



# Property Tax Reform

Smart Growth Recommendations from New Jersey Future

Issue 2 • September 2003

## Why we need Property Tax Reform

New Jersey's system of property taxation is not only hard on the pockets of New Jerseyans, it's taking a permanent toll on the places where we live.

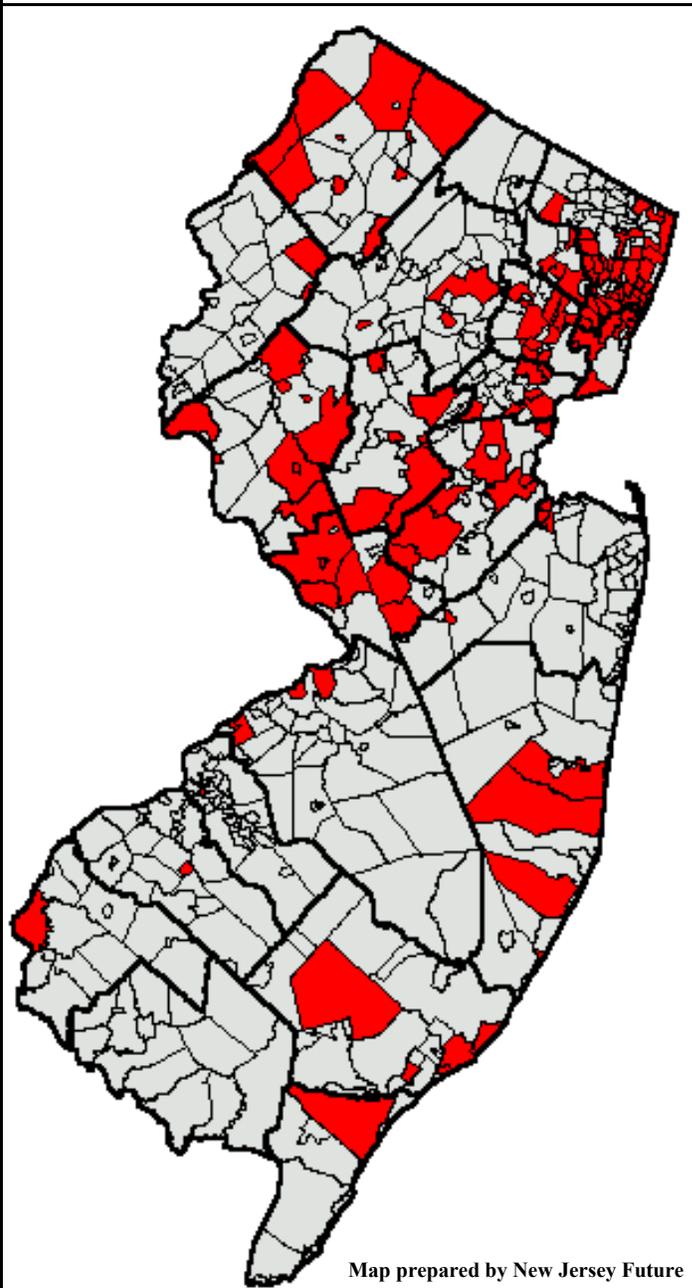
Today's property tax system is a primary driver of land-use decisions that have increased our traffic and reduced our choices about communities and homes in which to live, and how to move around.

Today's property tax system is longstanding, but it has seen some modification. One significant change was the adoption of the personal income tax in 1976. This came only after the state Supreme Court declared that New Jersey's historic over-reliance on property tax to fund education was unconstitutional. Just a few years earlier, in 1972, the Legislature granted the Meadowlands area a new property-tax sharing tool, in recognition of the special development and environmental pressures in that area.

Today, it is apparent that the income tax has done little to address the underlying systemic problems of the property tax and most of New Jersey faces the same sort of development pressures recognized in the Meadowlands. Meaningful tax reform is needed now.

