



# Talk Is Cheap, but Good Education Costs

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THE TRUTH ABOUT NEW JERSEY'S HIGH TAX BURDEN

**Part IV of the Legal Corruption Series**

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A M E R I C A N   E N T E R P R I S E   I N S T I T U T E

# The Legal Corruption Series: Executive Summary

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New Jersey is in a bad way. Our economy is weak and significantly underperforms other states. Our tax system is consistently ranked as the worst in the nation. Our public-sector pensions are in the worst condition of any state, and our unfunded liabilities are at least \$202 billion—almost six times the size of the \$35 billion annual budget.<sup>1</sup> We have the second-lowest bond rating of any state—save broke Illinois.<sup>2</sup> Businesses, taxpayers, and young adults are leaving our state in droves. Sadly, New Jersey’s future looks even worse.

How did New Jersey get into this position?

It was not happenstance. New Jersey is in this position because its largest public-sector union, the New Jersey Education Association (NJEA), often working in concert with its public-sector union allies, has rigged the system for its own benefit. The consummate special interest, the NJEA has dominated the state’s political system for decades. It structured a legislative regime that allowed it to siphon off hundreds of millions of taxpayer dollars to spend itself to unmatched political clout. Predictably, New Jersey’s politicians—both Republicans and Democrats—have succumbed to this clout and largely given the NJEA what it wanted. Too often, New Jersey citizens and taxpayers have been left out of the discussion, and yet it is they who will foot the bill.

If New Jersey citizens and taxpayers knew what was really going on, they would be outraged. They would be outraged that a special interest was able to control state government to their detriment. They would be outraged that their highest-in-the-nation taxes are flowing directly into union coffers to be used against their own interests. They would be outraged that the future of the state—and that of their

children and future generations of New Jerseyans—has been mortgaged for the benefit of the few over the many.

The purpose of this research is to inform New Jersey’s citizens of what is really going on and how we got into this position. Using published research, contemporaneous media accounts, and the NJEA’s own publications to ascertain the facts, this study details the deliberate exploitation of New Jersey’s political system and the resulting consequences—to the benefit of the NJEA and the detriment of New Jerseyans.

There are five parts to the research:

- **Part I. Follow the Money: The Real Money Behind the New Jersey Education Association’s Political Clout.** Funded by hundreds of millions of taxpayer dollars, the NJEA’s severely underreported political war chest dwarfs the competition. The NJEA spends many times more on political action than is reported and is by far the most powerful special interest—and political force—in the state. Far too often, this results in taxpayer dollars being used against taxpayer interests.
- **Part II. “And You Will Pay”: How a Special Interest Dominates New Jersey Politics.** The NJEA used its clout to influence politicians of both parties and structure the political system to perpetuate its power and benefit itself. This extraordinary special-interest influence has shaped the current status quo in the state and threatens the state’s solvency.

- **Part III. Job Number One: The New Jersey Education Association's Role in New Jersey's Disastrous Pension and Benefits Crisis.** Again using its money and clout, the NJEA created the broken benefit system we have today. While the NJEA seeks to blame the state, the facts show that the NJEA structured the system to maximize benefits for its members and consistently fought reform efforts. It participated in pension-asset raids and financing schemes that greatly damaged the soundness of the system. It gained for its members premium-free, "Cadillac" health plans. Because it was politically convenient, it chose not to punish politicians for underfunding the state's retiree liabilities, thus contributing to \$202 billion in underfunding that threatens the future of the state. And it recently tried to lock this bankrupt system into the state constitution.
- **Part IV. Talk Is Cheap, but Good Education Costs: The Truth About New Jersey's High Tax Burden.** Using its money and clout, the NJEA has consistently pushed for higher taxes. At the local level, the NJEA consistently pushed for higher education spending and higher property taxes. Once high property taxes became a political problem, it pushed for higher state education spending and higher state taxes. The NJEA was a major force behind the

initiation of New Jersey's first sales and income taxes and continues to push for higher taxes to this day.

- **Part V. New Jersey Is Dying: A Special-Interest-Dominated Status Quo Is Hurting the State's Economy.** High taxes and cost of living have hurt the state's economy. The tax system renders the state inhospitable to businesses and uncompetitive with other states—particularly with neighboring New York and Pennsylvania. Consequently, economic and job growth are weak and significantly underperform both the nation and New York and Pennsylvania. Businesses, taxpayers, and most ominously, young adults are emigrating to more favorable states. Reform and economic growth are the only way out of this fiscal hole, but our special-interest-dominated political system allows for neither.

New Jersey citizens and taxpayers must wake up to what has happened in our state and why we are where we are. In the end, the best description of what has occurred is "legal corruption." Our political system has been thoroughly corrupted—so much so that the corruption itself has been made legal. Either we change the system and root out the legal corruption or it will bankrupt the state—along with the future of our children and the next generations of New Jerseyans.



# Talk Is Cheap, but Good Education Costs

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## THE TRUTH ABOUT NEW JERSEY'S HIGH TAX BURDEN

*Part IV of the Legal Corruption Series*

### Mike Lilley

“N.J. had the highest property taxes in nation in 2016 (again),” blared a recent *Newark Star-Ledger* headline.<sup>3</sup> This surely came as no surprise to New Jersey taxpayers, many of whom reside in the seven New Jersey counties that rank in the top 10 counties nationwide for highest property taxes.<sup>4</sup>

But it is not just property taxes that are high in New Jersey. In its 2017 report, the Tax Foundation ranked New Jersey as the worst tax climate in the country—for the third straight year. The state ranked last for property taxes, in the bottom three for income taxes, and in the bottom 10 for sales and corporate taxes.<sup>5</sup> In dollar terms, WalletHub found that New Jersey has the highest absolute state and local tax burden in America at \$10,969, a full 60 percent higher than the combined tax burden on the median US household of \$6,855.<sup>6</sup>

