

U8216 Microeconomics and Policy Analysis
Fall 2000
Group Project 5

Please read the attached articles about the problem facing the borough of Kenilworth, New Jersey. The latest trial has just been lost. The town owes \$16.1 million because of a legal suit that arose out of an automobile accident in 1982. The accident occurred when a traffic light was out of order, and the police didn't have a portable sign to warn motorists about the danger. \$16.1 million is a lot of money for such a small town as Kenilworth — several thousand dollars for the average homeowner.

As is clear from the article, the Borough Council has no idea of what to do. So they have hired you to advise them. Your job is to prepare a 20-minute presentation to make to them on what they should do, and why they should do it.

The first question is whether Kenilworth should pay the judgment. After all, you can't lock up 7,500 people. Interest accumulates if you don't pay the judgment, but it also accumulates if you sell bonds. Once you've paid the judgment, you can never un-pay it. What is the optimal time to pay, if any? (Be very careful here; remember that this is the same group of people who have not yet paid the bill for your services either.)

If you recommend paying the judgment, consider how the money to pay it should be obtained. Aside from robbing banks or holding very large bake sales and car washes, does it make any difference how the borough raises the money? Do the taxpayers have available to them strategies to offset perfectly whatever the borough decides to do if they don't like it? For instance, can taxpayers who want immediate payment buy bonds if the borough decides to sell bonds? Can taxpayers who want delayed payment borrow (i.e. sell personal bonds) if the borough decides on immediate payment? What happens if they don't have such strategies available to them?

The borough council is also concerned about the impact on various segments of Kenilworth's population. There are a very active senior citizens organization, a PTA organization, two or three politically active realtors, and several medium-sized factories and plumbing supply houses, including one owned until recently by Simone (Sam the Plumber) DeCavalcante, a reputed leader of a famous New Jersey organization whose members frequently appear in the newspapers wearing raincoats on their wrists outside courthouses.

The council would like to present a plan acceptable to all these groups, or at least fair to them all. Clearly no Pareto improvement over your proposal should be possible. When discussing senior citizens, what difference does it make how they value consumption by their heirs after they themselves are dead (this is called "the bequest motive")?

You should pay attention to the interest rates available to these different groups and to the borough. How should the borough determine the maximum interest rate at which it would sell bonds (if you recommend sale)? What denominations should the bonds be sold in?

In one of the bars on the Boulevard, some of the patrons are suggesting that the borough buy lotto tickets. Please evaluate this recommendation as well. How many tickets, over what period of time, should the borough buy? What numbers should it play?

Finally, the council wants to know what it should do about insurance in the future. Should it buy any? IF it buys, should it have a deductible? Should it have a ceiling? What sort of deductible? What sort of ceiling? Remember that the borough itself doesn't have a utility function — only the public does, and there are 7,500 of them to pool the risk.

You should include a brief (one or two page) summary of your recommendations.

Note: Actually, the town's appeal was eventually successful. Assume that it wasn't.

PUAF 8216 Microeconomics Section 3
Fall 2000
Group Project 5 Members



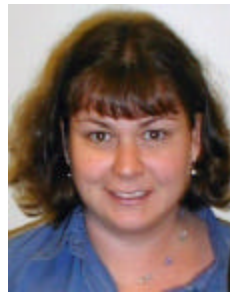
Maria Alvarez
Mexico City, MEXICO

International Relations

Research advisor

MPA 1
ma827@columbia.edu

Orlando



Melissa Neal
Boston, MA

History
Macalester College

Research analyst

MPA 1
man72@columbia.edu

Highlander



Alix Baseman
Newton, MA

Economics
Dartmouth College

Student volunteer
Pennsylvania

MPA 1
alb148@columbia.edu

Dead Man



Yumie Song
San Francisco, CA

Int'l Pub Pol, Dramatic Arts
UC Berkeley

Business owner
Orange County, CA

MPA 1
yjs16@columbia.edu

Raiders of the Lost Ark



Daniel Gorlin
Silver Spring, MD

Political Science
Columbia College

Columbia undergraduate
New York, NY

Columbia College
dig7@columbia.edu

Citizen Kane



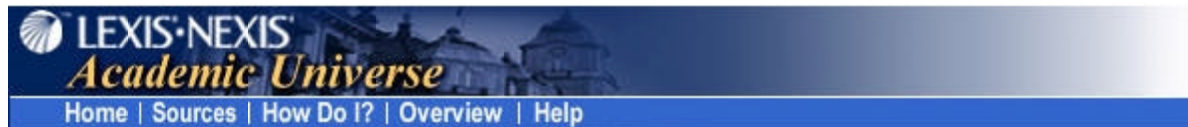
Satoko Yano
Tokyo, JAPAN

Psychology
University of Tokyo

Programmer, Mag Editor
Tokyo, JAPAN

Teachers College
sy178@columbia.edu

Not One Less



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Search Terms: award in accident leaves residents facing higher taxes

