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NJEA: HIGHER TAXES WHO HAS BEEN COMPLAINING ABOUT THE SALES TAX ANYWAY?

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JUNE 26, 2019

WHO HAS BEEN COMPLAINING ABOUT THE SALES TAX ANYWAY?

“Increasing the gas tax 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?”

-- NJEA Executive Director Ed Richardson, 2016.¹

Apparently not Richardson. After all, he is a multi-millionaire, himself, having been paid \$2.98 million of taxpayer dollars from 2013-2016.² Maybe Mr. Richardson has forgotten that gas and sales taxes are paid by the same people whose tax dollars made him one of New Jersey’s one-percenters.

Gas and sales taxes are also the least progressive taxes. They are the same for everyone and thus hit middle-class New Jerseyans much harder than they hit a one-percenter like Richardson. Perhaps that is why he totally disregards their impact on middle-class New Jerseyans - like the average teacher, who makes \$76,000 a year. Where is the tax “fairness” in that?

There’s a reason why the NJEA constantly pushes for higher taxes. The facts show that the NJEA helped construct a system that automatically and perennially squeezes budgets and requires constant tax increases at both the state and local level.

At the local level, the “step and lane” salary schedules automatically increase salaries regardless of budget conditions, leading to continuous upward pressure on local property taxes. Generous and growing health benefits costs, as well as prevalent property tax caps, add to that pressure.

To alleviate this, the NJEA has consistently pushed for greater state education aid and the state taxes necessary to fund it. But, thanks to the NJEA’s political clout, retiree benefits are the responsibility of the state. Pension over-promising and under-funding and exceptionally generous retiree health benefits – all of which the NJEA played a significant role in bringing about – perennially squeeze state budgets. On top of this, New Jersey Supreme Court-mandated extra funding for lower-income school districts creates additional demand for state tax revenues.

¹ New Jersey Education Association, “Better Choices Coalition Challenges TTF Deal,” October 4, 2016, <https://www.njea.org/better-choices-coalition-challenges-ttf-deal/>. Richardson’s comments concerned the 2016 Transportation Trust Fund deal between Gov. Christie and the legislature that raised the gasoline tax by 23 cents, eliminated the estate tax and cut the sales tax to 6.625 percent from 7 percent.

²New Jersey Education Association, IRS Form 990 “Parent” filings, 2014-2017.

Over decades, the NJEA's solution has been to push for higher taxes at all levels of government, with the predictable result that New Jersey has become one of the highest-tax states in America.

How Do New Jersey Taxes Compare to Other States?

“No Surprise Here – New Jersey Has Largest Property Tax Load in Country ...,” said a recent NBC New York headline.³ They should have added “Again.” Once again, New Jersey leads the nation with both the highest average property tax burden and the highest effective property tax rate.⁴ This surely was no surprise to New Jersey taxpayers either, many of whom reside in the five New Jersey counties that rank in the top 10 counties nationwide for the highest property taxes.⁵

But it is not just property taxes that are high in New Jersey. In its 2019 report, the *Tax Foundation* ranked New Jersey as the worst overall tax climate in the country—for the fifth straight year. The state ranked in the bottom three for income and property taxes, and in the bottom six for sales and corporate taxes.⁶ In absolute dollar terms, *WalletHub* found that New Jersey has the highest state and local tax burden in America at \$11,119.⁷

The bottom line is that New Jersey is a very high tax state.

Why Is New Jersey Such a High-Tax State?

One common answer is that New Jersey has 565 municipalities, 590 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 due to New Jersey's population density, research shows that they are not significant drivers of New Jersey's sky-high taxes.⁸

³ NBC New York, “No Surprise Here – New Jersey Has the Largest Property Tax Load in Country, Rest of Tri-State Follows Close Behind, Report Says,” *nbcnewyork.com*, February 26, 2019, <https://www.nbcnewyork.com/news/local/No-Surprise-Here--New-Jersey-Has-Largest-Property-Tax-Load-in-Country-Rest-of-Tri-State-Follows-Close-Behind-506397321.html>.

⁴ John S. Kiernan, “2019's Property Taxes by State,” *Wallethub*, February 26, 2019.

⁵ Aimee Picchi, “Which homeowners around the U.S. pay the highest property taxes?” *cbsnews.com*, April 4, 2019, <https://www.cbsnews.com/news/property-tax-which-homeowners-around-the-u-s-pay-the-highest/>.

⁶ Jared Walczak, Scott Drenkard and Joseph Bishop-Henchman, “2019 State Business Tax Climate Index,” *Tax Foundation*, September 26, 2018, 3, 5.

⁷ On a median state household. John S. Kiernan, “2019's Tax Rates by State,” *Wallethub*, March 12, 2019.

⁸ New Jersey ranks 36th in the number of municipalities per 10,000 people. New Jersey Economic & Fiscal Policy Workgroup, *Path to Progress*, August 9, 2018, 22. Hereinafter, *Path to Progress*. New Jersey also

The real answer is simpler: The single biggest driver of New Jersey taxes is the combined cost of public education at the state and local level.

Let us stipulate that New Jersey has one of the top public education systems in the country. Our teachers deserve a great deal of the credit, and school districts must offer salaries and benefits sufficient to attract high quality teachers. This costs a great deal of money but, in and of itself, should not push the state into fiscal crisis.

The current reality is that public education is by far the largest portion of a resident's average annual tax bill. Education spending consumed \$28.5 billion of the total \$65 billion New Jersey collected in state and local taxes in FY2018 – 44 percent of every tax dollar (compared to about 30 percent for municipalities and counties and 27 percent for state government).⁹ NJEA President Michael Johnson stated the obvious reality: “Our salaries and the funding for education programs and services comes from one source—tax dollars!”¹⁰

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.”¹¹ By relentlessly pursuing increased education spending at both the state and local levels, the NJEA—through both its local collective bargaining monopoly and its unmatched state-level political clout - has been a relentless and powerful driver of higher taxes in New Jersey.