#### **Why Is New Jersey Such a High-Tax State?**

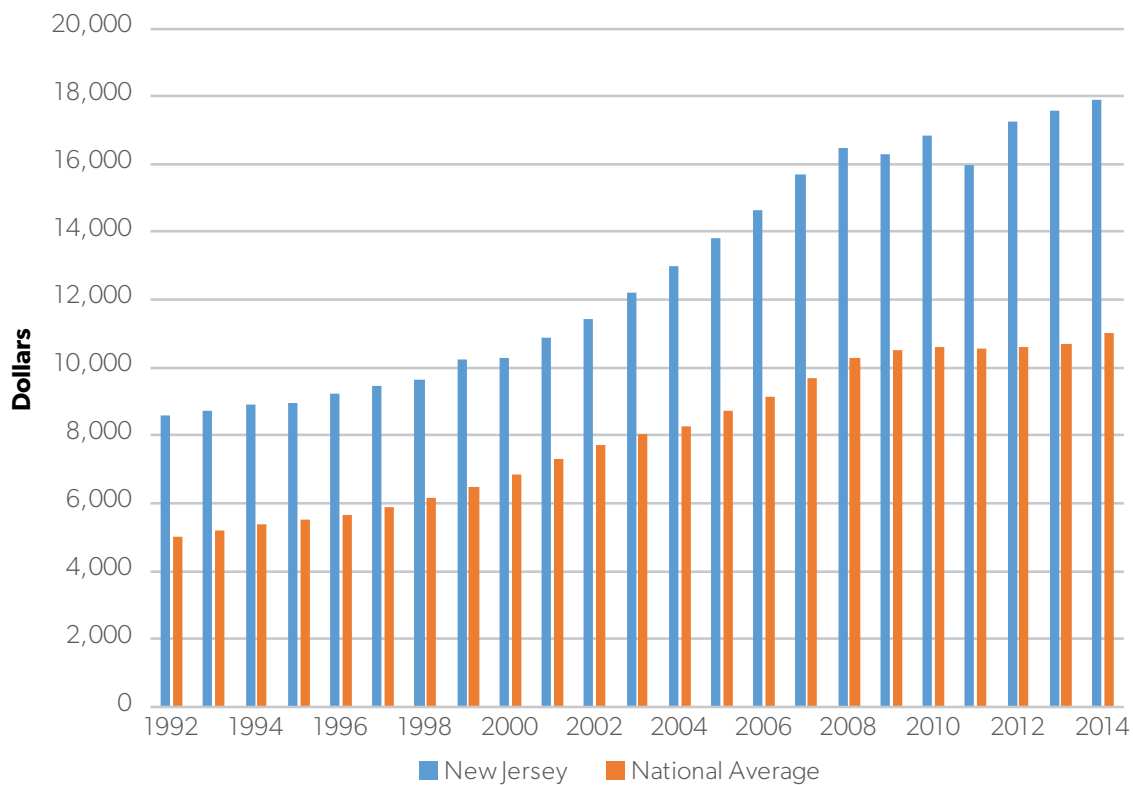
One common answer is that New Jersey has 585 municipalities, 611 school districts, and 21 county governments, and these overlapping layers of government drive up costs. Certainly, redundancies, overstaffing, and other factors associated with bureaucratic creep play a role, but research has shown that they are not significant drivers of New Jersey's sky-high taxes.<sup>7</sup>

The real answer is simpler: The single biggest driver of New Jersey taxes is the cost of public education, which is by far the largest portion of a resident's average annual tax bill. School-related property and income taxes make up more than 40 percent of the average tax bill—almost three times the next-largest source of taxation.<sup>8</sup> New Jersey Education Association (NJEA) President Michael Johnson stated the obvious reality: “Our salaries and the funding for education programs and services comes from one source—tax dollars!”<sup>9</sup>

In their study of New Jersey, Eileen Norcross and Frédéric Sautet of the Mercatus Center concurred: “The progression of tax policy and spending in New Jersey reveals that much of this system evolved due to the political pressures applied by interest groups to increase spending in certain areas, in particular education.”<sup>10</sup> By relentlessly pursuing higher education spending, the NJEA—through both its local collective bargaining monopoly and its unmatched state-level political clout (described in Parts I and II)—has been a constant and powerful driver of higher taxes in New Jersey.

#### **The Cost of Local Public Education Drives Local Property Taxes**

Public education is by far the largest component of the average New Jersey 2016 property tax bill, making

**Figure 1. Per-Pupil Spending: New Jersey vs. National Average**

Source: US Census Bureau.

up 52 percent (versus 30 percent for municipal government and 18 percent for county government).<sup>11</sup> In 2014, New Jersey spent an average of \$17,907 per pupil, the third highest among the states and 63 percent higher than the national average. In fact, New Jersey has ranked among the top three states in per-pupil spending since 1992 and has spent on average 59 percent more than the national average during that time (Figure 1).<sup>12</sup>

