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RPA

# Comprehensive Property Tax Reform for New Jersey

A Regional Plan Association / Lincoln Institute of Land Policy Partnership Project

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This report was written by Christopher Jones and Alexis Perrotta with the assistance of Thomas Wright, Thomas Dallessio, Sasha Corchado, and Katherine Nosker. It was designed by Jeffrey Ferzoco.


### Property Tax Reform Steering Committee


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# Introduction

New Jersey's recently adopted budget for the 2007 fiscal year represents an important milestone that could pave the way for fundamental reform of the state's property tax system. The budget resolved the state's immediate fiscal crisis without fiscal gimmicks or an over-reliance on one-time revenues, freeing state officials to focus on long-term reforms. It also provides for a modest reduction in property taxes by applying half of the revenue from the approved increase in sales taxes to reduce the local property tax burden. However, there should be no illusion that the budget is a solution to the structural problems inherent in both the property tax system and the state's long-term fiscal condition. In fact, simply applying sales tax revenue to New Jersey's existing property tax rebate programs would waste this opportunity to implement sorely needed reforms. Property taxes would still be among the highest in the nation and would continue to result in inefficient land use, an inequitable distribution of tax burdens, and incentives that conflict with the goals of the State Development and Redevelopment Plan, the Council on Affordable Housing and the Abbott education finance decisions. Property taxes in New Jersey must be reformed in the context of the state's ongoing fiscal challenges. A fairer and more effective system of local taxation should be part of a structural solution to the state's long-term budget problems.

Over the last two years, Regional Plan Association and the Lincoln Institute of Land Policy have issued a series of reports to help inform the ongoing debate over how to reform property taxes. These reports have attempted to address two issues that were not receiving sufficient attention in the political debate, and which need to be a priority in any serious attempt at reform. The initial goal was to improve public understanding of the connection between property taxes and land use, and to generate ideas for advancing the widely accepted goals of reducing sprawl and encouraging equitable and efficient land use through tax reform. It soon became apparent, however, that there was an even greater need for a framework to evaluate wide-ranging reform proposals. As a result, RPA and the Lincoln Institute issued a report in May 2006 that evaluated five reform proposals by a set of seven criteria for making both taxes and land use more efficient and equitable.

These reports are summarized in **Table 1** on page 5. The criteria include achieving consistency with the State Development and Redevelopment Plan, encouraging the production of affordable housing, improving equity in education funding, encouraging flexibility in different economic environments, encouraging local fiscal discipline, improving fiscal stability, and maintaining local autonomy. Of the five proposals that were analyzed, none was the clear winner, although some showed more broad-based benefits across all the criteria. Some, such as proposals to shift to a statewide or countywide school property tax rate, would have a limited impact on improving land use and social equity without additional reforms. Others, including a proposal to vary taxes by State Plan category and an income tax substitution proposal, would have positive effects on affordable housing and education equity, but mixed effects on efficiency and fiscal health. The split rate taxation proposal received strong marks across criteria; however, it would require a dramatic restructuring of how property is taxed, and poses difficult implementation challenges.

Citizens and policy-makers in New Jersey should use this or a similar set of criteria and benchmarks to debate a wide range of proposals that would fundamentally change the state's property tax system. No single approach is likely to adequately meet all of the objectives for property tax reform. The issues are too complex and the impacts are too pervasive. The goal of this report is to take the best ideas from RPA/Lincoln's previous studies and evaluate them as potential elements for a package of comprehensive reform.

This report also more explicitly addresses two issues that were only tangentially discussed previously. In addition to the criteria articulated for policy goals, the ideas in this report take implementation challenges into account. Both technical and political hurdles are considered and help shape the recommendations. The report also analyzes how changes in the tax structure might impact New Jersey's immediate economic competitiveness by examining the state's tax structure in comparison to other states.

The ideas in the report are organized under three broad goals that represent major themes in the property tax debate. These vary in terms of specificity, in large measure reflecting the scope of the research and level of analysis. Chapter 2 evaluates revenue sources that could substitute for a portion of the property tax. An alternative revenue source has the most potential for reducing the overall level of property taxes, and would also have significant impacts on land use. However, it also has the most implications for larger fiscal and economic issues that would require additional analysis beyond the scope of this report. Chapter 3 discusses the importance of improving government efficiency and holding down costs as part of the property tax debate, and suggests two categories of reform that could advance that objective. Chapter 4 makes two specific recommendations for changing how property taxes are levied to improve land use efficiency. Regardless of whether and how property taxes are reduced through the use of alternative revenues or cost savings, additional measures will be necessary to align the property tax system with the goals embodied in New Jersey's State Plan. The final chapter summarizes the conclusions from these analyses.

Table 1

## Reform Scenarios Rated by Crtieria

| | Reform Scenario | | | | |
|---|---|---|---|---|---|
| | Vary by State Planning Area | Statewide Rate | Countywide Rate | Income Tax Substitution | Split Rate Taxation |
| **Land Use and Social Equity** | | | | | |
| Consistency with State Plan | High | Moderate | Moderate | Moderate | High |
| Housing Affordability | Moderate | Moderate | Moderate | High | High |
| Education Equity | High | Low | Low | High | Moderate |
| **Efficiency and Fiscal Health** | | | | | |
| Flexibility | High | Low | Moderate | Moderate | High |
| Fiscal Discipline | Moderate | Moderate | High | Low | Moderate |
| Fiscal Stability | Moderate | Moderate | Moderate | Low | Moderate |
| Local Autonomy | Low | Low | Moderate | High | High |

**Regional Plan Association. "Fundamental Property Tax Reform II: A Guide for Evaluating Proposals." (May 2006).**

# Chapter 1 Potential Impacts of Shifting to Alternative Revenue Sources

For most citizens, the primary motivation for property tax reform is to reduce the overall level of property taxation. The only ways to accomplish this are either to shift the burden to other sources of revenue or to reduce the expenses that property taxes support through greater efficiencies or service reductions. Even assuming that there are substantial opportunities for politically acceptable cost reductions, it is unlikely that these could achieve the type of dramatic reductions that would be possible from substituting property values with other sources of revenue. For example, Michigan cut school property taxes in half by substituting a state sales tax and other revenues for local property taxes. The obvious rub is that this does not reduce the total tax burden for citizens of the state, but it can profoundly change who pays and how the tax system affects the economy, land use and government operations.

New Jersey's budget resolution for the 2007 fiscal year provides for a modest shift from property taxes to sales taxes, with half of the revenue from a one percentage point increase in the sales tax dedicated to reducing the local property tax burden. The next question is whether further property tax reductions should be sought by raising other taxes and, if so, which ones. It is important to understand how alternative proposals could impact the goals of property tax reform, as well as the fiscal health of the state.