The Cost of Local Public Education Drives Local Property Taxes

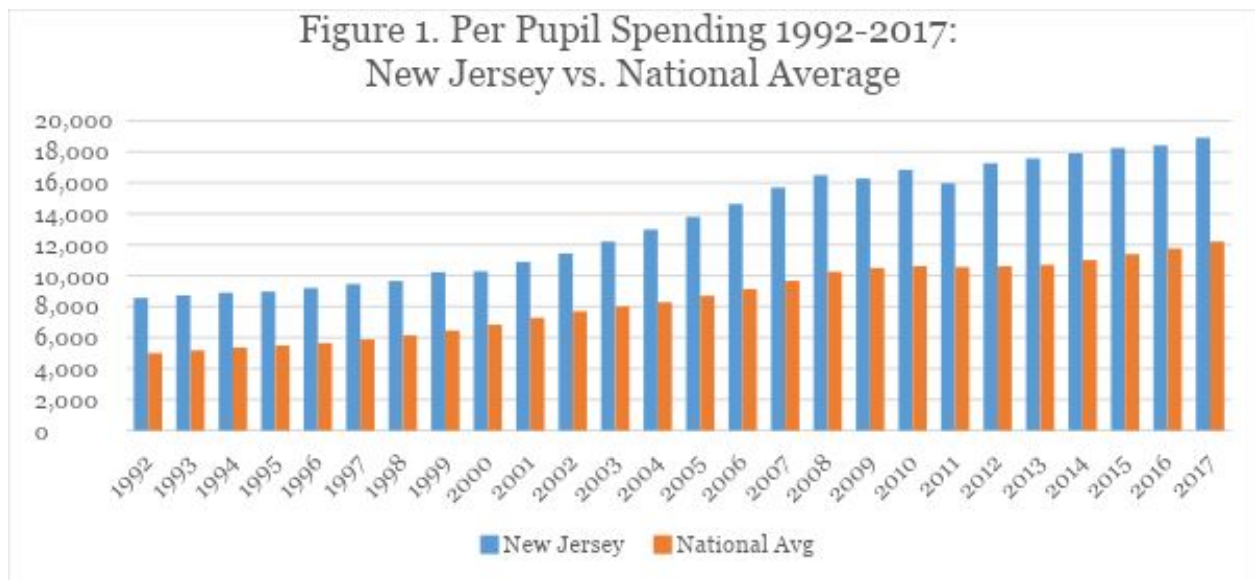
ranked 36th in the country for total government units per capita. Raphael J. Caprio and Marc H. Pfeiffer, *Size May Not Be the Issue*, Rutgers University, Bloustein Local Government Research Center, November 2014, 16. Nor does the cost per capita of municipal government vary significantly between large and small municipalities. In 2017, general administration costs per pupil (which include costs for boards of education and superintendents' offices) were \$376 out of total per-pupil expenditures of \$18,920. Educational Finance Branch, “Public Education Finances: 2017,” US Census Bureau, June 2018.

⁹ Cost of education from *Path to Progress*, 19. Cost of municipal, county and state government from Richard K. Keevey, “Our Fiscal House Is Fragile – On Two Counts,” *NJSpotlight*, March 29, 2019.

¹⁰ New Jersey Education Association, “Lead the way in school elections,” *NJEA Review*, 72, no. 8 (April 1999): 6.

¹¹ Eileen Norcross and Frederic Sautet, “Institutions Matter: Can New Jersey Reverse Course?” (working paper, Mercatus Center at George Mason University, July 2009), 73.

Public education is by far the largest component of the average New Jersey property tax bill, making up 52.4 percent (versus approximately 30 percent for municipal government and 18 percent for county government).¹² In 2017, New Jersey spent an average of \$18,920 per pupil, the third highest among the states and 55 percent higher than the national average. In fact, New Jersey has ranked among the top three states in per-pupil spending in 25 out of 26 years since 1992, and has spent an average 59 percent more than the national average during that time (Figure 1).¹³