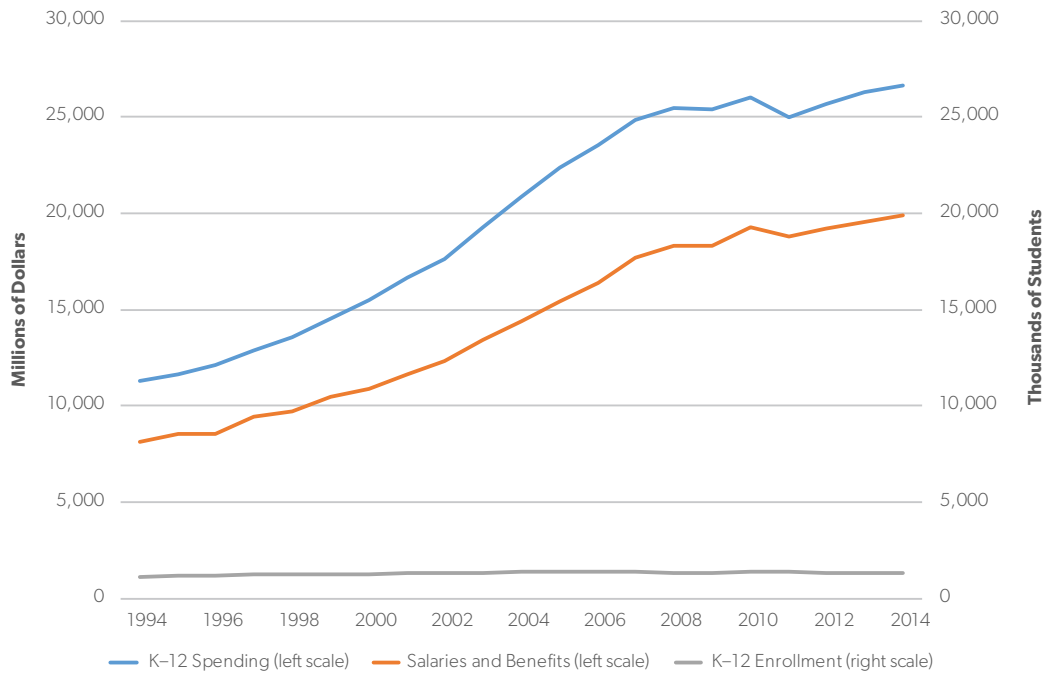
Looked at another way, from 1994 to 2014, while K-12 student enrollment basically remained flat (up 16 percent in 21 years), overall K-12 spending and employee salaries and wages have risen 136 percent and 145 percent, respectively (Figure 2).<sup>13</sup>

Naturally, the NJEA's first priority has always been increased local public education spending, with

property taxes serving as a means to that end. Indeed, the NJEA has confirmed that one of its main goals in local district politics is "making maintenance and improvement of quality schools the first school board priority rather than control of the tax rate."<sup>14</sup>

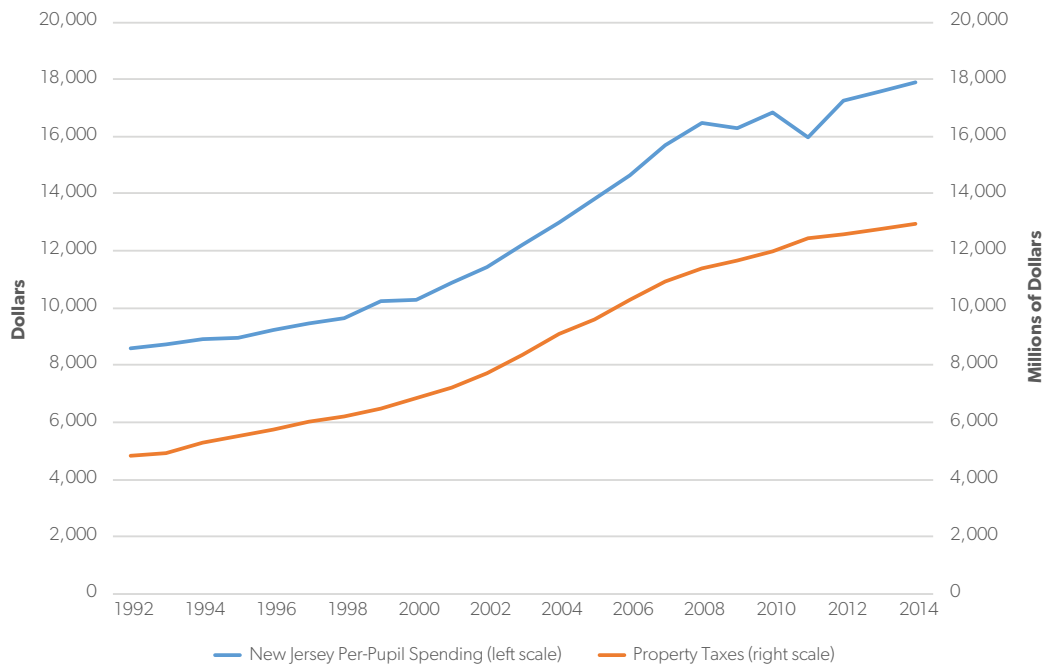
New Jersey's elections watchdog, the Election Law Enforcement Commission, found that local education spending has a "direct and significant impact on local property taxes."<sup>15</sup> High education spending means high property taxes, and in New Jersey education spending is very high. Accordingly, property taxes have gone up every year since 1978 (Figure 3).<sup>16</sup> Despite three major attempts<sup>17</sup> at property tax reform since 2004 by both Democratic and Republican administrations, there has been little change in that trajectory.