From the perspective of land use efficiency, the potential to shift away from the current system of local property taxation offers an opportunity to change many of the incentives that have contributed to urban sprawl, fiscal zoning and anemic rates of housing production in New Jersey. As documented in previous RPA/Lincoln Institute reports in this series, there is a large volume of academic research that supports the conclusion that high property taxes discourage development in dense areas supported by existing infrastructure and encourages low-density development in greenfields, outcomes which are economically inefficient and exacerbate income segregation and social inequities. Much of this impact comes not from the taxation of property per se, but from the reliance on local revenue sources that encourages competition for development that brings in revenue, such as retail, and discourages development, such as rental housing, that is perceived to raise costs more than revenues.[1]

Greater fairness in the tax system is another major reason that is often cited for shifting away from property taxes. Community standards for fairness can be complex, but generally involve whether formulas progressively adjust tax burdens according to ability to pay. Whether property taxes are progressive or regressive is a matter of debate. Structurally, property taxes seem regressive because they are not based on the ability of the taxpayer to shoulder the burden. Rather, they are based on the condition and type of home as well as the value of a neighborhood and strength of a real estate market. For example, a household could pay a relatively low price for a home one year, and then, if the neighborhood improves, shoulder an ever-increasing property tax burden even as its income does not increase. Others argue that property taxes, when based on accurate assessments, are effectively (if not structurally) progressive. For a variety of reasons, both property and land in poorer areas tend to be over-assessed while more valuable property may be under-assessed. Over-assessment in poor areas has led to abandonment and even arson. Accurate assessments reflect the true value of the property, and create progressive results. Still, revenue sources other than the property tax could be even more progressive, and the optimum mix of taxes is a legitimate issue.

There are also a number of possible negative impacts of shifting to other revenue sources. Property taxes are stable sources of revenue, in that they do not fluctuate as quickly as other taxes in economic downturns, so changing the state's portfolio could result in more fiscal instability. As a local tax, they also provide incentives for municipalities and school districts to minimize expenses and tax rates. As a corollary, substituting state sources for local ones could result in the erosion of local autonomy. To the extent that local control is a value in and of itself, this is a cost that needs to be weighed against other potential benefits.

The previous RPA/Lincoln Institute report evaluated two proposals that shifted the tax burden from local to state sources. One moved toward a system of uniform statewide property taxes to fund public education while the other assumed the major provisions of the NJ SMART proposal to shift half the school property tax to statewide income taxes. The results reflected the observations described above, as well as the vagaries of New Jersey's property tax system. Evaluated against seven criteria, the statewide property tax ranked poorly compared to other proposals, in large part because existing state aid has already made school tax rates lower in many poorer districts than they would be otherwise.

The income tax substitution plan, on the other hand, performed relatively well. It was judged to strongly improve equity in education funding and incentives to build affordable housing. It is also consistent with local autonomy while moderately supporting the land use goals of the State Plan. It ranked poorly, however, on the criteria of fiscal stability and fiscal discipline. Income taxes are less stable than property taxes during economic downturns, and school districts would have less incentive to hold down costs if half of their property taxes were being rebated by the state. The NJ SMART bill has since been revised to address the fiscal discipline issue by requiring school districts to meet the state-mandated 2% cap in annual growth of expenditures in order to be eligible for the rebate. A fuller discussion of the state cap can be found in Chapter 3.

One issue that was not fully explored in the previous report is the impact of any revenue substitution proposal on New Jersey's economic competitiveness. In the long term, reforms that meet the criteria specified in the report—greater land use efficiency, more affordable housing, fiscal discipline and flexibility—should improve the state's economic competitiveness and performance. However, these reforms also need to take into consideration how they will affect tax rates relative to other states, particularly nearby states where competition for workers and business is more intense. Determining how different proportions of property, income, sales and other taxes and fees would affect New Jersey's economic performance is a complex exercise. The right mix of state and local burdens also needs to consider a number of factors, particularly the fiscal health of the state and its local jurisdictions.

Given the size of New Jersey's long-term fiscal challenges, shifting local tax burdens to the state will not be easy. Nor is it obvious which revenue source is the best alternative to high property taxes. The following analysis is intended to provide a framework for that debate. It begins with an evaluation of the widely-held assumption that New Jersey's taxes are uncompetitive, and then evaluates how different taxes compare with the nation and nearby states and what the implications might be if these were increased to allow for a reduction in property taxes.

1 Henry A. Coleman, and Paul D. Gottlieb, "Fiscal Policies to Support Smart Growth: The Case of the Somerset Regional Center," (2004), and Regional Plan Association "Fundamental Property Tax Reform," (October 2005).

# Chapter 1a
# Comparative Tax Burdens

In 2005, New Jersey residents paid an average $4,971 in combined state and local taxes, higher than any state except Connecticut and New York and nearly a third higher than the U.S. average. When federal taxes are included, New Jersey was second only to Connecticut with average taxes of $15,038 per person. This does not necessarily mean that New Jersey's taxes are among the most onerous. As the state with the second highest per capita income in the country, it is to be expected that New Jersey would have high per capita taxes. Wealthier individuals earn more, own more and spend more. So even if tax rates were identical in all 50 states, New Jersey would still pay more in income, property and sales taxes.

In fact, measured as a proportion of income, the total state and local tax burden of New Jersey is about average. In 2004, state and local taxes consumed 11.6% of personal income, somewhat more than the 11.0% national tax burden but much closer to the average state than when New Jersey is ranked by per capita taxes. This makes New Jersey very competitive with New York, which has the second highest tax burden in the U.S. at 14.7%. New Jersey's tax burden is the same as Connecticut's, and somewhat higher than Pennsylvania and Delaware's. When federal taxes are included, however, New Jersey has the 3rd highest burden behind only Maine and New York. The tax increases in the recently approved budget are likely to slightly increase New Jersey's tax burden.

In **Table 2**, Per Capita taxes are from the Tax Foundation. Per Personal Income rates are from the Federation of Tax Administrators.

Similarly, business taxes as a share of New Jersey's Gross State Product (GSP) are comparable to the U.S. average and somewhere in the middle when compared to nearby states. As calculated by Ernst and Young for Fiscal Year 2005, business taxes constituted 4.5% of New Jersey's GSP, slightly lower than the U.S. average of 4.8%. New York was considerably higher at 5.7%, Pennsylvania was slightly higher, and Connecticut and Delaware were substantially less. (See **Table 3**)

Total state and local taxes as a share of GSP are also comparable to other states in the region. The proportion is 10.6% in New Jersey, almost identical to Pennsylvania and Connecticut, and substantially less than New York's 12.3%.

Interpreting what this data means for the state's competitive position is less straightforward. Both business and personal taxes matter when businesses are choosing locations, considering expansion and recruiting workers. Residents choosing where to live consider both taxes and the quality of government services, and do so in the context of the total cost of living and quality of life. Also, the distribution of the tax burden can matter as well as overall burden, and the types of individuals and businesses that are most highly taxed can also affect economic conditions.

As one attempt to calculate the comparative business tax climate of different states, the Tax Foundation constructed an index comprised of sub-indexes for both personal and business taxes. It considers corporate and business taxes, individual income tax, sales and gross receipts tax, unemployment insurance tax, and wealth and property taxes. The index accounts for both the tax rate and the tax base, the variance of taxes from the national median, and complexity such as number of brackets. By this index, New Jersey fared very poorly, coming in 49th, with only New York having a worse tax climate. Connecticut was 39th, while Pennsylvania and Delaware ranked quite well at 16th and 8th respectively. New Jersey's ranking is worse than its overall tax burden would suggest, probably because the index gives poorer overall rankings when the top income and corporate rates are high, when income brackets are numerous and wide, and when tax codes are complex, all conditions that apply to New Jersey. The recent increase to New Jersey's sales tax rate will probably not change the state's overall ranking. The sub-index measuring New Jersey's sales and gross receipts taxes ranked the state at 27, very near the middle of the country. Even if New Jersey's ranking in this sub-index declines, New York is still likely to retain the worst overall rank. New Jersey's ranking was driven primarily by poor rankings in income, corporate and property taxes. (See **Table 4**)

Considering the number of judgments made in constructing and weighting this index, its results should be interpreted with care, particularly considering the data on both personal and business tax burdens showing New Jersey closer to the mean. Also, in considering which taxes may be good candidates to substitute for property taxes, it is probably best to start by comparing tax burdens for particular sources and then consider the best formula for implementing a change. However, the index is an indication that New Jersey's tax climate poses particular challenges for tax reform, especially at a time when the state is facing deep budget deficits in future years. Clearly, New Jersey's taxes are high compared to parts of the country with low incomes and often inferior government services. This tax climate is most likely to inhibit cost-sensitive activities and businesses, such as low-value manufacturing and routine data processing. The state's taxes are more in line with other high-income, high-tax states, and are less likely to affect high-value services and industry.

