



CONNECTICUT
VOICES
FOR CHILDREN

Property Tax Cap

The Wrong “Cure” for High Property Taxes

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1000 Friends of Connecticut
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1. Was the Governor’s property tax cap proposal based on an accurate diagnosis of a problem?
2. Was the Governor’s proposed cap a “cure” that might hurt more than it helps?
3. Are there other “cures” that target property tax relief with fewer adverse side effects?

The Governor's Identified Problem

“Connecticut is the second highest state in the nation, behind New Jersey, in property taxes per capita (2004).

Connecticut's property taxes per capita were 85 percent above the U. S. average (2004).”

“Our local taxpayers need help. They are straining under the weight of ever-increasing property taxes.”

Governor Rell, *Investing in Our Future: Targeting Educational Excellence and Property Tax Relief in Connecticut* (PowerPoint Presentation, March 27, 2007), pp. 2, 3.

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I. Was the Diagnosis Correct?

Why are property taxes relatively high in CT?

“Connecticut is one of only 12 states that do not authorize a local option sales or income tax or both.”

In FY 04, 98.2% of all local taxes in Connecticut were property taxes. Nationwide, property taxes were 73% of total taxes collected by local governments.

Program Review & Investigations, *Connecticut's Tax System* (2005), p. 74
U. S Census Bureau, *State and Local Finances by Level of Government and by State: 2003-04*

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I. Was the Diagnosis Correct?

Why do property taxes increase?

1. Municipal service costs increase faster than local grand lists (e.g., rising health care costs, increasing school enrollments).
2. The state exempts property from the property tax but doesn't fully reimburse towns for the lost revenues.
3. The federal and state governments impose unfunded mandates on towns and reduce funding for existing mandates.

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I. Was the Diagnosis Correct?

4. The state balances *its* budget by cutting aid to towns

The state commonly cuts aid to towns during recessions when the state budget is in deficit. The state share of K-12 education peaked in 1990 at 46%, declined to 38% in FY 93 (after a recession), increased back to 42% by FY 00, declined (again) to 38% in FY 04 (after another recession).

Town aid has been a declining share of the state budget. In the 1980s *more than* 20% of the state budget was aid to cities and towns. In FY 08 just 15.5% was aid to cities and towns.

State funding is a smaller share of total town revenues than in FY 91 (28.6% in FY 91, 30.0% in FY 00, and 26.5% in FY 04).

If CT provided same share of funding of town budgets as MA (in FY 04, 35%), state aid to towns would have been \$1.13 billion more. If a dollar-for-dollar reduction in property taxes resulted, CT property taxes could fall from \$6.8 billion to \$5.67 billion. CT's property tax would then be a smaller share of total personal income than in MA.

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I. Was the Diagnosis Correct?

There's a direct correlation between rapid growth in property taxes and slow growth in state aid

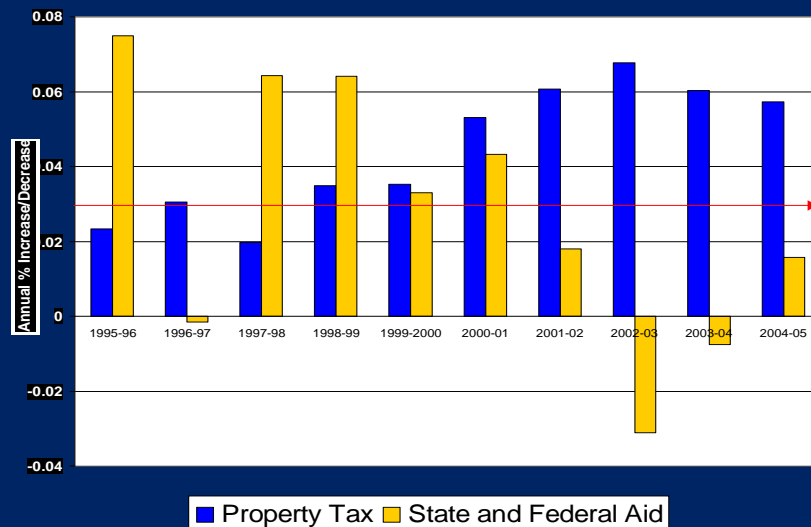
“During the five year period from FY 94-95 to FY 1999-00, state aid increased by an average of 4.65% each year, while property taxes increased by an average of 2.87% per year.

Conversely, during the five year period ending in FY 2004-05, state aid increased by an average of less than 1% per year, while property taxes increased by almost 6% per year.”

Governor Rell, *Investing in Our Future: Targeting Educational Excellence and Property Tax Relief in Connecticut* (PowerPoint Presentation, March 27, 2007), p.17.