**New Jersey Future calls on the Legislature and the Governor to enable a constitutional convention to enact meaningful property tax reform. In a regional context, tax reform would reduce the chase for ratables, stem the rate of tax increase and address the disproportionate impact of the property tax on low-income families. (For details, see Recommendations and Checklist for Effective Property Tax Reform, page 4.)**

Municipalities Where the Property Tax Increased by 40 Percent or More (1990-1999)



In the 1990s, 139 municipalities saw their property tax rates increase by 40 percent or more.

# Why Today's Property Tax System is Failing

**1. Property taxes in New Jersey are the nation's highest.** New Jerseyans shoulder an unusually heavy property tax burden. Our per-capita property tax is the highest in the nation at \$1,760 for every man, woman and child in the state, and more than double the national average.<sup>1</sup> At the same time, New Jersey relies more heavily than most states on local property taxes to fund key services, from public schools to local roads and sewers. In New Jersey, local property taxes alone virtually equal the \$14 billion in total revenue collected in 2000 from state income, sales and corporate business taxes combined.<sup>2</sup>

**2. New Jersey's property tax is not equitable.** On overall fairness grounds, the property tax is regressive. Two New Jersey Property Tax Commissions concluded that property taxes in New Jersey had a disproportionate impact on lower- and middle-income residents.<sup>3</sup> This is mainly because the home represents a larger share of total wealth in the average family than it does in a wealthy one.

In New Jersey the numbers show that regressive nature of the property tax is startling. The municipalities with the lower tax rates are the wealthiest, and visa versa. (See table below.)

**3. Property tax rates are unstable.** History shows that in New Jersey, rates may change dramatically in a relatively short period of time. For example, in the decade of the 1990s, 139 municipalities saw their property tax rates increase by 40 percent or more.

Municipal Property Tax Rates by Income		
Property tax rate range (1999)	Number of Towns	Median per capita income (1998)
Less than 1.50 percent	32	35,382
1.50 percent to 1.99 percent	87	31,937
2.00 percent to 2.39 percent (median)	164	24,262
2.40 percent to 2.59 percent	94	21,714
2.60 percent to 2.99 percent	101	19,193
3.00 percent to 3.49 percent	64	18,300
3.5 percent or more	24	14,070
<b>TOTAL (NJ statewide)</b>	<b>566</b>	<b>24,146</b>
<b>Towns with lower tax rates are the wealthiest, and those with highest rates are the poorest.</b>		

**4. Property taxes spur sprawl & disinvestment.** Not only does the current inequitable system saddle many New Jerseyans with high rates, it also promotes a series of unintended consequences that have their own costs, and negatively impact the quality of life in the Garden State.

Local municipalities are so dependent upon property taxes to finance local services, especially schools, that they too often chase and compete for new development or "ratables" – even when it doesn't fit the community's character or vision, adds to local traffic woes and eliminates farmland and open land.

A vicious and self-perpetuating cycle flourishes under the current property tax system. Developers and businesses that might help communities starved for property taxes by bringing sought-after revenue instead avoid these neediest areas because they generally have higher property-tax rates. Meanwhile, outlying suburbs and rural areas look like the smart choice for new development, when in reality they are the default choice. These places, when built in a sprawling low-density development pattern also lose under today's tax system as new development changes the character of the community, burdens roads and schools and will, in the long term, result in higher property taxes

**5. Property taxes seriously skew housing choice.** The property tax system drives many communities to favor commercial, industrial or senior housing developments over traditional family housing in order to limit school-age children. New Jersey's position is especially painful because local property taxes provide about 55 percent of school costs, while the national average is about 42 percent.

**6. Property taxes block open space goals.** Under the current property tax system, New Jersey will not meet its goals for preserving open space, especially farmland. The chase for ratables eats up open land, increases development pressures and the costs of preservation, and so puts goals for preserving open space out of reach.

<sup>1</sup> United States Census Bureau's 1999 Annual Survey of Government Finances at <http://www.census.gov/govs/www/estimate99.html>.

<sup>2</sup> U.S. Census Bureau, supra note 1.

<sup>3</sup> New Jersey State and Local Expenditure and Revenue Policy Commission Report (SLERP) page 48 (1988), concurring with the New Jersey Property Tax Assessment Study Commission's 1986 finding that "the distribution of property taxes in the state was regressive."