Table 2

| State & Local Tax Burden | Per Capita (2005) | Per Personal Income (in percent, 2004) | State Rank of Per Personal Income (1 is the highest, 50 is the lowest) |
|---|---|---|---|
| New Jersey | $4,971 | 15.1% | 38 |
| New York | $5,170 | 19.3% | 2 |
| Connecticut | $5,400 | 14.4% | 45 |
| Pennsylvania | $3,747 | 15.4% | 37 |
| Delaware | $3,128 | 18.7% | 5 |
| United States | $3,763 | 16.0% | – |

Federation of Tax Administrators, from US Census of Governments

Table 3

| FY 05, $ billions | Taxes that Apply to Business | Business Share of State and Local Taxes | Percent of Gross State Product (aka Effective Business Tax Rate) |
|---|---|---|---|
| New Jersey | $16.7 | 37.7% | 4.5% |
| New York | $45.6 | 41.4% | 5.7% |
| Connecticut | $6.6 | 34.2% | 3.9% |
| Pennsylvania | $20.3 | 40.4% | 4.8% |
| Delaware | $1.8 | 53.3% | 3.7% |
| US Total | $497.4 | 43.6% | 4.8% |

Ernst & Young. "Total State and Local Business Taxes." (March 2006)

Table 4

| Tax Foundation State Business Tax Climate Index | Overall Rank (1 is best, 50 is worst) |
|---|---|
| New Jersey | 49 |
| New York | 50 |
| Connecticut | 39 |
| Pennsylvania | 16 |
| Delaware | 8 |

Tax Foundation

# Chapter 1b
# New Jersey's Revenue Portfolio

Within this competitive environment, the question is whether New Jersey would be in a better position with a mix of revenue sources that is less reliant on property taxes. And if property taxes are reduced, what tax or mix of taxes and fees could be increased while having the least impact on the economy and supporting the goals of tax fairness and government efficiency? While this question deserves a level of economic modeling and analysis that is beyond the scope of this report, an examination of the state's current portfolio provides some indications of where (and where not) to look.

**Table 5** shows New Jersey's reliance on various revenue sources compared to the U.S. and neighboring states. More than anything else, the table highlights the impetus for property tax reform. Almost half (46%) of New Jersey's revenue comes from property taxes, far higher than its neighbors and the U.S. (31%). Only Connecticut comes close with 40%. The rest of New Jersey's revenues come largely from individual income taxes (19%) and sales taxes (16%). Other sources—gas and other excise taxes, corporate income taxes, fees and other sources—comprise the remaining 19%. The recent increase in the sales tax may shift these shares slightly. Sixteen percent represents about $8.2 billion; adding the projected $1.1 billion from the increased sales tax could shift the sales tax share to about 17.5% or 18%, decreasing the share of revenue from property taxes by less than 1% assuming the same amount is collected from property taxes.

Largely because of this reliance of property revenues, all other sources are either lower or in line with the U.S. and the region as a share of revenue. Sales taxes, which are used more widely in other parts of the country, were lower than the national average but only slightly below most nearby states. Individual income taxes are substantially lower as a share of revenue than every neighboring state. For example, more than 1 out of every 3 dollars of revenue in New York and 1 out of 4 in Pennsylvania come from individual income taxes, compared to 1 out of 5 in New Jersey. Corporate income taxes comprise 3% of revenue, just about the national average. New York and Delaware's shares are higher, while Pennsylvania and Connecticut's are similar or lower. Excise taxes and other sources are also either lower or similar to the U.S. and most nearby states.

Looking solely at state taxes, New Jersey looks similar to the U.S. and its neighbors. Income taxes comprise 36% of revenue, still less than New York or Connecticut but similar to other states. Sales and excise taxes, at 29% of state taxes, are similar to the U.S. and the surrounding region. At the state level, New Jersey relies more heavily on the corporate income tax (10%) than neighboring states or the U.S. as a whole. As stated above, the recent increase in the sales tax will likely shift these proportions by only 1% or 2%, maintaining New Jersey's relative position among its neighboring states. (See **Table 6**)

While property taxes predominate New Jersey's total revenue portfolio, the local share of taxes in the state is not that different from the U.S. as a whole. New Jersey receives about 46% of its state and local tax revenue from local jurisdictions, compared with 45% in the U.S. overall, and a range of 20% to 54% in neighboring states. Given the increase to the state sales tax, the state share will likely shift to about 56% of revenue and the local share will decrease to about 44% in coming years. Many states have local income or sales taxes in at least some jurisdictions, while New Jersey counties and municipalities rely almost entirely on the property tax. The high local share in New York, for example, is due in part to income, sales and other taxes that only apply in New York City. (See **Table 7** and **Figure 1**)

Table 5

| State & Local Tax Collection by Source (2004) | Property Tax | Sales Tax | Excise Taxes such as motor fuels, alcohol | Individual Income Tax | Corporate Income Tax | Other (Corporation, motor vehicle, stock transfer, etc.) |
|---|---|---|---|---|---|---|
| New Jersey | 46.1% | 15.8% | 8.9% | 18.7% | 4.8% | 5.7% |
| New York | 31.9% | 19.1% | 7.9% | 30.3% | 5.3% | 5.5% |
| Connecticut | 39.5% | 18.2% | 10.3% | 25.1% | 2.2% | 4.8% |
| Pennsylvania | 29.3% | 18.6% | 11.6% | 24.1% | 3.9% | 12.4% |
| Delaware | 15.1% | 0.0% | 13.2% | 27.7% | 7.3% | 36.8% |
| U.S. | 31.5% | 24.2% | 11.5% | 21.3% | 3.3% | 8.2% |

Federation of Tax Administrators, from U.S. Census of Governments

Table 6

| State Tax Collection by Source (2005) | Sales Tax | Excise Taxes such as motor fuels, alcohol | Individual Income Tax | Corporate Income Tax | Other (Corporation, motor vehicle, stock transfer, etc.) |
|---|---|---|---|---|---|
| New Jersey | 28.6% | 15.8% | 35.9% | 9.7% | 10.1% |
| New York | 21.9% | 10.3% | 56% | 5.5% | 6.3% |
| Connecticut | 28.2% | 16.1% | 43.4% | 5% | 7.3% |
| Pennsylvania | 29.6% | 18.9% | 30.4% | 6.2% | 14.9% |
| Delaware | 0% | 14.6% | 32.4% | 9.1% | 43.9% |
| U.S. | 32.7% | 15.2% | 34.1% | 6.0% | 11.9% |