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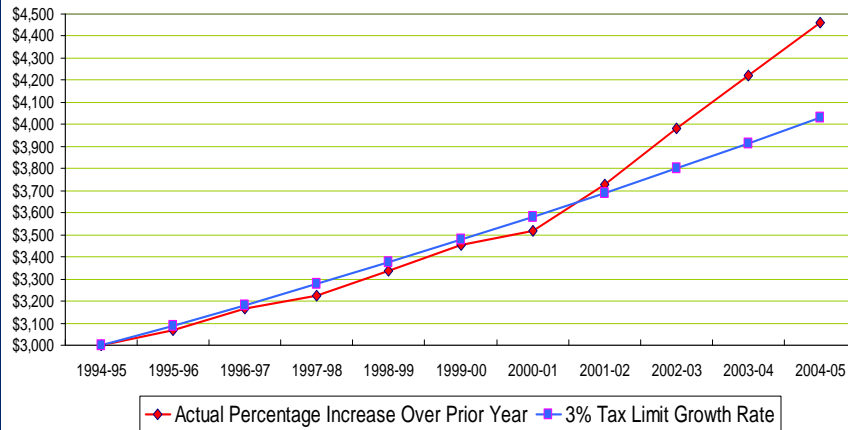
Comparison of Annual % Change in Property Tax Revenue vs. State and Federal Aid



Governor Rell, *Investing in Our Future: Targeting Educational Excellence and Property Tax Relief in Connecticut* (PowerPoint Presentation, March 27, 2007)(embedded graph).

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Comparison of 3% Tax Levy Limit vs. Average Actual Tax Levy Increases FY 1995-96 to FY 2004-05



Governor Rell, *Investing in Our Future: Targeting Educational Excellence and Property Tax Relief in Connecticut* (PowerPoint Presentation, March 27, 2007)(embedded graph).

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I. Was the Diagnosis Correct?

Why is there such concern about property taxes *now*?

Residential property is paying a growing share of the property tax compared to commercial/industrial and public utilities. Since 1989, the residential portion of CT's property tax base has *increased* from 58% to 67%.

Recent income growth has been concentrated among higher-income families; middle and lower-income families are having a harder time making ends meet.

Program Review & Investigations, *Connecticut's Tax System* (2005), p.66
CT Voices for Children, *The State of Working Connecticut*, 2008

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The Governor's 1st Proposal (2007)

Prohibit a city or town from increasing the total amount of property taxes it collects by more than 3% from one year to the next, except:

- If the grand list grows by more than 1.5% in a year (except through re-valuation). Then property taxes can grow by 3% + grand list growth over 1.5%
- If there is an override vote by 2/3 of the town's legislative body AND a majority of its voters
- If there is an emergency and a 2/3 vote of the town's legislative body AND approval of the OPM Secretary.

Debt service costs are exempt from the limit as well as certain growth related to regional school district budgets₁₁

II. Might the Proposed Cap Hurt More Than Help?

A 3% growth cap would be one of the most restrictive in the nation.

Just 5 states with property tax caps limit growth to 3% or less.

Only 1 of the 5 (MA) has no local sales tax to supplement town revenues.

8 other states limit growth to inflation. Of these, only 1 (MT) has no local sales and/or personal income tax (although there are some local resort taxes in MT).

II. Might the Proposed Cap Hurt More Than Help?

Allowing property tax growth in excess of 1.5% annual growth in the grand list encourages “fiscal zoning.”

Towns would want to zone out (and otherwise discourage) development that will bring in costs, like housing for families with children (though CT wants to attract and retain young families).

Towns would want to zone in (and otherwise act to attract) “big box” development that grows the grand list. This encourages sprawl and discourages regional solutions to economic development.

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II. Might the Proposed Cap Hurt More Than Help?

Exempting debt service will tempt towns in fiscal crisis to borrow funds for operating expenses, increasing their long-term costs

CT’s state spending cap also exempts payments on debt. Since the cap was adopted, state bonded debt has increased, with a sizeable percentage of the bond funds used for on-going expenses (39% of the \$1.3 billion issued in FY 01)

As debt has increased, so has debt service – from 5.4% of total general state spending in FY 90 to about 10.8% in FY 09 – crowding out other spending on significant state needs, including aid to towns.

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II. Might the Proposed Cap Hurt More Than Help?

The cap's override provisions, while essential, can breed dissension within towns, create uncertainty and instability in town budgeting, and expand disparities across CT towns.

Over-ride votes will increase uncertainty and instability in town budgeting and throw town budget timelines into chaos.

Research in other states with caps finds that override votes are more common in wealthy communities, and also more successful. This results in increased disparities among towns in funding for education and other town services, and increased property values in override towns.

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II. Might the Proposed Cap Hurt More Than Help?

The proposed one-size-fits-"cure" is too blunt an intervention, and likely to lead to many unintended, harmful consequences.

Connecticut's 169 cities and towns differ greatly:

- In the value of their grand lists and the proportion of property exempt from tax
- In the need and demand for town services & residents' expectations about the level and quality of services
- In unfunded liabilities (health, pension)
- In the pace at which need and demand for services may change

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II. Might the Proposed Cap Hurt More Than Help?

The proposed cap does not guarantee that any individual family's property taxes could only go up by 3% each year, but only that total town property taxes would.

