



Vision Bergen: Blueprint for Our Future

"Taming the 800 Pound Gorilla: Reining In Local Budgets"

Tim Evans • New Jersey Future • May 18, 2010



NJ's Property Tax Problem

- Reliance on property taxes for funding local services
- Unintended land-use consequences
- Maybe property taxes aren't the whole story...?

Median Real Estate Tax Bill (2008)

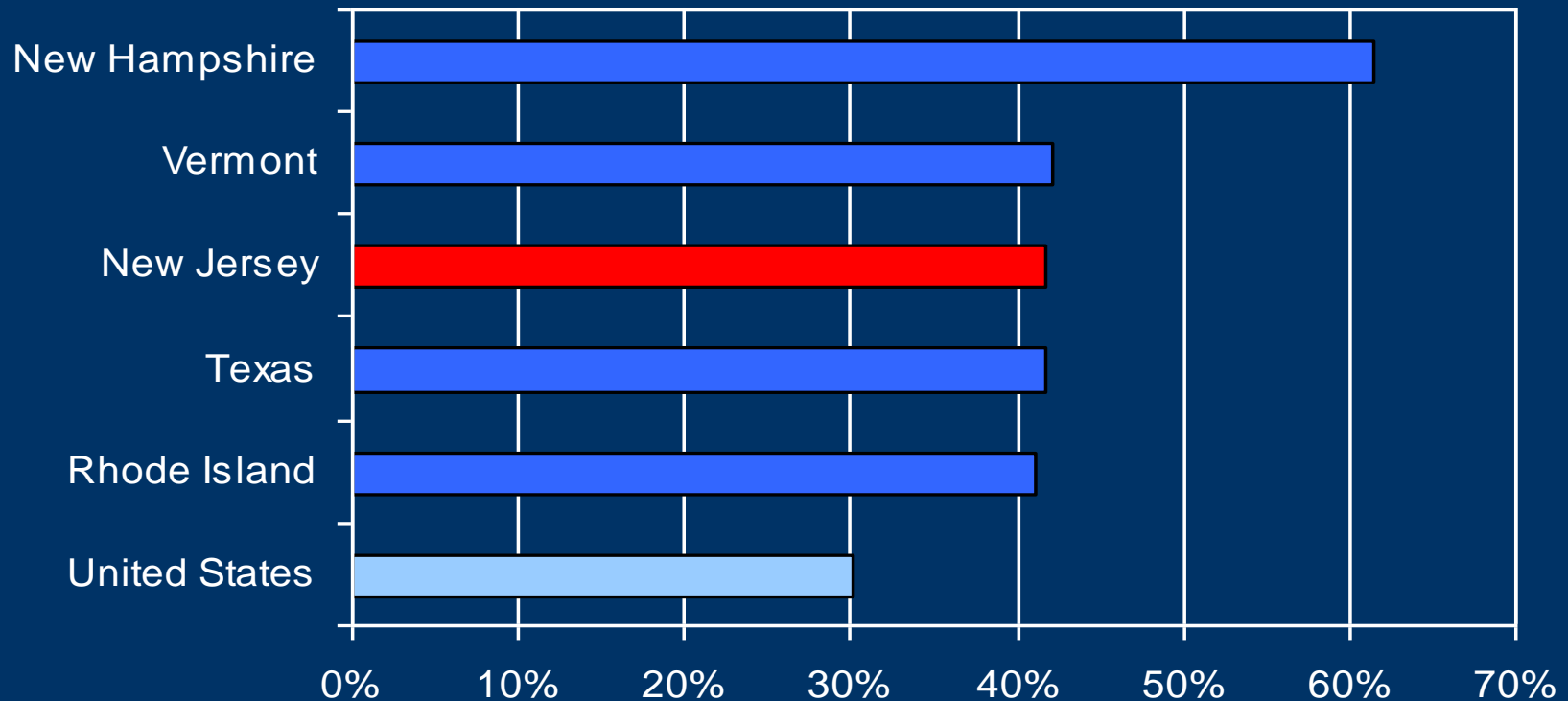
New Jersey	6,320
Connecticut	4,603
New Hampshire	4,501
New York	3,622
Rhode Island	3,534
United States	1,897

Data source: 2008 American Community Survey



Over-Reliance on Property Tax

Percent of Total State and Local Tax Revenue Derived From Property Tax



Data source: U.S. Bureau of the Census, 2007 Census of Government Finance



Over-Reliance on Property Tax

Why is this a problem?