Federation of Tax Administrators, from U.S. Census of Governments

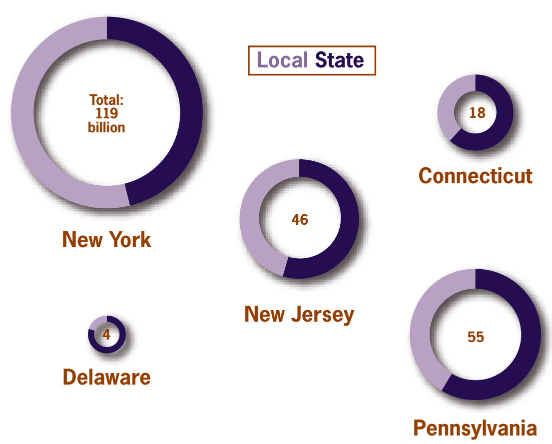
Table 7

| Tax Revenue (2002) | State Share | Local Share |
|---|---|---|
| New Jersey | 54% | 46% |
| New York | 46% | 54% |
| Connecticut | 62% | 38% |
| Pennsylvania | 59% | 41% |
| Delaware | 80% | 20% |
| U.S. | 55% | 45% |

Federation of Tax Administrators

Figure 1

**Tax Revenue** (in billions of dollars, 2002)




Tax Foundation

# Chapter 1c
Evaluating Alternative Revenue Sources

A relatively low share of revenue from a particular tax does not necessarily mean that it is a good substitute for a portion of the property tax burden. Tax rates could still be high relative to other places. It could also have a disproportionate economic impact for other reasons, such as a particular effect on an important industry or economic driver. Finally, some types of revenue may be a better fit with the seven criteria that RPA and the Lincoln Institute have proposed for property tax reform. The following analysis provides some observations on issues that should be considered for different revenue sources.

## Personal Income Tax

As described earlier, RPA's previous evaluation of a particular income tax substitution proposal—the NJ SMART bill—found that it would a good candidate for property tax reform, with the major caveats being its impact on fiscal responsibility and fiscal stability. This previous analysis did not include an analysis of how New Jersey's income taxes compare to other states, or how an increase proportionate to a property tax decrease might affect short-term economic competitiveness. As shown above, income taxes are a smaller proportion of state and local taxes in New Jersey than elsewhere. A comparison of tax rates and per capita taxes paints a more complex picture.

While New Jersey's individual income taxes are higher than the U.S. average on a per capita basis, ($852 vs. $732), as a percent of personal income New Jersey's 2.0% share is less of a burden than the national average of 2.2%. Even on a per capita basis, New Jersey's income taxes are lower than for every nearby state except Pennsylvania ($832). New York ($1,595) is nearly twice as high and Connecticut ($1,235) is not far behind New York. [2]

For state income taxes only, New Jersey's rate structure is more progressive than neighboring states: low tax rates for lower brackets and the highest rates in the region for upper brackets. Much of this is due to the "half millionaire's tax" on households earning over $500,000. This does not factor in local income taxes like those in New York City and Yonkers, nor does it account for differences in deductions among the states. In effect, income taxes for low and middle-income families are probably competitive with Pennsylvania, Delaware and the parts of New York outside of New York City. Even for high-income families, the highest tax rate in New Jersey compares favorably to the highest rate for residents of New York City. (See **Table 8** & **Figure 2**)

These comparisons appear to support the conclusion that an increase in income taxes could be a worthwhile trade-off for lower property taxes, particularly if combined with actions to mitigate a weakening of local incentives to control costs and possibly with some adjustment in the rate structure. How much rates could be increased is an open question, and any proposal should include an analysis of how tax incidence would change as a result. While there is a strong correlation between households who would see lower property taxes and those who would see higher income taxes, citizens and legislators should have information on how tax incidence would change.

Any trade-off between income and property taxes should include a reduction in commercial as well as residential property taxes. While this would shift more of the tax burden to households, it would be preferable from the stand-point of land use efficiency. While it should still limit sprawl and encourage affordable residential housing, without some reduction in commercial property tax rates the reform may have little impact on "ratable-chasing" for commercial property. [3]

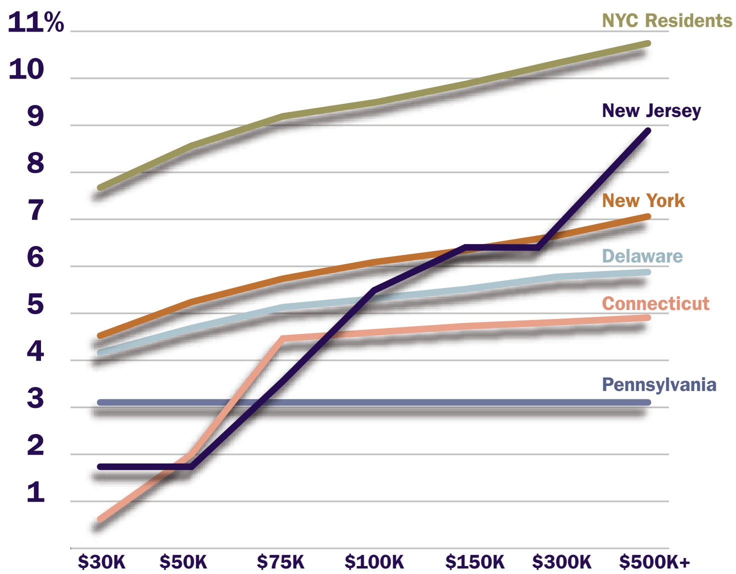
## Sales and Gross Receipts Tax

New Jersey's new state sales tax of 7% is higher than the national median (5%). Connecticut and Pennsylvania have a 6% state sales tax, and New York State's is 4%. However, when local sales taxes are considered, New York actually proves to have some of the highest sales taxes in the country and Connecticut some of the lowest. On a per capita basis, New Jersey paid less, in 2004, in combined sales and gross receipts taxes ($721) than the U.S, New York and Connecticut, but more than Pennsylvania. If the recent sales tax increase adds $275 per capita for New Jersey residents, as predicted in the press, and all other states remain at the same level as 2004, New Jersey will be switched to a position of paying more than all neighboring states except New York. (See **Table 9**)

There are two questions on the table regarding substituting sales for property taxes: How much of the recently approved sales tax increase should be devoted to property tax relief, and is it worth considering an additional increase in the sales tax to further reduce property taxes? The answer to both of these questions needs to consider the state's larger fiscal issues, but it is worthwhile to consider whether an additional increase sometime in the future would have any greater impact on economic competitiveness than a comparable increase in the income tax.