The proposed cap limits growth in *total* town property taxes to 3% per year.

A family's property taxes, however, may well go up by *more than* this amount (e.g., when there are changes in the valuation of properties within the town, if additional property becomes exempt from tax).

A family's property taxes may also go up by *less than* this amount (e.g., if development in town expands the grand list, or after revaluation).

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II. Might the Proposed Cap Hurt More Than Help? MA's Experience

Proposition 2 ½ passed in 1980. Mandate that property taxes can't exceed 2.5% of town's assessed value and can't grow by more than 2.5%/year except for "new growth" in tax base not resulting from revaluation. Town can override levy limit by majority vote.

Though lowered MA property taxes as % of personal income:

- Constrained towns' ability to raise revenues without any consideration of actual cost of providing services
- Made towns heavily dependent on state aid, which fluctuates w/ economy
- Exacerbated differences between wealthy and poor towns in access to quality local services
- Resulted in cuts to valued town services

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II. Might the Proposed Cap Hurt More Than Help? MA's Experience

Lessons learned from MA experience:


- Tax cap doesn't make government services cost less
- Claims that caps produce large savings through "efficiencies" are exaggerated
- Tax caps can be particularly harmful if adopted in a weak economy (because huge infusion of state aid unlikely)
- Changes in school enrollment can have a big impact
- Without effectively targeted state aid, low-income communities fall even farther behind.
- State aid can't be *relied on* to fill the gap
- Wealthier communities override the tax cap more often than poorer towns
- Middle-income towns can end up bearing the brunt of a cap (don't get as much state aid as poorer towns & less likely to override than wealthier towns)

O'Leary & Lav. Hidden Consequences: Lessons from Massachusetts for States Considering a Property Tax Cap (CBPP, May 21, 2008)

II. Might the Proposed Cap Hurt More Than Help?

Research finds adverse consequences from property tax caps in other states, including:

- Growth in fees and charges to replace property tax revenues
- Increase student-teacher ratios
- Increased educational disparities across towns since override votes are more common in wealthy communities, and also more successful.
- Growth in local debt/debt service
- Even greater dependence on state aid
- Increased use of local tax subsidies to attract development; increased sprawl
- Increasing health insurance costs consume most allowable growth
- Sharp reductions in town workforces and in areas of service not mandated by state law (e.g., libraries, community development, parks)



“We are opposed to any mandated limit on the allowable growth in revenues or expenditures of municipalities. As the [Connecticut’s Tax System] report indicates, local property tax growth, which accounts for the vast majority of their revenues, ‘is relatively slow but steady and adds stability to Connecticut’s overall revenue structure.’ We would prefer to assist municipalities in controlling spending growth by eliminating unfunded mandates.

OPM Secretary Robert Genuario

February 16, 2006 Letter to Director, Legislative Program Review and Investigations Committee, in Program Review and Investigations Committee, *Connecticut’s Tax System*, Appendix A.

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III. A “Cure” with Fewer Side Effects?

Help towns reduce property taxes by reducing their costs:

- Create more financial incentives for regional partnerships to reduce inefficiencies inherent in operating 169 separate towns, and nearly as many school districts
- Substantially increase and *then maintain* state support for public education
- Assist towns with health insurance costs (e.g., assume some share of costs and/or create a larger purchasing pool to reduce cost)
- Repeal, modify or fully fund all current state mandates on towns (e.g., special education). Add no new *unfunded* mandates
- Increase state payments in lieu of taxes (PILOT) on exempt property

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III. A Cure with Fewer Side Effects?

Help individual taxpayers with well-targeted tax relief, e.g., through one or more of the following:

- Increase property tax credit against personal income tax
- Extend state-funded property tax circuit breaker for all low/fixed income residents
- Expand tax deferral programs for elderly homeowners

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Summary

- CT's history shows that sufficient state aid leads to controlled growth in the property tax. The state should pay an *increased share* of town expenses and encourage and assist towns in achieving greater efficiencies in managing their costs.
- Experience in other states - and in CT - shows that a cap does not necessarily limit revenue growth, but can shift its source (e.g., to fees and charges), and does not necessarily limit spending, but can shift its form (e.g., to bonding). These changes can result in a tax system that is *less* equitable, and in spending that has longer-term costs.


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Summary

- Experience in other states shows that there are *significant* risks inherent in a 3% cap on property tax growth, particularly in CT where towns have with few alternative revenue sources. Risks include encouraging sprawl, reducing the quality of our educational system, constricting the supply of housing for young families, impairing the quality of our town services, increasing town debt, and widening the inequities among our cities and towns. *CT should not rush* to adopt a cap; *full* understanding of its likely consequences is essential.
- Proven alternatives exist to *reduce* property taxes that do not pose the significant risks of the cap’s one-size-fits-all “cure” imposed on 169 very different cities and towns.

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**“Make a habit of two things
— to help, or at least to do no harm.”**

Hippocrates

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