Reliance on property taxes creates incentives that have powerful, distorting effects on land use policies...

Basic Property Tax Facts

- Schools represent the bulk of local government expenditures
- Residential development doesn't pay for itself, unless it's age-restricted
 - RESULT: Nobody wants kids
- Wealthy residents demand fewer services than poorer ones
 - RESULT: Large lots encouraged; multi-family housing discouraged
- Commercial development does pay for itself
 - RESULT: Every municipality wants to be Teterboro

Over-Reliance on Property Tax : The Consequences

- Incentive to zone out children [keep school costs down]
- Large-lot/exclusionary zoning [keep out people who can't pay their own way]
- Competition for commercial development (the “ratables chase”) [generate revenue without school costs]

Over-Reliance on Property Tax : The Consequences

- Major projects not located optimally from a regional perspective [instead they go to the lowest bidder]
- Spatial segregation by income and resulting disparities in tax base, education, quality of local services [“communities of choice”, where choice diminishes with income]

Over-Reliance on Property Tax : The Consequences

- **Downward spiral of disinvestment**, wherein a declining tax base causes tax rates to rise, which then chases away the more prosperous residents and businesses, further depleting the tax base and leaving behind the neediest residents most in need of government services, necessitating another tax rate increase etc.

Over-Reliance on Property Tax : The Consequences – RECAP

- 1) Zoning out kids
- 2) Exclusionary zoning
- 3) Ratables chase
- 4) Sub-optimal location of regional projects
- 5) Income segregation / disparities
- 6) Cycle of disinvestment

Is It a Property Tax Problem?

Many of the land-use side effects of the property tax system are actually more properly ascribed to NJ's **fragmented system of local governance**

- Turning the property tax into a statewide tax (*as in Michigan*) would mitigate land use issues - municipalities become fiscally indifferent to where development is located
- Regionalized school districts accomplish some of the same ends, just on a smaller scale

Is It a Property Tax Problem?

Key is to increase the geographic size of the units of competition:

From a land-use perspective, tax reform might better be accomplished by focusing on “regionalism” solutions:

- Tax base sharing
- Larger role for counties
- Municipal consolidation
- Regional school districts

3 Big Counties, Similar Populations, Dissimilar School Systems

	2008 population	number of municipalities	number of school districts	munis per school district
Bergen County NJ	889,915	70	75	0.933
Montgomery County PA	778,452	62	23	2.696*
Montgomery County MD	953,685	19*	1	NA

- Three school districts in Montgomery County PA contain at least one municipality in another county; counting these additional munis brings the muni/district ratio close to 3:1.
- Only one in six residents of Montgomery County MD lives in an incorporated municipality.

North Penn School District, Lansdale PA

	2008 population
North Penn School District:	96,494
Hatfield borough	2,836
Hatfield township	17,134
Lansdale borough	15,526
Montgomery township	24,132
North Wales borough	3,226
Towamencin township	17,618
Upper Gwynedd township	16,022

	2008 population
3 Bergen regional districts:	95,051

PASCACK VALLEY REGIONAL (9-12)	32,975
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Hillsdale borough	9,848
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Montvale borough	7,566
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River Vale township	9,620
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Woodcliff Lake borough	5,941
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RAMAPO-INDIAN HILL REGIONAL (9-12)	41,829
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Franklin Lakes borough	11,619
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Oakland borough	13,312
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Wyckoff township	16,898
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WESTWOOD REGIONAL (K-12)	20,247
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Washington township	9,548
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Westwood borough	10,699
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Bergen County school system much more fragmented

	2008 population	number of municipalities	number of school districts
North Penn School District	96,494	7	1
3 Bergen regional districts	95,051	9	10

Bergen County school system much more fragmented

	2008 population	number of municipalities	number of school districts
North Penn School District	96,494	7	1
3 Bergen regional districts	95,051	9	10
Woodbridge township	97,963	1	1

Regionalizing Bergen County's School Systems

- Bergen County starts with 70 municipalities and 75 school districts
- If municipalities already engaged in some sort of sharing arrangement were to institutionalize these arrangements by consolidating into regional K-12 districts, the result would be 42 districts – a reduction of 33
- There are still 26 municipalities that operate their own K-12 districts and don't receive students from any other districts



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