# How Property Tax Reform Could Work

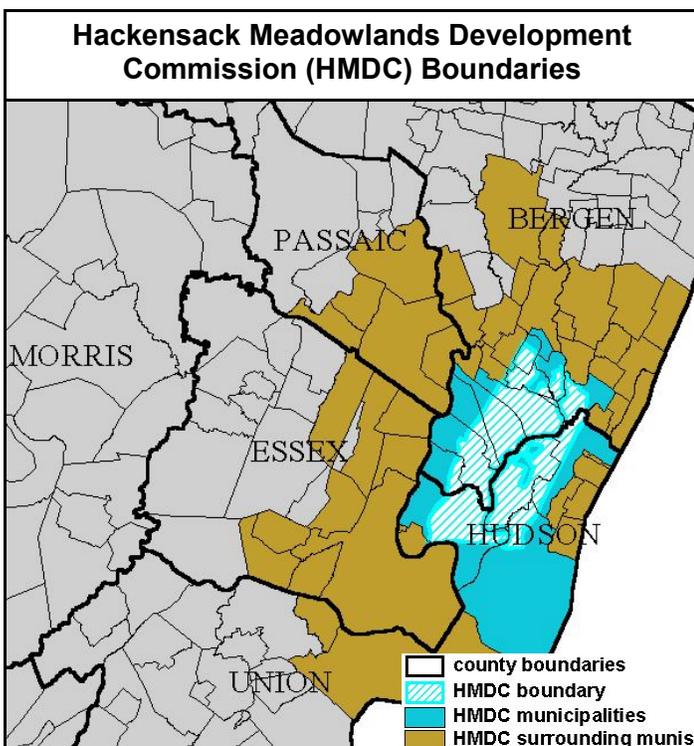
Meaningful property tax reform could be accomplished by changing the current system in any number of ways. Critical for the success of any property tax reform is that it be specifically tailored to address land use patterns and do so in a regional context. Regional tax reform will reduce the chase for ratables by and between municipalities, and empower municipalities to make land use decisions with the good of the entire region in mind. A regional approach is also consistent with the state's land use goals as articulated in the State Development and Redevelopment Plan as well as in landmark NJ Supreme Court cases involving planning<sup>4</sup> and school funding.<sup>5</sup>

**1. Property Tax Sharing.** In 1972 the New Jersey Legislature adopted amendments to the Hackensack Meadowlands Development Commission and Redevelopment Act (HMDC)<sup>6</sup> providing for a property tax-sharing system. Fourteen municipalities make up the area under the jurisdiction of the Commission.<sup>7</sup> Tax sharing was adopted because development occurring in some municipalities generated property tax revenue, while preservation of land in others foreclosed the generation of property tax revenue. Tax sharing allows the municipalities of the Meadowlands to share equitably in these benefits and burdens.

How well does the property tax-sharing mechanism work in the HMDC? A brief analysis was conducted of the HMDC municipalities and surrounding municipalities (effectively a ring of municipalities that is two deep and surrounds the HMDC) compared against the state as a whole. The surrounding municipalities serve as a good comparison because they are not only geographically close to the HMDC, but also share many of the same development patterns as the HMDC. This analysis shows:

- The HMDC municipalities have a median property tax rate lower than the median of both the surrounding municipalities and the state as a whole.
- The HMDC municipalities gained jobs whereas the surrounding municipalities lost jobs from 1990 to 1998.
- The median HMDC municipality has a lower rate of children receiving state aid than the median surrounding municipality, but more than the state as a whole.
- The HMDC has been fairly successful at preserving open space. The median HMDC municipality is less developed and has about three times as much preserved or constrained land as a percentage of total land than the median surrounding municipality. Both the median HMDC and surrounding municipality are more developed in percent of total land than the median for the state as a whole, but this is not surprising given their location in the highly developed northern part of the state.

(Continued on page 4)



<sup>4</sup> *Southern Burlington County NAACP v. Mount Laurel* 92 N.J. 158, 236; 456 A.2d 390, 429.