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Copyright 1989 The New York Times Company
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August 27, 1989, Sunday, Late Edition - Final

SECTION: Section 12NJ; Page 2, Column 1; New Jersey Weekly Desk

LENGTH: 1248 words

HEADLINE: KENILWORTH JOURNAL;
Award in Accident Leaves Residents Facing Higher Taxes

BYLINE: By CARLOTTA GULVAS SWARDEN

DATELINE: KENILWORTH

BODY:

ON Nov. 17, 1982, Mark Waldorf, a rear passenger in a van, was involved in a traffic accident here at the intersection of 14th Street and Monroe Avenue, at which it was later determined a traffic light had malfunctioned. The accident left him a quadriplegic.

It has also left this Union County borough of 8,200 residents facing a likely tax increase because of a court ruling that awarded \$8.4 million to Mr. Waldorf as damages.

The borough's problem stems from its insufficient insurance coverage, which was \$1.5 million at the time of the accident. Awaiting an appeal of the August 1988 verdict, the local government is planning strategies to meet the \$7 million shortfall plus an estimated additional \$2.5 million covering legal fees and interest on the judgment.

Bickering and finger-pointing among past and present officials as to responsibility for the faulty light have further cast a shadow over the borough, some residents say.

Acting Mayor Dennis Schultz, filling in for Mayor Joseph Benitent, who is recovering from an illness, said the seven-member Borough Council was considering a variety of options aimed at meeting the \$7 million. "Obviously, no one wants to raise taxes," he said. "But it is something that can and may well happen."

Small-Town Atmosphere

Kenilworth prides itself on its small-town atmosphere. "People care about each other here," Mr. Schultz said. "The majority of residents are blue-collar workers who take pride in their homes and school system and enjoy being close to but not in the midst of a metropolis."

The borough is home to one elementary and one parochial school and David Brearly Regional High

School. A string of stores pulls together the center of the borough along the Boulevard and Michigan Avenue. There are no movie theaters, bowling lanes or major department stores or malls.

Most longtime residents agree that not much changes here - except for the recent hefty tax increases. Chagrined and confused residents are now bracing themselves for yet another shock wave of tax increases that would come on the heels of two consecutive rate increases over the last two years based on a boroughwide reassessment of properties, escalating garbage transfer costs and the loss of ratables from the closing of the Volco Brass Company.

"When I moved here 19 years ago, my taxes were \$700," said Florence Lenaz of Oakwood Avenue. "Now I pay \$3,500. The schools haven't changed, and there have been no major improvements to warrant such increases. Why should we have to shell out more money to get the town out of its predicament?"

Rudolph Cammerota, a real-estate agent, appraiser and borough resident for the last 30 years, estimates that the average home here is assessed at \$170,000. The recent tax increase tacks on about \$400 a year to the average homeowner's bill, he said.

In a 60-page report issued to the Borough Council in July by an ad hoc committee headed by Mr. Cammerota, the panel suggested issuing bonds, selling off parcels of land and, finally, raising taxes or declaring bankruptcy.

"We were emphatically told by the state that we cannot declare bankruptcy," Mr. Cammerota said. "Our recommendation, which was made after a lengthy 66 hours of investigation, was to negotiate a 20-year bond issue."

While the usual bond issue is for five years, it was indicated to the borough in meetings with the Division of Local Government Services that the state would most likely approve a 20-year bond, Mr. Cammerota said.

He speculated that this plan would be preferable to the large elderly population, which constitutes a majority of the residents. The estimated tax dollar effect on a house assessed for \$170,000 to pay \$7 million with a 20-year bond is \$136 a year. A five-year bond would add \$394 a year to the average taxpayer's bill. "The 20-year payback, we think, would represent an affordable schedule for most residents," Mr. Cammerota said.

Robert Wacker has lived at the corner of Colfax and Maplewood Avenues for 35 years. A retired public-service employee, he reflects the point of view of the elderly. "We're all left wondering what it's going to cost us now," he said. "Kenilworth should have gotten a better shake. I don't know what this will mean to those of us on a fixed income. If you don't work, you don't get raises. Where will the money come from? I just don't know."

Acting Mayor Schultz said, "I realize the higher taxes may push seniors out of town. It's a tough nut to crack."

One-Time Increase Favored

He said the money gained by the sale of borough holdings would be insignificant. He estimated that the sale of the parcels would garner "\$1 million at the most."