**Figure 2. K-12 Spending, Salaries and Benefits, and Student Enrollment**

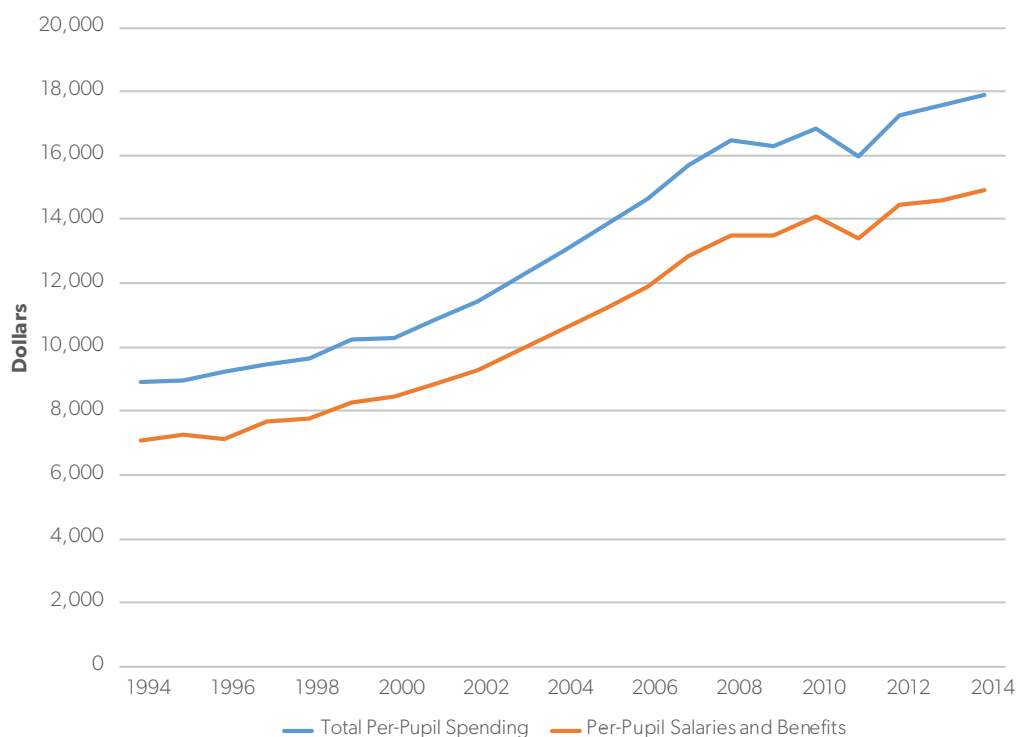


Source: US Census Bureau.

**Figure 3. Per-Pupil Spending and Property Taxes**



Source: US Census Bureau.

**Figure 4. Salaries and Benefits Drive Per-Pupil Spending**

Source: US Census Bureau.

### Teacher Salaries and Benefits Drive Local Education Spending

Salaries and benefits drive education spending, averaging 82 percent of per-pupil spending from 1994 to 2014 (Figure 4).<sup>18</sup> Compared to other states, New Jersey’s salaries and benefits are high, with New Jersey ranking in the top three every year since 1992 and averaging 59 percent higher than the national average during that time.<sup>19</sup>

Understanding teacher salary structures is key to understanding why this is so. Thanks to the NJEA’s lobbying, state law permits collective bargaining for multiyear contracts with career salary schedules. The NJEA directs local associations to use “step and lane” salary guides,<sup>20</sup> which are now universal in New Jersey. These salary guides take the decision to give raises out of the hands of local school boards.

Under these guides, employees get automatic raises from year to year (“steps”) with multiple columns providing higher pay for graduate degrees (“lanes”). Combined with NJEA-backed laws that privilege teacher seniority, these factors inevitably result in higher compensation costs as teachers progress in their careers. The NJEA has consistently pushed to increase the salary levels within these guides.<sup>21</sup>

To exploit the salary guide structure during contract negotiations, the NJEA provides professional UniServ negotiators and “best practices” to maximize salaries as quickly as possible. The NJEA sums up its philosophy well: “The quicker a member reaches maximum, the more years he or she will be paid at maximum, increasing career earnings as well as pension earnings.”<sup>22</sup> In addition to structuring a salary guide to maximize teacher pay, local associations, again aided by negotiating professionals from UniServ and explicit NJEA guidance, use higher-paying salary

guides from nearby or comparable districts to push local school boards to match or exceed them.<sup>23</sup>

As a result, since 1992, New Jersey has ranked first or second among all states in per-pupil teacher salaries, averaging 57 percent higher than the national average.<sup>24</sup> The NJEA is justifiably proud of the high salaries it has achieved for its members. Indeed, the NJEA boasts of “the union pay advantage,” whereby the average teacher salary in New Jersey is nearly \$20,000 more than for teachers in right-to-work states. Elsewhere, the NJEA touts “the union dividend,” by which it means that since 1985, the average starting salary is 22 percent higher than it would have been if salaries had only increased at the inflation rate.<sup>25</sup>

### “Cadillac” Health Benefits Also Drive Up Costs

Like teacher salaries, employee health benefits are negotiated on a multiyear basis and put inexorable upward pressure on local school district budgets. All active education employees receive exceptionally generous and exceedingly costly health coverage. The New Jersey Pension and Health Benefit Study Commission (the “Study Commission”) found that these employees get coverage “at platinum-plus levels rarely found in the private sector.”<sup>26</sup>

These employees pay a small portion of the actual costs of the plans.<sup>27</sup> The Study Commission found that the total cost for family health benefits coverage averaged \$30,322, of which the employee paid \$6,365 in premiums and out-of-pocket expenses, with New Jersey taxpayers picking up the remaining \$23,957.<sup>28</sup> The Study Commission found these health plans cost 50–60 percent more than the national averages for both public and private plans<sup>29</sup> and concluded that a large part of the high and increasing cost of the state health programs “appears to be due to the extensive benefits and relatively low cost to employees.”<sup>30</sup> The Study Commission found that only two states have higher average state employee health care costs than New Jersey.<sup>31</sup>

As with salaries, New Jersey’s “Cadillac of health plans”<sup>32</sup> is the product of a concerted NJEA effort.