Figure 2

**Income Tax Rates at Sample Income Levels**
(Married Filing Jointly)




RPA analysis from various state sources

Table 8

| State | Personal Income Tax Rates | | Number of Brackets |
|---|---|---|---|
| | Low | High | |
| New Jersey | 1.40% | 8.97% | 6 |
| New York | 4.00% | 6.85% | 5 |
| Connecticut | 3.00% | 5.00% | 2 |
| Pennsylvania | 3.07% | 3.07% | 1 |
| Delaware | 2.20% | 5.95% | 6 |
| NYC Residents | 6.91% | 10.50% | – |

Various state sources; Federation of Tax Administration; New York City Department of Finance

Table 9

| State Sales and Excise Tax Rates (2005) | Sales | Gas | Cigarette | Spirits |
|---|---|---|---|---|
| New Jersey | *6% | 10.5¢ | $2.40 | $4.40 |
| New York | 4% | 23.9¢ | $1.50 | $6.44 |
| Connecticut | 6% | 25¢ | $1.51 | $4.50 |
| Pennsylvania | 6% | 12¢ | $1.35 | $6.48 |
| Delaware | 0% | 23¢ | $0.55 | $3.75 |

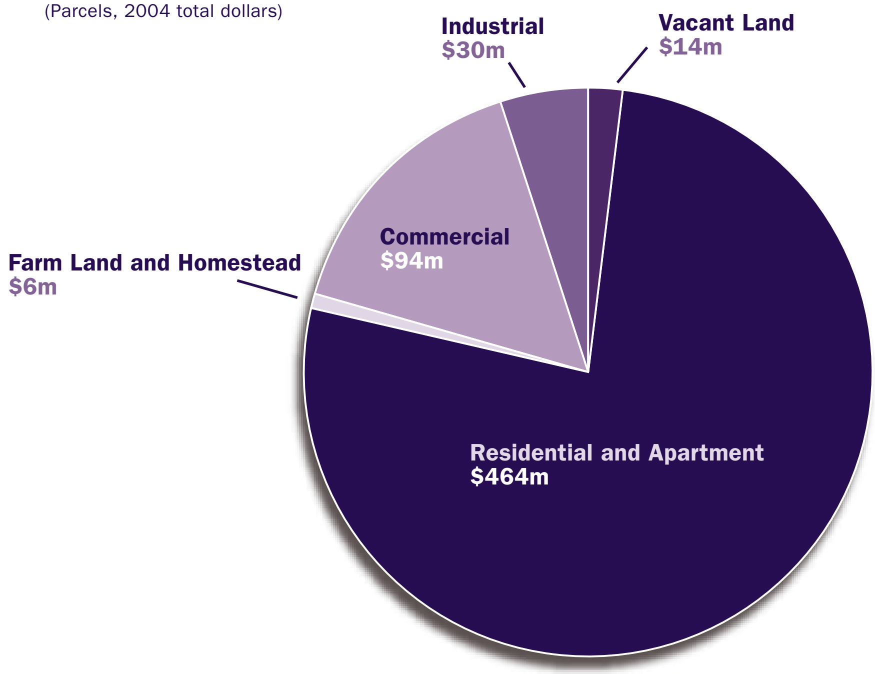
Gasoline Tax does not include 4 cent per gallon Petroleum Products Gross Receipts Tax in N.J.; includes 8 cent per gallon excise tax and 15.9 cent per gallon Petroleum Business Tax but excludes sales tax in New York; and excludes 1.1 cent per gallon fee 19.2 cent per gallon oil company franchise tax in Pennsylvania.

*All data are for 2005 and do not reflect the 2006 New Jersey sales tax increase.

Tax Foundation 2006, from State Revenue Departments; Commerce Clearing House; American Petroleum Institute; Orzechowski and Walker; Distilled Spirits Council of the United States

Figure 3

**New Jersey Land and Property Value**
(Parcels, 2004 total dollars)




New Jersey Department of Community Affairs, Division of Local Government Services, 2004.

2 Per capita data from the Tax Foundation. Personal income shares computed by RPA from U.S. Census and Bureau of Economic Analysis data for 2003-2004.
3 Coleman & Gottlieb (2004) 27-28.

One would be more likely to discourage residence by high-income, high-skill individuals. The other would tend to discourage retail activity and have more of an impact across income levels. However, greater reliance on the sales tax would likely change tax incidence to a much greater degree. The correlation between what a household pays in property taxes and what it pays in income taxes should be much stronger than between property and sales taxes. Sales taxes are generally regressive, and the burden would shift not only from capital to consumption but also from higher to lower incomes.

Using the same criteria as those used for the income tax substitution plan, a state sales tax would likely have similar rankings, with one important difference. Since there would be the same shift from local to state resources, and the same shift away from taxing property, a sales tax substitution plan should have impacts similar to an income tax substitution plan on supporting State Plan land use goals, encouraging affordable housing, preserving local autonomy and potentially weakening fiscal responsibility and stability. However, it would rank lower on education equity. The regressive nature of the tax would put more of a burden on residents in poorer school districts than an income tax substitution plan, and therefore exacerbate differences in tax burdens between wealthy and poor school districts.

## Business Taxes

Seventy-six per cent of taxed land and property value in New Jersey is residential, and 16% is commercial.[4] Commercial and residential property taxes are based on the same rate in New Jersey, unlike differential rates found in many states. (See **Figure 3**)

In addition to property taxes paid on commercial properties, businesses in New Jersey pay the corporate franchise tax. New Jersey's corporate franchise tax rate is 9.0%, high compared to New York's and Connecticut's rate of 7.5%, but low compared with Pennsylvania's rate of 9.9%. Most corporations in New Jersey are subject to the franchise tax, but those that aren't pay 7.5%. The states have different minimums and base their rates on different values (deposits or shares vs. income, for example). Thirty-two states including New Jersey have a flat corporate tax. They range from 4.63% (Colorado) to 9.975% (DC). Four of the flat tax states have the same or higher rates than New Jersey. The average of these states is 7.32%. Overall, New Jersey's corporate tax rate can be characterized as high.

For a number of reasons, corporate taxes are probably a poor candidate for property tax reform. Rates are relatively high compared to other states, and corporate taxes as a whole constitute a small share of state and local revenue. By itself, it would take a very large increase in corporate taxes to substitute for a significant decrease in property taxes.

4 2004 New Jersey Abstract of Ratables.

# Chapter 2 Options for Constraining Costs

One of the key issues in New Jersey's property tax debate concerns how much reform proposals should look at spending as well as revenues as part of a comprehensive effort to reduce property taxes. The central argument for addressing the cost side of the ledger is that it is impossible to reduce the overall tax burden without addressing spending. Even shifting to other revenue sources and redistributing the burden will be difficult without spending constraints in a high-tax state like New Jersey. The counterargument is that the goal of tax reform should be a system that is more equitable and efficient regardless of how revenues and expenditures change from year to year. The level of spending and taxation is more appropriately addressed through the annual budget process where public priorities, changing economic conditions and other considerations are debated and resolved through negotiations between the executive and legislative branches at both state and local levels.

While there is merit to both of these arguments, it is impossible to talk about tax reform without discussing how it will impact costs and total tax burdens. Certainly, cutting costs is one of the first things that comes to mind for many New Jersey residents. In April 2006, voters in New Jersey rejected about half of the proposed school budgets on the ballot, including $15 billion+ in bond requests. The rejection of spending was in spite of a statewide spending cap already in place that is intended to mitigate growth in school budgets. In 2004, the legislature adopted a bill that caps the growth in school district spending. The law limits school district budgets to a 2.5% increase each year or the rate of inflation, whichever is greater. Districts must also repay any budget surplus over 2% to the taxpayers. Opponents of the law blame it for forcing schools to cut staff, requiring parents to pay user fees for programs formerly covered by taxes, and negatively impacting municipalities' credit ratings. Proponents claim it has calmed property tax increases and instilled fiscal discipline into the school budget process. While the law's impact over time will need to be studied, it is clear that a primary objective for property tax reform is to fund local government services in the most cost-effective manner.