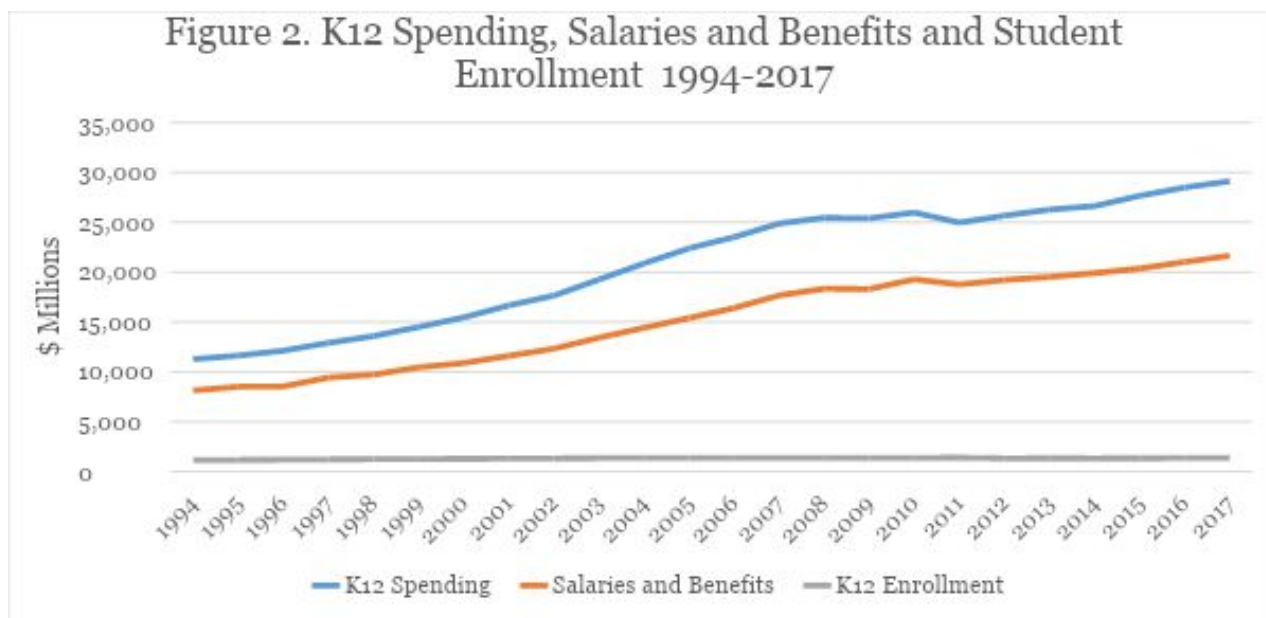
Source: US Census Bureau

Looked at another way, from 1994 to 2017, while K–12 student enrollment basically remained flat (up 18 percent in 24 years), overall K–12 spending and employee salaries and benefits have risen 158 percent and 166 percent, respectively (Figure 2).¹⁴

¹² *Path to Progress*, 19. Data for municipal and county government from New Jersey Education Aid, “Education Spending and NJ Taxes,” December 13, 2016, <https://www.njeducationaid.blogspot.com/2016/12/education-spending-and-nj-taxes.html>

¹³ US Census Bureau, Public Education Finances, 1992-2017.

¹⁴ *Ibid.*



Source: US Census Bureau

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.”¹⁵

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.”¹⁶ 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).¹⁷ Despite three major attempts¹⁸ at property tax reform since 2004 by both Democratic and Republican administrations, there has been no change in the upward movement. (Note the flattening of the property tax curve due to the 2 percent property tax caps enacted during Governor Christie’s tenure.)¹⁹

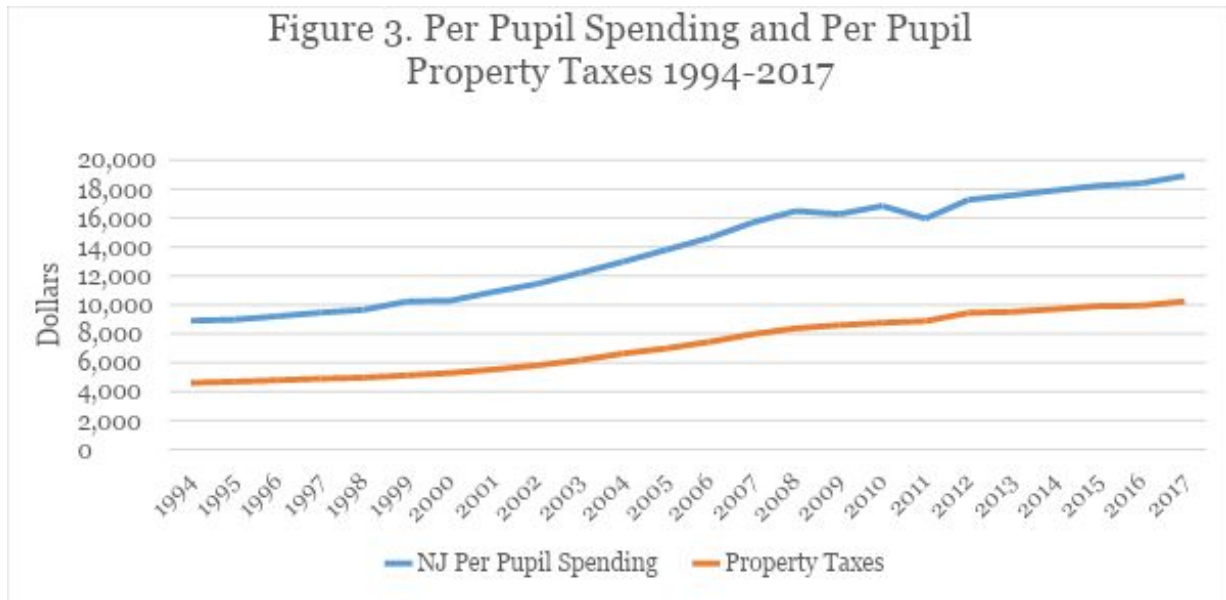
¹⁵ New Jersey Education Association, “A matter of Pride,” *NJEA Review*, 69, no. 9 (May 1996): 76.

¹⁶ Jeffrey M. Brindle, *School Board Campaign Financing*, New Jersey Election Law Enforcement Commission, April 2002.

¹⁷ Norcross and Sautet, “Institutions Matter,” 6; US Census Reports, 2008–17; and Jeff Goldman, “N.J. Had Highest Property Taxes in Nation in 2016 (Again), Study Finds,” *Newark Star-Ledger*, April 6, 2017.

¹⁸ The first attempt was Gov. McGreevey’s Fair and Immediate Relief Plan in 2004. The second was a 2006 Special Session on Property Tax Reform. The third was Gov. Christie’s Special Session on Property Tax Reform in 2010.

¹⁹ A 2012 law allowed school districts to forego school budget elections if spending increases were kept under a 2 percent cap.