Frank Garrick was born and raised in the borough. When he married, he purchased his parents' Colfax Avenue home. A former member of the Kenilworth Board of Education, he favors a one-time rate increase.

In its report, the ad hoc committee computed that the tax dollar effect on the average home for a one-year payback would add \$1,547 to a taxpayer's current bill.

"It's a large amount, but I would rather get it out of the way," Mr. Garrick said. "I'm looking at this in the

long term. People looking to move here would know there wouldn't be a constant increase in taxes. It would stabilize things."

Residents also worry about the long-term effects of increased taxes on property values. "If the taxes keep going up, the prices of the houses will go down," Mrs. Lenaz said. "Who will want to buy knowing the heavy tax burden isn't going to improve but steadily worsen?"

Mr. Cammerota said prospective home buyers were not discouraged by the pending lawsuit. "When I explain the reality of the situation to the buyers," he said, "they do not lose interest in living here. The lawsuit has a great adverse effect psychologically, more, I think, that it should."

Mr. Waldorf, a prelaw student from Staten Island, was the passenger in the rear of the van when it collided with another vehicle at the intersection of 14th Street and Monroe Avenue. His lawyer, Warren W. Wilentz of Woodbridge, maintained that a patrolman had reported the traffic light's malfunctioning to headquarters 45 minutes before the accident.

But the shift commander, Lieut. Joseph Rego, now a Borough Councilman, did not act upon that information because of competing manpower demand, it was contended in the trial. One of the three patrolmen on duty was serving an arrest warrant, while a second was transporting a man to the hospital.

Liability Distributed

The jury found the borough 60 percent negligent in failing to supply the police with a portable stop sign that could have served as a warning to motorists.

Lieutenant Rego was found 25 percent liable for damages. Since no rear bench seat was in the vehicle at the time of the accident, the driver of the van was held 5 percent liable for the accident. The remaining 10 percent in liability fell upon the driver of the other vehicle.

Mr. Cammerota said his committee had recommended immediate action by the Council since the was being charged \$40,000 interest a month during the appeal, which is expected to be heard on Sept. 26.

Daniel Pereira of North 22d Street expressed the cynicism of some residents. "I guess I'm resigned to it," he said. "Taxes go up one way or another. This lawsuit is just one more excuse. After all, no one expects them to ever go down, so why should another increase be surprising?"

GRAPHIC: Photo of view of 14th Street and Monroe Avenue in Kenilworth (NYT/F. N. Kinney); map highlighting the town of Kenilworth

LANGUAGE: ENGLISH

Document 1 of 1.



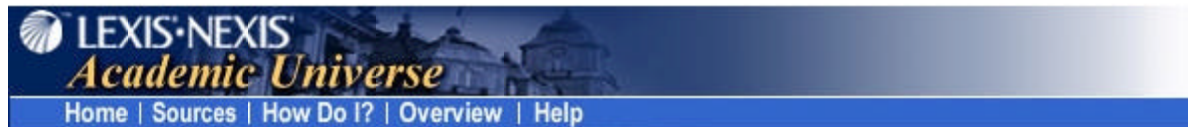
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September 29, 1990, Saturday, Late Edition - Final

SECTION: Section 1; Page 8, Column 5; National Desk

LENGTH: 230 words

HEADLINE: City Hall No Longer City's

DATELINE: EAST ST. LOUIS, Ill., Sept. 28(Reuters)

BODY:

The city of East St. Louis, which is bankrupt, has had to give up its City Hall to a man who won a lawsuit against the city.

On Thursday a county judge awarded the deed to one of East St. Louis's finest buildings, its four-year-old municipal building, to Walter DeBow. Mr. DeBow won a \$3.4 million lawsuit against the city six years ago for a severe beating he received from another inmate while in jail on a minor traffic charge.

Mr. DeBow, 55 years old, was unable to collect from the financially troubled city of 48,000 people, and sued successfully for city-owned property, said his lawyer, Clyde Kuehn.

Mr. DeBow is confined to a wheelchair and suffers memory lapses from the beating. He lives in a New Jersey home for the handicapped. He was in court to receive the deeds to City Hall and to a 220-acre industrial park.

City employees are continuing to work in City Hall pending an appeal. Several companies have sought to buy the brick building from Mr. DeBow and lease it back to the city.

A company had previously offered the city \$5 million for the industrial park, but its current value is uncertain.

East St. Louis, which lies across the Mississippi River from St. Louis, is \$55 million in debt and cannot afford garbage collection or radios for its few police cars. It just received an emergency loan from the state, which will oversee the city's finances.

LANGUAGE: ENGLISH

Document 1 of 1.



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