Fiscal discipline and fiscal stability, two of the criteria from the May 2006 report, are intended to favor proposals that constrain the growth in spending and limit revenue shortfalls that can lead to spikes in tax rates. Fiscal discipline measures how well a reform proposal improves incentives for local governments to operate efficiently and hold down the costs that lead to higher property taxes. Fiscal stability measures the extent to which different proposals would provide a stable source of revenue through the peaks and recessions of economic cycles. The analysis showed that even the "revenue neutral" proposals that were evaluated can have impacts for holding down future increases in property taxes. Most of the proposals were found to have minimal or ambiguous effects on these criteria. However, the Income Tax Substitution proposal was found to have a risk of weakening both fiscal discipline and stability. (As described in Chapter 1, there may be ways to mitigate these risks). In addition, the Countywide Tax proposal was found to have strong potential for improving fiscal discipline and reducing costs. This result would come largely from the county-wide consolidation of school districts.

In addition to these structural reforms, other measures to reduce or control costs can also be enacted as part of a comprehensive reform package. These include mandated spending caps, such as the recently enacted school spending caps described above. These have the appeal of putting clearly defined limits on spending. However, they are relatively blunt instruments that can have unintended consequences. For example, the spending caps enacted in California as part of Proposition 13 in the 1970s contributed to a precipitous decline in the quality of the state's public school system. And anecdotal reports on the 2004 New Jersey caps indicate that ambiguities and loopholes can make it difficult to apply the cap uniformly. Before enacting any further spending caps, the state should monitor and evaluate the effects of the 2004 law.

Two other means of controlling costs – service consolidation and state aid reform – should be considered as part of a comprehensive package of reforms. Both have the potential to make government more efficient, and both have a direct relationship to the structure of local property taxes. The number of local taxing authorities affects not only the level of property taxes. It also affects the complexity of the tax system and complicates efforts to reform it. State aid to localities is also intricately tied to the level and distribution of property taxes. Property taxes are a residual tax used to fund local services once all other revenue is accounted for. Since state aid constitutes 31.5% of local revenue, the amount, distribution and funding mechanisms have both an immediate effect on property taxes and a long-term impact on local incentives to manage costs.

# Chapter 2a
# Consolidating Schools and/or Other Services

Many have observed the fragmentation of New Jersey's system for providing local services and suggested that the quickest route to cutting costs may be consolidation of schools or other services. The theory is that through economies of scale, consolidation can promote fiscal discipline and cut costs. A November 2000 report from the New Jersey Department of Community Affairs concludes that while there may be formidable legislative, bureaucratic and cultural barriers to consolidation, substantial benefits could be gained from consolidating units of government and/or sharing services. More recently, the Coalition for the Public Good identified six ways to cut costs in the state. Four of them entail consolidating governmental units or sharing services. A 2002 report from Rutgers noted that there is about one campaign for consolidation or regionalization every decade in New Jersey.[5] The Department of Community Affairs summed up the issue well:

> "New Jersey has the following local subdivisions of government: 567 municipalities, 611 school districts, 190 local authorities, 212 fire districts, and 21 counties. All of these entities have some form of taxing or assessing authority. A third of our municipalities have fewer than 5,000 residents; 20 percent of our towns have fewer than 2,500 people. We have five communities with populations under 100. We have municipalities completely encircled by other towns. The numbers speak for themselves; we have too much governance in this state." [6]

School districts are a particularly obvious target for consolidation, since New Jersey is a leader in both school costs and fragmentation. New Jersey has around the same number of school districts as Florida, Texas, New York and other states much larger than New Jersey. New Jersey has the lowest number of students per district and schools per district in the region. Its ratio of school districts to households with children is nearly 50% higher than the national average, and nearly twice as high as in Pennsylvania or Connecticut. (See **Figure 4**)

New Jersey also spends the most of any state per pupil. New York is a close second and Washington, DC a close third. New Jersey's other neighboring states also spend more per pupil than the national average. While its spending per pupil may be the highest in the country, New Jersey's spending on education per $1,000 of personal income is not the highest in the nation. Residents of New York, West Virginia, Vermont and Alaska all spend more per $1,000 of personal income than New Jersey. One indication that administrative expenses contribute to the high costs is that the share of expenditures spent on instruction (58%) is low compared to the nation (61%) as well as New York, Pennsylvania and Connecticut. Average teacher salaries in these four states are comparable, while pupil/teacher ratios are lower in New Jersey. (See **Table 10**)

Some academic research has also attempted to quantify the savings that could be gained by consolidating school districts. In 1995 and 2003, Rutgers Professor Ernest Reock showed in two studies that adding school districts leads to increasing costs per pupil, while consolidation into larger, all-purpose school districts reduces costs.[7] Reock's 2003 report shows that consolidating the 611 school districts into 265 districts would save the state about $300 million. Under this plan, each limited purpose regional high school district would become an all-purpose K-12 district, and those elementary districts that currently send students to regional districts through sending-receiving relationships would become part of a K-12 regional district centered on the current receiving district. Students and teachers would not have to change location.

While the theory is intuitive, some studies have disputed the claim that school district consolidation or school regionalization necessarily lead to cost savings. The 1999 New Jersey Assembly Task Force on School District Regionalization – a report that recommended, among other things, streamlining the "de-regionalization" process – cited reports showing that expenses relating to teachers' salaries and transportation may actually increase due to regionalization. A 2004 report from the Goldwater Institute concludes that school district size is a poor predictor of administrative costs. While overall per pupil administrative costs tend to be lower in larger school districts and higher in small districts, the report found that purchased services and supply costs – where most of the economies of scale would be expected – only made up a small percentage of total administrative costs, and did not necessarily vary by school district size.8 It is also important to note that, in many places around the country, school district consolidation has been discussed as a way to decrease the number of rural and remote schools. The problems associated with this type of regionalization or consolidation are that students will have longer or more dangerous trips to school; these are not necessarily the issues at hand for New Jersey.

One of the recent consolidation proposals shows both the potential of the approach and the pitfalls that would need to be avoided. Senator Bob Smith has argued that consolidating school districts would lead to better management, and would dramatically reduce costs by eliminating duplication of services, including transportation, maintenance and purchasing, and would allow larger bulk purchases of health care plans for employees. He points to states with some form of county-based school system and notes that they spend thousands less per pupil than New Jersey, but also notes that the money saved could be used to improve the schools themselves and lead to better student performance. Finally, Senator Smith promotes using county-wide school districts to facilitate establishing specialty schools focused on the arts, sciences and vocational training.

Using the county level for school district administration would provide a simple form of regionalization, however it would likely only result in cost savings if it were paired with some removal of responsibilities from local levels of government. The desire to maintain local autonomy may prevent any shrinkage of local government even as county level structures are put into place. To take advantage of economies of scale, any regionalization proposal will need to resist adding levels of governance or bureaucracy. Ultimately, the question is a political one: How much local autonomy are citizens willing to relinquish to reduce costs?