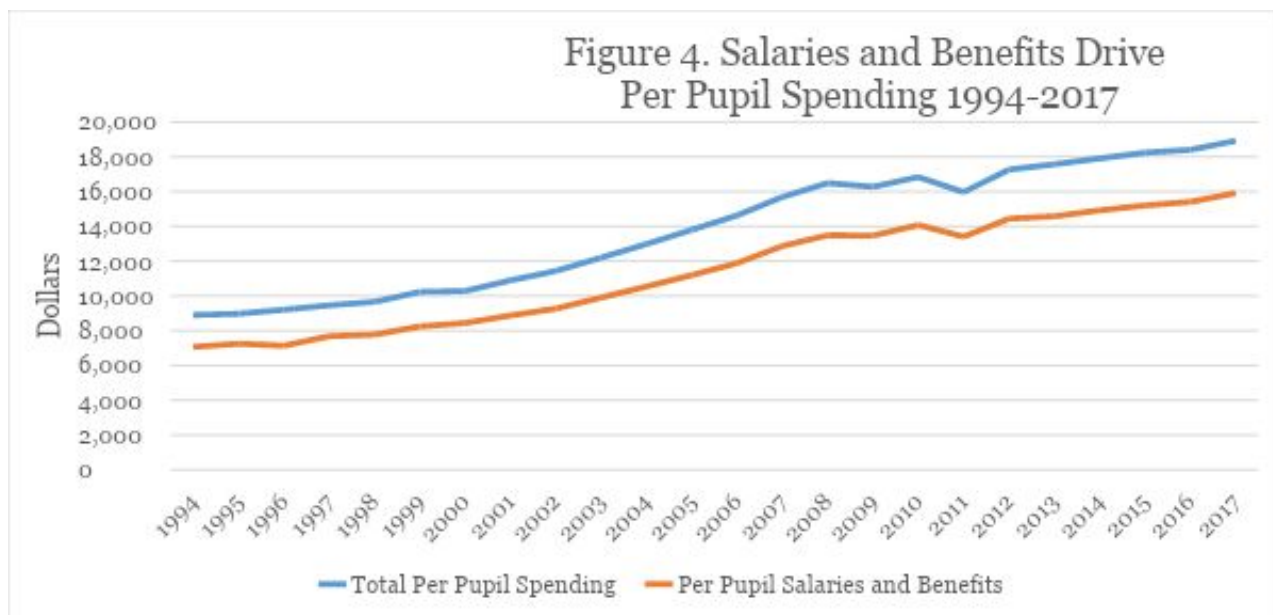
Source: US Census Bureau

Teacher Salaries and Benefits Drive Local Education Spending

Salaries and benefits drive education spending, averaging 82 percent of per-pupil spending from 1994 to 2017 (Figure 4).²⁰ Compared to other states, New Jersey’s salaries and benefits are very high, ranking in the top three states in thirteen out of fourteen years since 2004, and averaging 60 percent higher than the national average during that time.²¹

²⁰ US Census Bureau, Public Education Finances, 1994-2017.

²¹ US Census Bureau, Public Education Finances, 2004-2017.



Source: US Census Bureau

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,²² 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.²³

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

²²New Jersey Education Association, *NJEA Collective Bargaining Manual*, 49, <http://www.eiaonline.com/NJEA-Collective-Bargaining-Manual.pdf>

²³ See, for example, New Jersey Education Association, “NJEA Looks at New Jersey Teacher Salaries,” *NJEA Review* 37, no. 3 (November 1963): 179–81; and New Jersey Education Association, “New A-9 Passed; Signed into Law,” *NJEA Review* 31, no. 1 (September 1957): 9–11.

earnings as well as pension earnings.”²⁴ 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.²⁵

As a result, since 2004, New Jersey has ranked in the top three among all states in per-pupil teacher salaries and wages, averaging 56 percent higher than the national average.²⁶ 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.²⁷

“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.”²⁸

These employees pay a small portion of the actual costs of the plans.²⁹ 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 \$23,957.³⁰ These health plans cost

²⁴ New Jersey Education Association, *NJEA Collective Bargaining Manual*, 48–49. These tactics are used by the NEA as well. See Dave Winans, “Field-Tested Salary Campaign Tactics,” National Education Association, August 2007, <http://www.nea.org/home/16253>.

²⁵ New Jersey Education Association, *NJEA Collective Bargaining Manual*, 45.

²⁶ US Census Bureau, *Public Education Finances, 2004-2017*.

²⁷ New Jersey Education Association, “\$18,500 Minimum Salary Marks 30th Anniversary,” *NJEA Review* 89, no. 1 (September 2015): 16.

²⁸ New Jersey Pension and Health Benefit Study Commission, *Supplemental Report on Health Benefits*, February 11, 2016, iii, <http://www.state.nj.us/treasury/pdf/NJPensionCommission-Supplemental-Report-on-Health-Benefits.pdf>.

²⁹ Pub. L. 2011, Chapter 78, requires that employees pay a portion of their health insurance premiums, ranging from 3 percent to 35 percent and averaging 17.7 percent, depending on the employee’s salary.

³⁰ New Jersey Pension and Health Benefit Study Commission, *Supplemental Report on Health Benefits*, February 11, 2016, 6.

50–60 percent more than the national averages for both public and private plans.³¹ The Study Commission 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.”³² Only two states have higher average state employee health care costs than New Jersey.³³

As with salaries, New Jersey’s “Cadillac of health plans”³⁴ is the product of a concerted, long-term 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.³⁵ The NJEA also pushes local associations to use nearby or comparable districts’ health plans to increase benefits.³⁶

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.”³⁷ Before the 2011 reform law, only 13 percent of school districts required any employee contribution.³⁸

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”³⁹—the NJEA successfully pushed for creating a state-administered health program only for school employees, the School Employees Health Benefits Program (SEHBP). The NJEA and its allies gained significant control over the SEHBP Plan Design Committee, which sets the benefit levels available to

³¹ New Jersey Pension and Health Benefit Study Commission, *Truth & Consequence*, September 25, 2014, 8, <http://www.state.nj.us/treasury/pdf/NJPHBSC.pdf>.

³² *Ibid.*, 24.

³³ *Ibid.*

³⁴ As described by Fred Beaver, director of New Jersey’s Division of Benefits and Pensions, to a legislative committee in 2006. Adam L. Cataldo, “The ‘Cadillac of Health Plans’ Is a Heavy Load to Deal with,” *Bond Buyer*, March 30, 2006, <https://www.bondbuyer.com/news/the-cadillac-of-health-plans-is-a-heavy-load-to-deal-with>.