<sup>5</sup> *Abbott v. Burke* 119 N.J. 287, 384.

<sup>6</sup> N.J.S.A. 13:17-1 et seq.

<sup>7</sup> "Hackensack Meadowlands" means all those Meadowlands lying within the municipalities of Carlstadt, East Rutherford, Little Ferry, Lyndhurst, Moonachie, North Arlington, Ridgefield, Rutherford, South Hackensack and Teterboro all in Bergen county; and Jersey City, Kearny, North Bergen and Secaucus, all in Hudson county. N.J.S.A. 13:17-3. Hereafter HMDC.

<sup>8</sup> Sheryll D. Cashin, *Localism, Self-Interest, and the Tyranny of the Favored Quarter: Addressing the Barriers to New Regionalism*, 88 Geo. L.J. 1985, 2028 (2000).

<sup>9</sup> Id. Citing Anita A. Summers, *Major Rationalization Efforts Between Cities and Suburbs in the United States* 9 tbl. 1 (Warton Real Estate Ctr., Working Paper No. 246, June 1998).

## Recommendations and Checklist for Effective Property Tax Reform

**New Jersey Future supports a constitutional convention to enact meaningful property tax reform. To date, it appears that a constitutional convention has the best shot at delivering real property tax reform in the near term.**

To achieve smarter growth, meaningful property tax reform must pass the following critical tests:

- ✓ **Foster regional land-use planning and decision-making.** Land use authority is far more fragmented and decentralized in New Jersey than most other states. Our state's prosperity and quality of life are dependent upon greater regional coordination and cooperation in preserving open space and guiding development. The New Jersey Supreme Court, the National Governor's Association and public policy scholars have stated that the solutions to the problems associated with the current property tax system must be regional in nature.
- ✓ **Reduce the ratables chase.** Under the current tax system, no municipality can overcome the problem of the ratable chase alone. Regional tax reforms would lessen the competition between municipalities for property tax income that puts an unnecessary emphasis on large commercial, industrial and senior housing development.
- ✓ **Encourage appropriate economic development.** The current system unnecessarily skews development patterns so that open space appears to be the rational place to put development, rather than places with existing infrastructure. Property tax reform must level the playing field so that older suburbs and urban areas are as competitive from a development perspective as rural areas are under the current system.
- ✓ **Lessen local government reliance on the property tax.** Under the current system municipalities rely heavily on local property taxes to fund local services. Property tax reform must reduce this reliance so that land use planning is driven by community vision and values, not the chase for ratables.
- ✓ **Decrease current inequalities, between and among individuals, local governments and school systems.** The current system has an unfair and disproportionate impact on lower- and fixed-income New Jerseyans, perpetuating poverty statewide. Property tax reform must reverse this and make property taxes less regressive and more progressive.

### How Property Tax Reform Could Work

*(Continued from page 3)*

Across the country, some form of tax sharing is used in approximately 27 metropolitan regions. However, in addition to the HMDC, only the Twin Cities Fiscal Disparities program in Minnesota and the Dayton Government Equity Fund in Ohio appear to be designed specifically to reduce inter-municipal fiscal disparities by sharing property value growth.

**2. Statewide or Regional Property Taxes.** Under a single statewide property tax rate, more New Jerseyans would see their property taxes go down than would pay more. All 566 municipalities raised \$13.1 billion in property taxes in 1999. That amount was raised by the municipalities taxing property at rates that ranged from

0.69 percent to 10.87 percent. Instead of a multitude of rates, the same amount of money could be raised by a statewide property tax rate of 2.41 percent. If this were the case, 269 municipalities, containing 61.6 percent of the State's population would pay lower property taxes than they currently do. Conversely, 297 municipalities, containing 38.4 percent of the State's population, would pay more property taxes. If this system was adopted today, approximately 5 million New Jerseyans would pay a lower property tax rate under this system, whereas approximately 3.1 million New Jerseyans would pay a higher property tax rate. One could also envision such a system working not on a statewide basis but instead on a regional basis where different regions of the state used the same property tax rate.

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