements; and other legislative initiatives.
27. The effective tax rates were calculated from data at the Information Resources site of the Division for Local Government Services. The 1999 data are the earliest readily available.
28. <http://www.njleg.state.nj.us/PropertyTaxSession/specialsessionpt.asp>.
29. www.njslom.org/tax_reform_04-2003.html.
30. Caprio and Pfeiffer, Op. cit., page 26
31. 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.