When local associations are negotiating health benefits, the NJEA advises them to push for maximum coverage at minimum cost to employees, regardless of the cost to school boards or taxpayers.<sup>33</sup> The NJEA also pushes local associations to use nearby or comparable districts’ health plans to increase benefits.<sup>34</sup>

Incredibly, for decades, the NJEA’s goal was premium-free health coverage—and by and large, it achieved that goal. As NJEA Executive Director Richard Bonazzi said in 2004, “Full-paid health benefits are the standard for public school employees in New Jersey. So of course we’re angry when a board of education wants you to pay for your health benefits package.”<sup>35</sup> Before the 2011 reform law, only 13 percent of school districts required any employee contribution.<sup>36</sup>

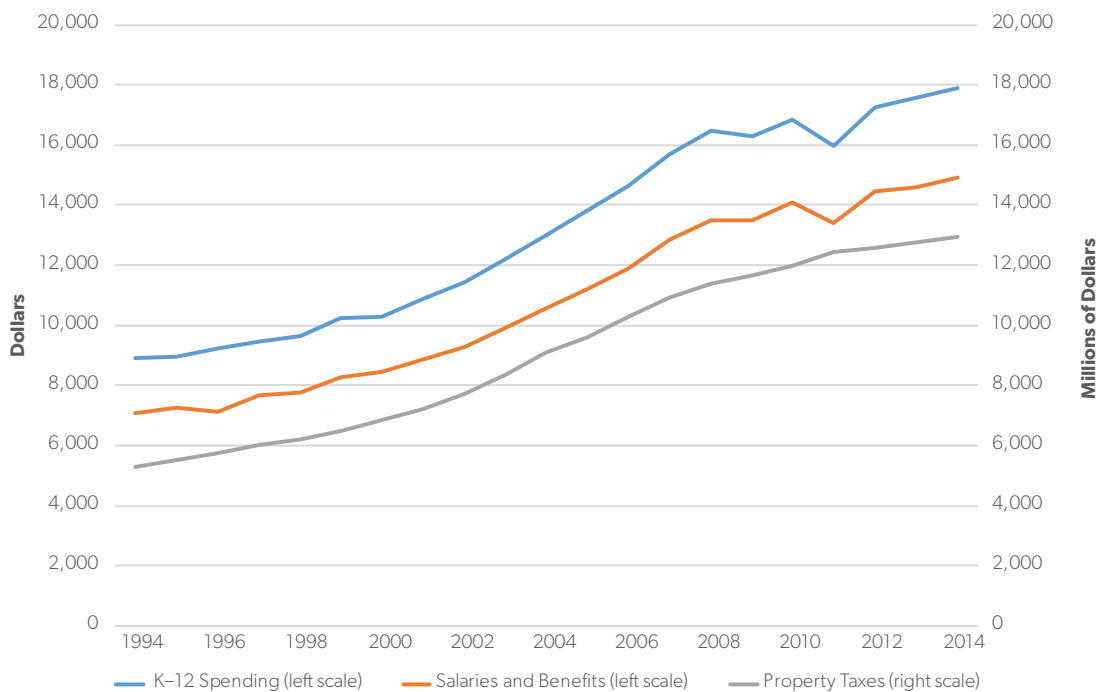
But the NJEA had not yet entirely rigged the system. Exploiting the governorship of Jon Corzine—whom the NJEA helped elect and who famously told public union members at a rally, “I will fight for you”<sup>37</sup>—the NJEA successfully pushed for creating a state-administered health program for only school employees, the School Employees Health Benefits Program (SEHBP). The NJEA and its allies then gained significant control over the board, which sets the benefit levels available to employees.<sup>38</sup> As NJEA President Joyce Powell explained, the SEHBP board structure “means that NJEA will have much greater ability to control what happens to our members’ benefits.”<sup>39</sup>

### High Salaries and Health Benefits Mean High Property Taxes

In 2006, the *Bergen Record* declared that public worker salaries and benefits were “the biggest factors in New Jersey’s highest-in-the nation residential property taxes.” It concluded that “the unchecked influence of the police and teachers unions” built budget increases into the system, forcing budgets to rise even when local revenue or state aid decreases (Figure 5).<sup>40</sup>

The NJEA is acutely aware of the relationship between public school costs and local property taxes. NJEA President Edythe Fulton stated it clearly in 1982: “When we ask people to support school budgets, we are asking them to vote to raise their own taxes.”<sup>41</sup>



**Figure 5. Per-Pupil Spending, Per-Pupil Salaries and Benefits, and Property Taxes**

Source: US Census Bureau.

## When Taxpayers Revolt

The NJEA's big dilemma is that property taxpayers will only stand for so much, and before a 2012 law,<sup>42</sup> they could always express their dissatisfaction by rejecting school budgets at annual local budget elections.<sup>43</sup> Budget rejections threw a wrench into the NJEA's plans because the previous year's budget would remain in place, resulting in zero increase in overall spending. So locked-in rising teacher salaries and benefits inevitably squeeze other parts of the budget and often result in cuts. As NJEA President Joyce Powell said in a 2006 letter to members: "When budgets fail, our members pay the price."<sup>44</sup>

A local association could of course avoid a budget squeeze by forgoing locked-in raises, but the NJEA's best practice for negotiations is no salary givebacks.<sup>45</sup> So schools, parents, and students will always face layoffs, reduced programs, larger class sizes, and higher fees.

The NJEA's reaction to the Great Recession provides a perfect example of this unwillingness to "give back" locked-in salary increases. Due to falling tax revenues and the end of federal stimulus money, the state had a massive budget deficit, and state education aid was reduced by \$820 million. Gov. Chris Christie proposed a solution to help make up for this shortfall. At a time of double-digit unemployment in the state, he "called on teachers, who received scheduled raises during the recession, to accept a one-year freeze . . . to avoid widespread teacher layoffs in cash-poor districts."<sup>46</sup> Making abundantly clear that its interests took precedence over those of New Jersey's citizens and school children, the NJEA responded that "local contracts should not be negated to make up for state budget shortfalls."<sup>47</sup> As a result, fewer than three dozen of 591 districts adopted freezes.<sup>48</sup>

## The Push for State Taxes

But the NJEA had to get at the root of its dilemma: School funding—and funding for teachers' salaries and health benefits—largely relied on local property taxes, and local voters would reject school budgets when property taxes increased too much. As a result, the NJEA has for decades called for more state aid to local school districts to alleviate the burden on local property taxpayers.