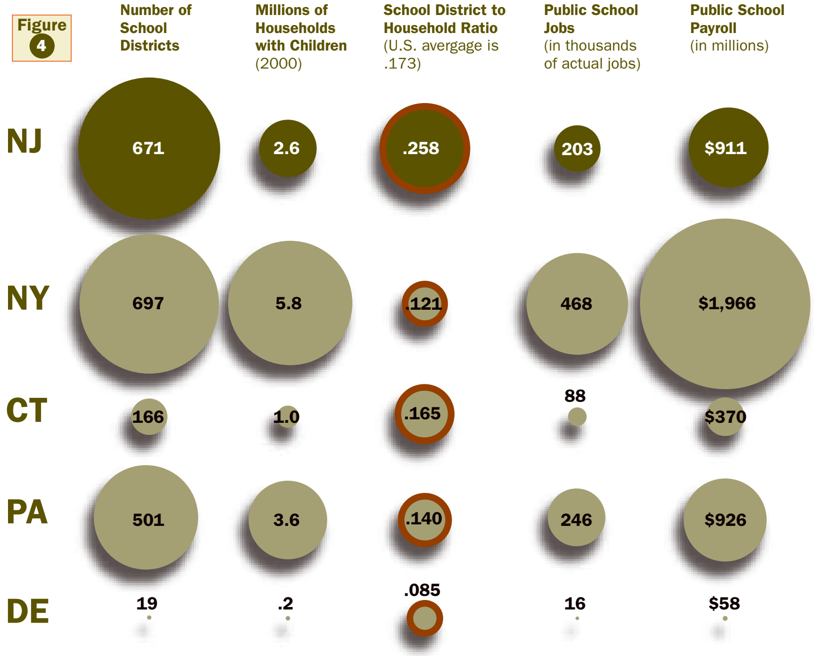
The issues for non-education services are similar to those of school consolidation. Education accounts for the majority of local expenditures, but police, fire, libraries, recreation and other local services still account for 46% of local expenditures. While there has been little movement toward school district regionalization in the state, and there is approximately the same number of school districts today as there was 30 years ago, there has been some progress toward shared services. Three key pieces of legislation – the Interlocal Services Act, the Municipal Consolidation Act and the Consolidated Municipal Services Act – permit various levels of regionalization and shared services. They were little used until additional state-level programs were put in place to provide funding to local jurisdictions wishing to use them. In 1999, the Regional Efficiency Development Incentive (REDI) program and the Regional Efficiency Aid Program (REAP) were established. Both were designed to reduce local spending. The REDI bill itself begins by noting that "one of the most effective ways to reduce property taxes is through the regionalization, consolidation or sharing of services by counties, municipalities and school districts." The REDI program provides grants for start-up costs and studies of shared services, and REAP provides state aid in the form of tax credits to communities that share services.

In the first year of REDI and REAP, a group of towns applied to consolidate five municipal fire departments into one, the North Hudson Regional Fire and Rescue program, creating the fifth largest fire agency in the state. This program was REAP's largest recipient of the year, receiving $2.3 million of implementation assistance from the Department of Community Affairs. The shared services initiative was expected to result in $5 million per year of savings for the taxpayers of those towns. The consolidation also led to quicker response time and more firefighters answering initial alarms. [9]

In 2004, the SHARE (Sharing Available Resources Efficiently) program was established; it is technically funded through REDI, and effectively replaced REAP. SHARE provides implementation assistance grants of up to $100,000 with a required local match of 25%, and feasibility study grants of up to $25,000 with a required 50% local match. Special grants are also available for multiple entities, including school districts, to study regionalization, and county level grants are available under the COUNT program. Eligible grantees include local government entities and nonprofit organizations. A description of successful SHARE grantees is not yet available; the New Jersey League of Municipalities lists shared services success stories in general. Many include the creative use of REDI and/or SHARE grants along with public private partnerships, special improvement districts, and other tools.

Building on these programs and initial cases, scaling up SHARE and other programs designed to facilitate service consolidation could complement property tax reform. Increased incentives, program evaluation and dissemination of successful case studies and lessons learned could spur more widespread adoption of shared services. The Uniform Shared Services and Consolidation Act introduced by Assembly Speaker Joseph Roberts, for example, would simplify and streamline procedures sharing services or consolidating municipal governments. A more aggressive approach could mandate service district consolidation or restrict state expenditures to places that meet specified thresholds for operational efficiency.

Figure 4




U.S. Census of Population 2000; National Center for Education Statistics 2006; US Census of Governments 2005; RPA analysis. "Public school jobs and payroll" represent elementary and secondary education FTE employment and payroll.

| Table 10 | NJ | NY | CT | PA | US |
|---|---|---|---|---|---|
| **Total Expenditures Per Pupil** | $12,981 | $12,930 | $10,788 | $9,979 | $8,287 |
| **Share of Expenditures on Instruction** (salaries and wages, and employee benefits) | 58% | 68% | 62% | 61% | 61% |
| **Average students per district** | 2,190 | 4,147 | 3,494 | 3,906 | – |
| **Average schools per district** | 4 | 6 | 7 | 8 | – |
| **Beginning Teacher Salary** | $37,061 | $36,400 | $34,462 | $34,140 | – |
| **Average Teacher Salary** | $56,682 | $56,200 | $58,688 | $53,258 | – |
| **Pupil per teacher ratio** | 13.2 | 14 | 13.7 | 15.9 | – |
| **States ranked by school spending per $1,000 personal income** (1 is highest, 50 is lowest) | 5 | 3 | 33 | 20 | – |

U.S. Census of Governments 2004; Friedman Foundation, 1999-2000; National Education Association, 2005-2006.

5 Philip E. Mackey, Ph.D, "New Jersey's Public Schools: A Biennial Report for the People of New Jersey, 2002-2003 Edition," Public Education Institute, Center for Government Services, Edward J. Bloustein School of Planning and Public Policy, Rutgers (September 2002).

6 New Jersey Department of Community Affairs, "Local Government Shared Services and Municipal Consolidation: A Report and An Agenda," November 2000.

7 Reock, Ernest C. "The Cost Impact of School District Creation and Consolidation in New Jersey." (1995) Occasional Paper Series # 3, Center for Government Services, Edward J. Bloustein School of Planning and Public Policy, Rutgers (March 1995). ; Reock, Ernest C. "2002-03 Update of A Plan for School District Consolidation in New Jersey." Occasional Paper #4 Update, Center for Government Services, Edward J. Bloustein School of Planning and Public Policy, Rutgers. (December 2003).

8 Vicki Murray and Ross Groen, "Competition or Consolidation? The School District Consolidation Debate Revisited," Goldwater Institute, Policy Report No. 189 January 12, 2004.

9 Updated tax savings estimates are not available. New Jersey Department of Community Affairs, "Aisle Four: Local Government and Taxpayers," 24, http://www.state.NJ.us/dca/98annual/aisle4.pdf.

# Chapter 2b
State Aid Reform

State aid to municipalities, school districts and counties are a complex combination of programs and formulas that have accumulated over decades. While property tax relief is the explicit goal of some programs, others are intended to advance a different purpose, such as education quality and equity. School aid, the largest portion of state transfers, is progressive in that it equalizes revenue available to poor and wealthy districts. Other formulas can be neutral or regressive in their impacts. In addition, state deductions, credits and rebates to individuals for property tax payments, such as those specified in the FAIR program, account for substantial subsidies from the state that lower the effective property tax burden.

Regardless of their intent, and despite the fact that New Jersey municipalities are more reliant on local property taxes than localities in most states, state aid programs provide a bulwark against higher property taxes and create a complex dynamic between state and local governments. While state mandates and interference are resented, state revenues are essential to localities. During the last few budget adoption cycles, municipalities protested that state aid has been flat while their costs are rising. At the same time, state officials note that state aid is an enormous part of their budget that is increasingly difficult to fund.

In fiscal year 2006, state aid for schools totaled $9.3 billion. That sum was made up of $7.4 billion in direct aid to local districts, $1.5 billion for teacher retirement, and about $400 million for construction and building. The amount of state aid allocated to each municipality is determined by the Comprehensive Education Improvement and Financing Act of 1996 (CEIFA). It is based on wealth measures (equalized property valuation and income) and student needs (e.g., the percent of students who are low-income, the number of special education students, etc.). Since aid is inversely proportionate to wealth and positively correlated with need, it reduces the disparities between poor and wealthy school districts.