³⁵ New Jersey Education Association, *NJEA Collective Bargaining Manual*, 76.

³⁶ *Ibid.*

³⁷ New Jersey Education Association, “Holding the Line Against Premium-Sharing,” *NJEA Reporter* 48, no. 1 (September 2004): 16.

³⁸ Diane D’Amico, “Law’s Expiration May Renew Battle over Benefits,” *Daily Journal*, January 31, 2016, <http://www.thedailyjournal.com/story/news/local/2016/01/31/laws-expiration-may-renew-battle-benefits/79612412/>.

³⁹ Bob Ivry, “Cops & Teachers: Can N.J. Afford the Rising Bill?,” *Bergen Record*, July 16, 2006.

employees.⁴⁰ As NJEA President Joyce Powell explained, the SEHBP structure “means that NJEA will have much greater ability to control what happens to our members’ benefits.”⁴¹

A recent example shows how this works. The SEHBP Plan Design Committee adopted \$250 co-pay reimbursements for retirees as a result of “fierce advocacy on behalf of NJEA members by the association’s representatives on the Plan Design Committee.”⁴² Of course, taxpayers foot the bill for these enhancements, so the conflict of interest inherent in the structure of the SEHBP has real-world consequences: higher state taxes for New Jersey citizens.

Likewise, the NJEA is currently lobbying for reduced healthcare premiums (so-called “Chapter 78 relief”) and an exemption for increased healthcare costs from the 2 percent budget caps now in place in most districts.⁴³ These would result in higher property taxes for New Jersey citizens.

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).⁴⁴

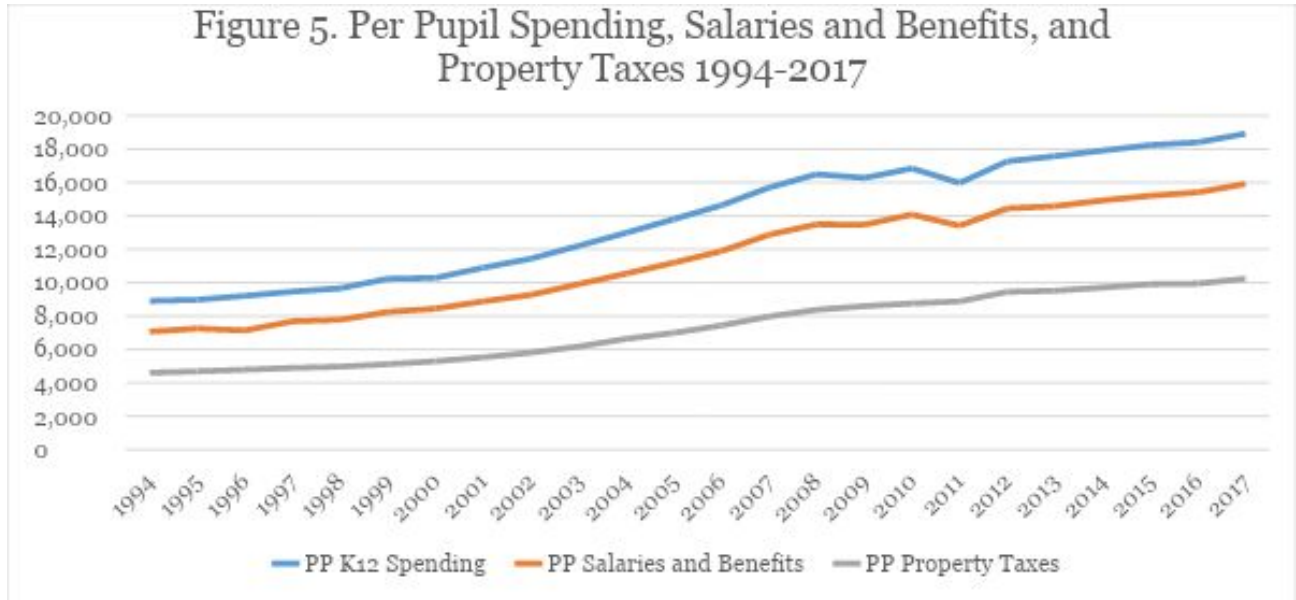
⁴⁰ Of the nine board members, the NJEA appointed three, the AFL-CIO appointed one, and the ninth member, the chairman of the board, could only be approved with their consent. Retired school employees were all moved to SEHBP and guaranteed premium-free health benefits for life. New Jersey Education Association, “NJEA Members’ Benefits Made Secure,” *NJEA Reporter* 51, no. 1 (September 2007): 2.

⁴¹ New Jersey Education Association, “Gov. Corzine Signs Historic Pensions and Benefits Legislation,” *NJEA Reporter* 51, no. 1 (September 2007): 1.

⁴² New Jersey Education Association, “Changes negotiated to plans for Medicare-eligible retirees,” *njea.org*, September 2018, www.njea.org/changes-negotiated-to-plans-for-medicare-eligible-retirees/

⁴³ Marie Blistan, “Get ready: It’s going to be an action-packed year,” *NJEA Review* 92, no. 1 (September 2018): 7. The 2012 law allowed school districts to avoid school budget elections so long as they kept spending increases under a 2 percent cap. S-2606 would provide an exemption for increased healthcare costs.

⁴⁴ James Ahearn, “Linking Cop, Teacher Pay to Property Taxes,” *Bergen Record*, July 19, 2006.



Source: US Census Bureau

The NJEA is acutely aware of the relationship between the cost of local public education 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.”⁴⁵

Cause and Effect: Local Budget Pressures Become Untenable

The NJEA’s big dilemma is that property taxpayers will only stand for so much, and before a 2012 law,⁴⁶ they could always express their dissatisfaction by rejecting school budgets at annual local budget elections.⁴⁷ 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 securing automatic teacher salary and benefit

⁴⁵ Louise Saul, “School Board Elections Tuesday,” *New York Times*, April 4, 1982.