The NJEA has not disguised this fact. Indeed, the NJEA boasts that it “has either led the way or has been in the forefront of every major campaign to win greater state funding for education.”<sup>49</sup> But to get the level of state education spending the NJEA wanted, it had to push for higher state taxes: “Raising additional revenue is the only reasonable approach. . . . If raising property taxes isn't the answer, then we must look to [state] income taxes.”<sup>50</sup>

Pushing for state-level taxes also reduced accountability for spending increases at the local school district level. Mercatus' Norcross and Sautet found: “By fracturing the relationship between those who benefit (e.g. local school districts) and those who pay (e.g. state income tax payers), the incentive to control costs, and accountability for spending has been systematically weakened through fiscal illusion.”<sup>51</sup> This fiscal illusion and lack of accountability served the NJEA's purposes well.

As would be expected, the NJEA has a history of pushing for state tax increases dating back to the 1930s. After World War II, the NJEA worked for 16 years to get both political parties to eliminate their “no new tax” platforms in 1961.<sup>52</sup> With that foundation, the NJEA was a key force behind the introduction of the first sales tax in 1966.

Leading up to the enactment of the sales tax, the NJEA's political plan was clear: “an all-out drive to enact a sales tax, an income tax, or a combination of the two . . . NJEA will be fighting as hard as possible for a new tax solution.”<sup>53</sup> The NJEA consistently pushed this position as part of its legislative lobbying agenda.<sup>54</sup>

Once it succeeded in getting the state sales tax passed, most of the revenues were funneled back to

municipalities to alleviate the property tax burden.<sup>55</sup> However, sharply rising education costs nullified the hoped-for improvement in state finances, and by the next year, local property taxes were once again rising by record amounts.<sup>56</sup>

In the 1970s, the New Jersey Supreme Court added to the funding pressure at the state level by ruling that New Jersey's property-tax-based school funding system was unconstitutional. This and subsequent rulings required that the state remediate education funding disparities between wealthier districts and districts the Supreme Court deemed to be underfunded. As a result, more than half of state education aid was redirected to 31 districts, forcing the other 550-plus districts to rely heavily on local property taxes to fund public education.<sup>57</sup>

In response, Gov. Brendan Byrne proposed a new state income tax. Strongly in support, the NJEA launched a major media campaign to push for, in the words of NJEA Executive Director Frederick Hipp, “the substantial tax that we all know is needed to do the job right,”<sup>58</sup> which it defined as “a personal income tax . . . at whatever rates and levels are necessary” to fund education.<sup>59</sup> After the income tax was passed in 1976, the NJEA justifiably touted it as one of its legislative accomplishments for the year.<sup>60</sup>

The income tax's main purpose was property tax relief. The New Jersey Constitution requires that all state income tax revenues go into the Property Tax Relief Fund. Reflecting the inherent relationship between property taxes and local school spending, 73 percent of the distributions from the fund have gone to school aid, while 18 percent have gone to municipal aid and 8 percent to property tax rebates to homeowners.<sup>61</sup>

At the same time, the new income tax law threatened the NJEA's stranglehold on local education spending. When the legislature passed the income tax law, it included a municipal budget cap law<sup>62</sup> that limited local spending increases as “a response to the failure of localities to reduce property taxes after the enactment in 1966 of a state sales tax.”<sup>63</sup> Because teacher salaries and benefits made up more than 80 percent of education spending and were increasing at locked-in rates above the caps, teachers and

their unions had the most to lose from the caps, and the NJEA fought the caps at every turn.<sup>64</sup> When confronted with the inevitable trade-off of higher salaries versus lower property taxes, the NJEA chose higher salaries and higher taxes.

As with the state sales tax in 1966, the property tax relief provided by the state income tax was short-lived. Due to state budget shortfalls, Gov. Byrne once again proposed cuts to state education aid, which portended rising property taxes just five years after the income tax was instituted to stem such rises. Acutely aware of the connection between rising property taxes and school budget defeats, the NJEA warned its members: “We’re going to be in for another round of school budget defeats if we continue to shift costs back to the local property tax.”<sup>65</sup> Raising state-level taxes remained the solution to the perennial problem.

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The problem remained the same after Gov. Tom Kean’s election in 1981: Declining revenues from existing state taxes were insufficient to cover rising costs. The NJEA and its allies pushed for sales and income tax increases, as well as increases to other state taxes, to generate more revenue.<sup>66</sup> NJEA Executive Director James Connerton made his position clear: “The time to raise State taxes . . . is now.”<sup>67</sup> He got his wish when Gov. Kean signed legislation increasing income, sales, gasoline, and corporate taxes.

By 1989, reduced state education aid (caused by declining state tax revenues) combined with rising local education costs meant that local property tax increases were again resulting in defeated school budgets—the most since before the creation of the state

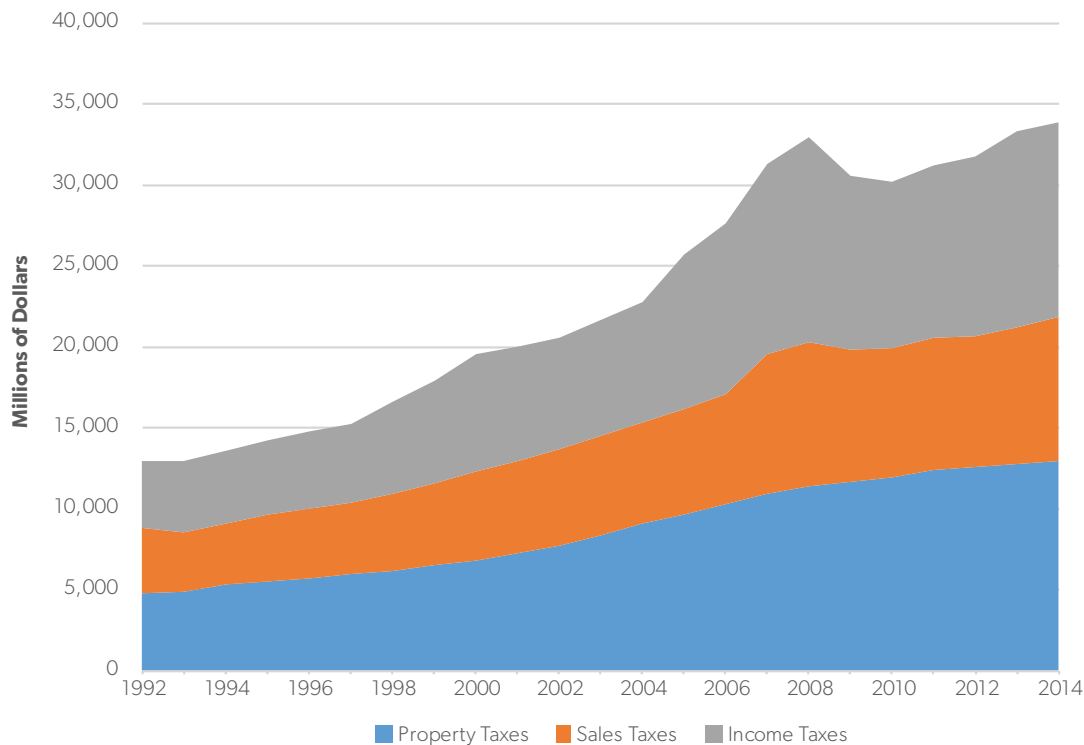
income tax in 1976.<sup>68</sup> Once again recognizing the connection between rising property taxes and defeated budgets, the NJEA called for “added revenues for education from sources more equitable than the local property taxes”<sup>69</sup>—meaning state-level taxes.

At the time, the NJEA further revealed its myopic pursuit of its own self-interest even at the expense of New Jersey citizens by reasoning that, to fund education, “the state may have to cut back on other state services. What good will those programs be in the future if the state’s citizens and its students are being short-changed educationally? Talk is cheap. But good education costs.”<sup>70</sup>

The NJEA vigorously supported Jim Florio for governor in 1989 and, after Florio won the election, urged him to increase state tax revenues in order to decrease reliance on local property taxes for education funding.<sup>71</sup> In 1990, Florio signed a record state tax increase of \$2.8 billion to support a new school funding formula in the Quality Education Act (QEA) that directed more state aid to lower-income districts, as required by another New Jersey Supreme Court ruling. An amendment to the QEA subsequently allocated \$360 million of the new tax revenues for property tax relief. Although the NJEA had fought for the tax increases, President Betty Kraemer made clear in her response to property tax relief that the NJEA serves its own interests every time: “Diverting education funding to property tax relief and imposing severe caps on local budgets undermine the entire concept of a quality education.”<sup>72</sup>

Gov. Christine Whitman was elected in 1993 on a platform of cutting state income taxes. The NJEA opposed her candidacy, telling its members that the tax cuts “threatened your salary, your health benefits and your pension.”<sup>73</sup>

During the 1990s, the NJEA also opposed the Initiative and Referendum (I&R) movement, which would have allowed voters to put laws on a ballot by petition. I&R had been used in other states to lower property taxes and, in the words of NJEA Executive Director Richard Bonazzi, would “provide the impetus for our enemies to organize at the local level for lower taxes, for spending caps, against our school budgets.”<sup>74</sup> The I&R movement ultimately failed in New Jersey.

**Figure 6. New Jersey Sales, Income, and Property Tax Revenues**

Source: US Census Bureau.

As the new century dawned, the NJEA's state budget priorities remained the same: increasing state education aid and easing local budget caps.<sup>75</sup> Before long, the NJEA was back calling "for an income-tax increase on high earners to avert some of the severe cuts,"<sup>76</sup> and it built a coalition (the Fairness Alliance), set up lobby days, and held rallies to that end. With Democrat James McGreevey as governor and a Democratic legislature, and after 18 months of extensive lobbying, the Fairness Alliance was a "principal player" in the successful push for an income tax increase on wealthy New Jerseyans.<sup>77</sup> However, the revenue generated by the tax increase was earmarked for rebates for homeowners rather than for education, prompting criticism and further calls for increased taxes by the NJEA.<sup>78</sup>

By 2005, the song remained the same. With the Benefits Review Task Force appointed by Acting Governor Richard Codey recommending greater

contributions from educators for their pensions and health benefits, NJEA President Joyce Powell called specifically for a sales tax hike: "What the state needs to protect our pensions and benefits is more revenue. . . . And in particular, it needs the penny increase in the sales tax."<sup>79</sup> The NJEA joined the "Not One Penny Less" campaign and mobilized its members to pressure the legislature. It worked: The NJEA claimed the sales tax increase as one of its major legislative successes for 2005.<sup>80</sup>

When newly elected Gov. Jon Corzine called a special session of the legislature to address property taxes, the NJEA mobilized its members with lobby days, an email-writing campaign, and the "biggest employee rally in a decade." This move stymied reform efforts and got Corzine and the legislature to ignore the vast majority of the legislative committee's recommendations on how to reduce property taxes.<sup>81</sup>