⁴⁶ The 2012 law permitted districts to move school board and budget elections from April to November and, so long as districts keep budget increases below the 2 percent cap (with exceptions), allowed districts to forgo budget votes.

⁴⁷This 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.

increases would be impossible. As NJEA President Joyce Powell said in a 2006 letter to members: “When budgets fail, our members pay the price.”⁴⁸

In the case of a budget squeeze due to lower revenues - such as a decrease in state education aid - a local association could relieve the pressure by foregoing locked-in raises, but the NJEA’s best practice for negotiations is no salary givebacks.⁴⁹ 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.”⁵⁰ 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.”⁵¹ As a result, fewer than three dozen of 591 districts adopted freezes.⁵²

So the NJEA had to get at the root of its dilemma: School funding—and funding for teachers’ salaries and health benefits—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 education aid to local school districts to alleviate the burden on local property taxpayers. More state aid required more state taxes.

The Push for State Taxes

The NJEA has not disguised the fact that it consistently pushed for more state education aid. Indeed, the NJEA boasts that it “has either led the way or has been in the forefront

⁴⁸ New Jersey Education Association, “On April 18, Vote ‘Yes’ for Great Public Schools,” *NJEA Review* 79, no. 8 (April 2006).

⁴⁹ New Jersey Education Association, *NJEA Collective Bargaining Manual*, 26.

⁵⁰ Matt Bai, “When I Run out of Fights to Have, I’ll Stop Fighting,” *New York Times Magazine*, February 27, 2011.

⁵¹ Patricia Alex and Leslie Brody, “Retirees May Pay for State Benefits,” *Bergen Record*, April 15, 2010.

⁵² Bai, “When I Run out of Fights to Have, I’ll Stop Fighting.”

of every major campaign to win greater state funding for education.”⁵³ 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.”⁵⁴

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.”⁵⁵ This fiscal illusion and lack of accountability served the NJEA’s purposes well.

State Sales Tax. 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 1961.⁵⁶ 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.”⁵⁷ The NJEA consistently pushed this position as part of its legislative lobbying agenda.⁵⁸

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.⁵⁹ 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.⁶⁰

⁵³ New Jersey Education Review, “The Lobbying Process,” *NJEA Review* 49, no. 9 (May 1976): 21.

⁵⁴ New Jersey Education Association, “Let’s Be Fair,” *NJEA Review* 76, no. 9 (May 2003): 52.

⁵⁵ Norcross and Sautet, “Institutions Matter,” 65.

⁵⁶ Victor J. W. Christie, “NJEA: The Power and the Glory,” *NJEA Review* 42, no. 6 (February 1969): 17–19.

⁵⁷ New Jersey Education Association, “Five Obstacles Before a Broad-Based Tax,” *NJEA Review* 37, no. 4 (December 1963): 262.

⁵⁸ See, for example, New Jersey Education Association, “A-463 Is Signed,” *NJEA Review* 37, no. 5 (January 1964): 276–77; New Jersey Education Association, “State Aid for Local School Operating Expenses,” *NJEA Review* 38, no. 5 (January 1965): 284–87; and New Jersey Education Association, “It’s Precious, Cast It Wisely,” *NJEA Review* 39, no. 1 (September 1965): 5.

⁵⁹ William Kingsley, “The Rationale and Impact of the Recent Tax Structure Changes in New Jersey,” *Proceedings of the Annual Conference on Taxation Under the Auspices of the National Tax Association* 60 (1967): 473–82, https://www.jstor.org/stable/23406416?seq=1#page_scan_tab_contents.

⁶⁰ New Jersey Education Association, “State Aid for Local School Districts,” *NJEA Review* 41, no. 6 (February 1968): 20.

State Income Tax. 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.⁶¹

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,”⁶² which it defined as “a personal income tax . . . at whatever rates and levels are necessary” to fund education.⁶³ After the income tax was passed in 1976, the NJEA justifiably touted it as one of its legislative accomplishments for the year.⁶⁴

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.⁶⁵

Against Property Tax Caps. 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 law⁶⁶ 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.”⁶⁷ Because teacher salaries and benefits made up more than 80 percent of education spending and were increasing at locked-in rates above the caps, the NJEA and its members had the most to lose from the caps, and the

⁶¹ Norcross and Sautet, “Institutions Matter,” 73.

⁶² Martin Waldron, “Statewide Education Group in Trenton in Drive for ‘Meaningful’ Tax Reform,” *New York Times*, February 7, 1976, <http://www.nytimes.com/1976/02/07/archives/new-jersey-pages-statewide-education-group-in-trenton-in-drive-for.html>.

⁶³ New Jersey Education Association, “NJEA Delegate Assembly—Minutes from Nov. 13, 1975,” *NJEA Review* 49, no. 5 (January 1976): 56.

⁶⁴ New Jersey Education Association, “NJEA Legislative Accomplishments,” *NJEA Review* 53, no. 6 (February 1980): 33.

⁶⁵ Norcross and Sautet, “Institutions Matter,” 73.

⁶⁶ A budget cap law specifically for school districts was passed in 1995.

⁶⁷ Joseph F. Sullivan, “Jersey Pinched by a ‘Cap’ on Spending,” *New York Times*, November 27, 1978,

NJEA fought the caps at every turn.⁶⁸ 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.”⁶⁹

For Tax Hikes. Raising state-level taxes remained the solution to the perennial problem. 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.⁷⁰ NJEA Executive Director James Connerton made his position clear: “The time to raise State taxes . . . is now.”⁷¹ 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 1976.⁷² 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”⁷³ —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

⁶⁸ Martin Waldron, “Jersey Budget Curbs Under Rising Attack,” *New York Times*, November 25, 1977.

⁶⁹ New Jersey Education Association, “Budget Cut Proposal Condemned,” *NJEA Review* 53, no. 6 (February 1980): 7.

⁷⁰ Joseph F. Sullivan, “Jersey Assembly Votes to Impose Gasoline Surtax,” *New York Times*, June 18, 1982, <http://www.nytimes.com/1982/06/18/nyregion/jersey-assembly-votes-to-impose-gasoline-surtax.html>.

⁷¹ New Jersey Education Association, “State Budget Protested,” *NJEA Review* 55, no. 9 (May 1982): 5.

⁷² Ron Hollander, “Schools Rocked by Taxpayer Revolt,” *Bergen Record*, April 6, 1989.

⁷³ New Jersey Education Association, “Talk Is Cheap,” *NJEA Review* 62, no. 7 (March 1989): 60.

if the state's citizens and its students are being short-changed educationally? Talk is cheap. But good education costs."⁷⁴

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.⁷⁵ 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."⁷⁶

Against Tax Cuts and Spending Caps. 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."⁷⁷

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."⁷⁸ The I&R movement ultimately failed in New Jersey.

More of the Same. As the new century dawned, the NJEA's state budget priorities remained the same: increasing state education aid and easing local budget caps.⁷⁹ Before long, the NJEA was back calling "for an income-tax increase on high earners to

⁷⁴ Ibid.

⁷⁵ Caroline Hendrie, "Florio: Teachers Need State Voice," *Bergen Record*, February 4, 1990.

⁷⁶ New Jersey Education Association, "For Education's Sake," *NJEA Review* 64, no. 8 (April 1991): 4.

⁷⁷ New Jersey Education Association, "Support Full Funding for Public Education," *NJEA Reporter* 49, no. 8 (April 2006): 4.

⁷⁸ *New York Times*, "Teachers Urged to Oppose Voter Petitioning," February 2, 1992.

⁷⁹ New Jersey Education Association, "Legislation + Political Action = Great Public Schools," *NJEA Review* 75, no. 6 (February 2002): 28–29.

avert some of the severe cuts,”⁸⁰ 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.⁸¹ 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.⁸²

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.”⁸³ 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 2005.⁸⁴

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 committees’ recommendations on how to reduce property taxes.⁸⁵

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

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 under newly elected Republican governor Chris Christie.⁸⁶ The NJEA launched a coalition named Better Choices NJ,

⁸⁰ Laura Mansnerus, “Several Groups Ask Trenton to Tax High Earners More to Avert Cuts,” *New York Times*, March 27, 2003, <http://www.nytimes.com/2003/03/27/nyregion/several-groups-ask-trenton-to-tax-high-earners-more-to-avert-cuts.html>.

⁸¹ New Jersey Education Association, “Legislation + Political Action,” 18.

⁸² New Jersey Education Association, “Lessons Learned,” *NJEA Review* 78, no. 6 (February 2005): 60.

⁸³ New Jersey Education Association, “Members Prepare for Pen Ben Campaign,” *NJEA Reporter* 49, no. 11 (June 2006): 1.

⁸⁴ New Jersey Education Association, “A Look Back at 2006,” *NJEA Review* 80, no. 7 (March 2007).

⁸⁵ *Ibid.*; and Elise Young, “NJ Pension Reform Moves a Step Closer,” *Bergen Record*, February 19, 2010.

⁸⁶ New Jersey Education Association, “What Happens in Trenton Doesn’t Stay in Trenton,” *NJEA Review* 83, no. 8 (April 2010).

calling for a millionaire’s tax, a surcharge on corporate income, the closing of corporate tax loopholes, and ending of various corporate tax breaks.⁸⁷

The NJEA’s pro-tax reaction to Gov. Christie’s plan to fund the Transportation Trust Fund once again revealed the NJEA’s myopic focus on raising taxes. 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.”⁸⁸

This is when NJEA Executive Director Ed Richardson made his shockingly callous statement that revealed the NJEA’s total disregard for the tax burdens of middle-class New Jersey citizens:

NJEA strongly believes the state should focus on generating new revenues ... Increasing the gas tax 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?* [emphasis added]⁸⁹

As noted earlier, this is quite a statement from a multi-millionaire, one-percenter whose fortune comes courtesy of New Jersey taxpayers.

The NJEA Gets Its Wish: A Pro-Tax Governor

As detailed in SPCNJ’s “Money Equals Power,” the NJEA strongly supported Phil Murphy for governor in 2017. With Murphy in office, the NJEA called for a “millionaire’s tax” and an increase in corporate taxes. In testimony to the state senate, NJEA Secretary-Treasurer Sean Spiller “expressed support for revenue-raising measures [tax increases] that would force corporations and the most affluent to pay their fair share ...”⁹⁰

⁸⁷ Samantha Marcus, “Raise Taxes on the Rich and Reject Budget Cuts, N.J. Groups Urge Trenton,” NJ Advance Media, May 22, 2016,

⁸⁸ New Jersey Education Association, “Steinhauer: Repealing the Estate Tax Is Bad for NJ, Unfair to Taxpayers,” June 17, 2016.

⁸⁹ New Jersey Education Association, “Better Choices Coalition Challenges TTF Deal,” October 4, 2016, <https://www.njea.org/better-choices-coalition-challenges-ttf-deal/>.

⁹⁰ New Jersey Education Association, “Spiller, Beatty present NJEA testimony on proposed state budget,” *NJEA Review* 91, no. 10 (May 2018): 16.

Murphy did not disappoint them. In his first budget, Murphy called for raising the sales tax to 7 percent, a new tax rate 10.75 percent on earnings over \$1 million, and a new corporate surcharge. In the end, the legislature – perhaps recognizing the cost to middle-class citizens - rejected the sales tax increase. The final budget included the corporate surcharge and a 10.75 percent tax on earnings over \$5 million.⁹¹

The NJEA continues to push for expanding the 10.75 percent tax bracket to this day, funding a \$1 million ad campaign featuring the governor, himself. With the legislature sending him a budget without the tax expansion, Governor Murphy has dutifully threatened to veto it.