As the decade moved on, the NJEA continued to oppose budget caps and votes on local school budgets and continued to push for tax increases even under Republican governors.<sup>82</sup> Today, the NJEA has launched a coalition named Better Choices NJ, calling for a millionaire's tax, a surcharge on corporate income, and the closing of corporate tax loopholes and ending of various corporate tax breaks.<sup>83</sup>

### **“And Who Has Been Complaining About the Sales Tax Anyway?”**

The NJEA's recent pro-tax reaction to Gov. Christie's plan to fund the Transportation Trust Fund shows that nothing has changed. In a deal with legislative leaders, Christie repealed the estate tax and cut the sales tax while raising the gasoline tax. The NJEA supported raising the gasoline tax but was against cutting the other taxes. Just like his predecessors, NJEA President Wendell Steinhauer proclaimed that “New Jersey has a revenue crisis” and that “repealing the estate tax is a terrible idea.”<sup>84</sup> NJEA Executive Director Ed Richardson concurred:

NJEA strongly believes the state should focus on generating new revenues. . . . Increasing gas taxes makes sense. But it's irresponsible to negotiate a deal that raises this tax while reducing other state revenues. . . . And who has been complaining about the sales tax anyway?<sup>85</sup>

The cumulative toll of all these tax hikes on New Jersey citizens has been massive. Total property, income, and sales taxes have increased 161 percent since 1992 (Figure 6).<sup>86</sup>

This is the inevitable result when the NJEA, the most powerful political force in the state, pushes for higher taxes for decades: New Jersey becomes the highest-taxed state in America.

### **About the Author**

**Mike Lilley** served for four years as the executive director of Better Education for New Jersey Kids. He is a Princeton graduate and longtime New Jersey resident.



# Notes

1. In accordance with Government Accounting Standards Board statements 67 and 68. Joshua Rauh of the Hoover Institution uses a more conservative discount rate to arrive at an unfunded pension liability of \$161 billion, which, when added to retiree health care liabilities of \$67 billion, equals \$227 billion. The Stanford Institute for Economic Policy Research estimates unfunded pension liabilities at \$186 billion, or with health benefits, \$253 billion. This does not include unfunded liabilities of \$41 billion at the local government level. The Office of Public Finance of the State of New Jersey, *State of New Jersey Debt Report Fiscal Year 2016*, March 10, 2017, 66 and 69.
2. The Pew Charitable Trusts, *Rainy Day Funds and State Credit Ratings*, May 2017, 10–12, [http://www.pewtrusts.org/~media/assets/2017/05/statesfiscalhealth\\_creditratingsreport.pdf](http://www.pewtrusts.org/~media/assets/2017/05/statesfiscalhealth_creditratingsreport.pdf).
3. Jeff Goldman, “N.J. Had Highest Property Taxes in Nation in 2016 (Again), Study Finds,” *Newark Star-Ledger*, April 6, 2017, [http://www.nj.com/politics/index.ssf/2017/04/nj\\_still\\_has\\_highest\\_property\\_taxes\\_in\\_nation\\_stud.html](http://www.nj.com/politics/index.ssf/2017/04/nj_still_has_highest_property_taxes_in_nation_stud.html).
4. Samantha Marcus, “Here’s How Much Your Property Taxes Went Up (Again) in N.J. Last Year,” NJ Advance Media, February 9, 2016, [http://www.nj.com/politics/index.ssf/2016/02/average\\_nj\\_property\\_tax\\_bills\\_topped\\_8300\\_in\\_2015.html](http://www.nj.com/politics/index.ssf/2016/02/average_nj_property_tax_bills_topped_8300_in_2015.html).
5. Jared Walczak, Scott Drenkard, and Joseph Bishop-Henchman, “2017 State Business Tax Climate Index,” Tax Foundation, September 28, 2016, <https://taxfoundation.org/2017-state-business-tax-climate-index/>.
6. For the tax burden on the median New Jersey household, see John S. Kiernan, “2017’s Tax Rates by State,” WalletHub, March 14, 2017, <https://wallethub.com/edu/best-worst-states-to-be-a-taxpayer/2416/#detailed>. New Jersey is “51st behind all states and the District of Columbia when it comes to the cumulative level of income, sales, property, and corporate taxes.” Michele Siekerka, “Op-Ed: Comprehensive Reform Must Start with New Jersey’s Outsized Tax Burden,” NJSpotlight, June 27, 2016, <http://www.njspotlight.com/stories/16/06/26/op-ed-comprehensive-reform-must-start-with-new-jersey-outsized-tax-burden/>.
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37. Bob Ivry, "Cops & Teachers: Can N.J. Afford the Rising Bill?," *Bergen Record*, July 16, 2006.
38. Of the nine board members, the NJEA appointed three, the AFL-CIO appointed one, and the ninth member, the chairman of the board, could only be approved with their consent. Retired school employees were all moved to SEHBP and guaranteed premium-free health benefits for life. New Jersey Education Association, "NJEA Members' Benefits Made Secure," *NJEA Reporter* 51, no. 1 (September 2007): 2.
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40. James Ahearn, "Linking Cop, Teacher Pay to Property Taxes," *Bergen Record*, July 19, 2006.
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keep budget increases below the 2 percent cap (with exceptions), allowed districts to forgo budget votes.

43. This was the major impetus behind NJEA's sustained and successful efforts to keep teacher pensions and retiree health benefits funded at the state level. Having the state fund these benefits allowed local unions to negotiate high and rising salary schedules, along with other pension-maximizing pay schemes, regardless of their affect on rising pension costs, which are borne by the state. Had such pension costs resided at the local level, then these rising pension costs would have either required ever-higher property taxes or squeezed other parts of local school budgets, including teacher salaries. This disconnect between teacher salaries and the pensions that are based on them is one of the causes of New Jersey's severe pension crisis.

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