But the State Budget Is Perennially Squeezed

As the NJEA looks to state government for increased education aid, it is confronted with the reality that these and other demands, including high and increasing retiree benefit costs, are overwhelming insufficient tax revenues. The fact is that New Jersey's state budget is in persistent, structural deficit, and the mismatch between revenues and expenditures is *the worst in the nation*. According to the Pew Charitable Trusts, from 2003-2017, New Jersey only took in revenues amounting to 91.3 percent of expenditures compared to a national average of 102.1 percent.⁹²

The situation will only get worse. As detailed in SPCNJ's "Job Number One: NJEA's Leading Role in New Jersey's Pension Crisis," (hereinafter "Job Number One") due to over-promising and under-funding, the state's retiree benefit costs are projected to rise from \$6.6 billion today to \$11 billion in 2023, or from 20 percent of the budget to 26 percent of the budget. These costs are "unsustainable" according to the *Path to Progress* report.⁹³

As detailed in "Job Number One," this situation did not occur by happenstance. The NJEA lobbied long and hard to place retiree benefit costs with the state, which resulted in the disconnected and broken system that exists today. It also participated in pension raids and funding schemes that undermined the system, and fought all efforts at reform. In addition, the NJEA gained for its retirees state-funded "Platinum-plus" health benefits – *the most generous in the nation* - at little or no cost

⁹¹ Dustin Racioppi, "NJ budget deal: Gov. Murphy signs tax package into law after deal with Democrats," *northjersey.com*, July 2, 2018.

⁹² Pew Charitable Trusts, "Fiscal 50: State Trends and Analysis," *pewtrusts.org*, May 3, 2019, <https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind9>.

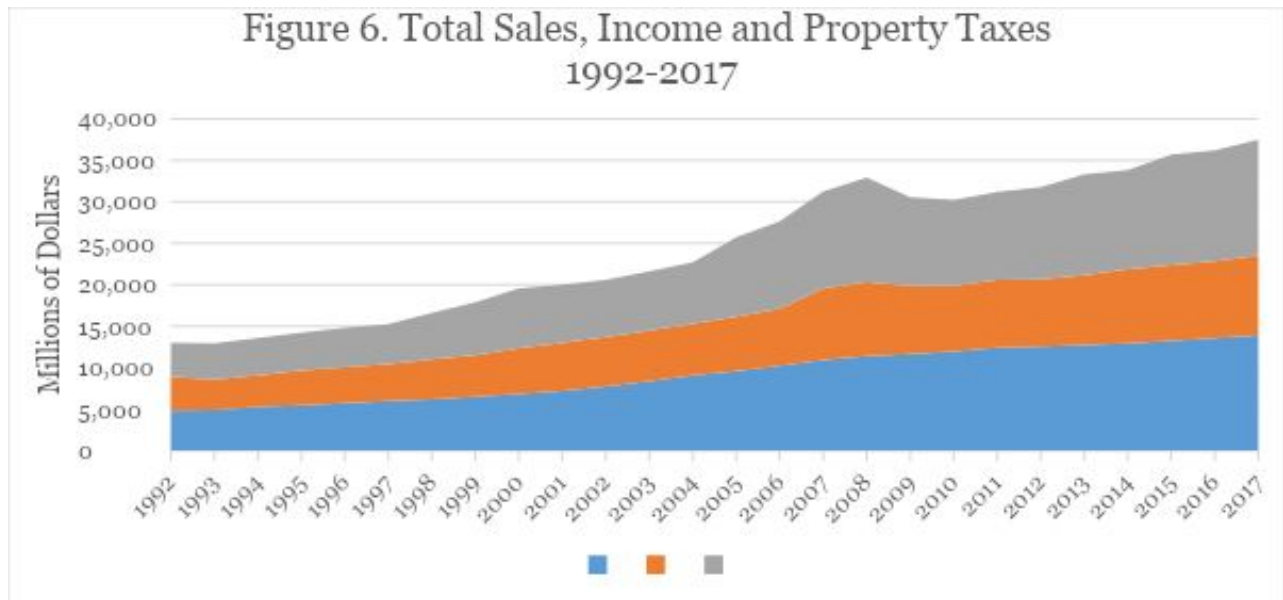
⁹³ *Path to Progress*, 1.

to them.⁹⁴ The facts show that the NJEA deserves a significant amount of the blame for the excessive funding demands of today’s retiree benefits.

Yet the NJEA refuses to compromise to try to reform the system and avoid a fiscal train-wreck: “NJEA remains adamant that there will be no discussion or negotiations of benefit cuts for public school employees.”⁹⁵ As in the past, the NJEA’s answer is higher state taxes.

The Result: New Jersey Is One of the Highest-Tax States in America.

The cumulative toll of all these tax hikes on New Jersey citizens has been massive. Total property, income, and sales taxes have increased from \$12.97 billion in 1992 to \$37.48 billion in 2017, or 288 percent (Figure 6).⁹⁶



Source: US Census Bureau

This is the inevitable result when the NJEA, the most powerful political force in the state, constructs a system where the combined demands at the state and local levels overwhelm the state’s capacity to pay. For decades, the NJEA’s solution has been to

⁹⁴ *Path to Progress*, 15.

⁹⁵ New Jersey Education Association, “Will lottery fix pension problems? Don’t bet on it,” <https://www.njea.org/will-lottery-proposal-fix-pension-problems-don't-bet/>.

⁹⁶ US Census Bureau, Public Education Finances, 1992–2014. Data for sales and income taxes were unavailable for 2001 and 2003, so data for those years were interpolated from the two surrounding years to provide a continuous graph.

push for higher taxes, with the result that New Jersey has become one of the highest-tax states in America.

The sad irony is that New Jersey taxpayers are funding the NJEA, which has used their tax dollars to push their taxes ever higher.