General municipal aid, sometimes known as formula aid, totaled $1.69 billion in FY 2006. This is funding from the state that is in addition to programmatic grants and assistance. It is comprised of 6 parts, shown in **Table 11**.

The Energy Tax Receipts Payment is a kind of next-generation Gross Receipts Tax on utility companies that the State pays into each year from various sources. The tax was initially a levy on utility companies based on the value of the infrastructure they had in each municipality, but has since been changed to more of an all-purpose municipal aid and property tax relief fund. The Consolidated Municipal Property Tax Relief Act (CMPTRA) is a compilation of a variety of tax relief programs adopted over the years. Within this category are programs designed to address the fiscal problems of New Jersey's large cities that have low property tax bases, low personal income and large portfolios of tax-exempt property.

State aid reform has been discussed by the various property tax commissions in New Jersey, mostly in favor of increasing it to provide property tax relief. The Leone Commission (1977) supported the general concept of using state aid to offset local property taxes. The Cahill Committee (1972) and the SLERP Commission (1988) proposed a significant increase in the level of state aid, and a new program for distributing that aid. The Cahill and SLERP panels also suggested that the state should do a better job of compensating municipal governments that are adversely affected by property tax exemptions, especially to nonprofit organizations, granted under the state constitution. The Cahill Committee recommended extending individual property tax relief programs to tenants as well as owners, and proposed varying the amount of relief to an individual based on his/her income and the local tax rates.

Because it directly affects how much municipalities rely on property taxes, and thereby impacts land use and fiscal health, state aid reform is an essential element of fundamental property tax reform. If other property tax reform measures are taken – for example, to rely more heavily on revenue sources collected at the state level, or to move towns toward split rate taxation – the amount and type of state aid required by municipalities will change. The amount and method by which municipalities receive state aid should be consistent with the goals of property tax reform. Rationalizing the program without other property tax reforms could be initially beneficial, and could help to remove some barriers to meaningful property tax reform.

A central issue with reforming state aid is that there is an inherent trade-off between land use efficiency and government service efficiency. Formulae that lower the amount of local taxes a municipality needs to raise to provide a given level of service should decrease the incentive to engage in fiscal zoning that results in inefficient land use. At the same time, this type of formula tends to lower incentives for municipalities to hold down government costs. Matching grants to localities, for example, make it more likely for a municipality to implement a service or program, even if it is not the highest local priority or the most effective use of funds. However, programs funded by matching grants could advance a state priority and reduce the incentive for municipalities to over-zone for commercial property and restrict residential development. Per capita aid, on the other hand, is less likely to lower municipal incentives to reduce costs because the town gets the same amount of assistance regardless of how much it actually spends. By the same token, per capita aid is less likely to reduce incentives for fiscal zoning that promotes inefficient land use. The effects of another form of aid, rebates to individuals, are more difficult to judge. In theory, by reducing the effective rates of local taxes, it could reduce incentives for both fiscal zoning and fiscal discipline. However, it is far from clear that either citizens or town officials make the connection between rebates and local property tax rates when making budget or land use decisions.

In effect, then, decisions on the form of state aid involve a choice between the competing objectives of land use efficiency and fiscal discipline. Equity objectives may also be at stake, and are more likely to be met by formulae that reimburse for actual costs. At a minimum, this choice should be understood and made explicit when aid formulae are determined. More empirical and theoretical research on the effects could also aid this effort.

Even with these trade-offs, however, a case can be made that the long-run fiscal impacts of greater land use efficiency can outweigh the short-term disincentives to fiscal discipline. For example, state aid that links assistance to the actual costs that municipalities incur from new development is intended to reduce fiscal zoning by replacing per-capita formulas that cannot recompense municipalities for their actual expenses. Coleman and Gottlieb argue that the state must cover a fixed percentage of the municipality's expenditures if it expects to reduce fiscal zoning.[10] In addition, adding a new apartment complex near a train station may be initially costly for a municipality, but after the new residents are established in the area, new business is more likely to be attracted to the area and the city locality may actually experience a tax surplus from these added residents. Costs also vary according to the ages of children moving into a municipality and the capacity of schools to serve those ages. A town may have a lot of children who are entering middle school and leaving capacity in elementary schools. That town may only experience marginal increased costs from families with very young children moving in, while it would experience high costs from families with teenagers. Cost-based aid accounts for the actual expenditures of the municipality, allowing towns to make decisions about growth based on realistic expectations of how much of their costs will be covered by the state. As importantly, infrastructure costs should be less if towns are less concerned with immediate service costs and give a higher priority to the efficient use of existing infrastructure and land.

A smaller-scale incarnation of the idea known as smart growth zoning was recently adopted in Massachusetts. There, towns with smart growth locations (such as areas near train stations, infill sites, or brownfields) have the option of adopting a zoning overlay that lets those towns receive two benefits: (1) a housing unit-based payment from the state, and (2) reimbursement for added school costs that accompany development. This is akin to voluntary participation in cost-based aid. It is also targeted only to certain locations, and there is an affordable housing component: 20% of the units in the development must be priced for lower income households. Towns that use the zoning overlay receive half the per-unit payment from the state during development and half upon completion. School costs are reimbursed based on the number of new school children in the development.

Either cost-based aid or smart growth zoning would theoretically rationalize incentives and reduce fiscal zoning. The state would need to resolve which spending streams would be impacted – whether it is direct state aid to local districts, or some element of formula aid. In effect, they would more efficiently target state aid to reduce incentives for fiscal zoning. While there could be a short-term weakening of fiscal discipline, there is likely to be a long-term benefit to infrastructure costs and revenues.

10 Coleman & Gottlieb (2004), 21.

Table 11

**Formula Aid**

| | | |
|---|---|---|
| 1 | Total Energy Tax Receipts Payment | 49.26% |
| 2 | CMPTRA Award | 46.58% |
| 3 | Municipal Homeland Security Assistance | 1.87% |
| 4 | Legislative Initiative Municipal Block Grant | 2.06% |
| 5 | Watershed Moratorium Offset | 0.13% |
| 6 | Pinelands Property Tax Stabilization | 0.11% |

Based on New Jersey state budget fiscal year 2005

# Chapter 3
# Targeted Reforms to Improve Land Use Efficiency

As stated previously, land use efficiency, when it is included at all in the larger property tax debate, is usually considered a beneficial byproduct of actions that would reduce property taxes either by shifting the burden for local services to other revenue sources or by placing a cap on expenditures. However, simply reducing property taxes will not eliminate the inefficiencies in how the tax is currently applied. A strong case can also be made that property taxes, when properly structured and integrated into the larger state fiscal system, bring important benefits in the form of fiscal stability, local autonomy and the efficient provision of local services. Therefore, regardless of whether and how the level of property taxation is reduced, additional reforms in how tax rates are determined and applied are needed to address the "race for ratables" and the disincentives for Smart Growth built into the current property tax structure.

In fact, the two proposals that ranked highest in the May 2006 report in terms of consistency with the goals of the State Development and Redevelopment Plan did not reduce the overall level of property taxation at all. Both of these proposals—varying property taxes by State Plan area designation and split rate taxation that taxes land at a higher rate than buildings—were designed explicitly to improve land use efficiency. While they have other benefits as well, these were largely driven by the way in which they realign fiscal incentives with efficient and equitable land use goals.

In both cases, however, the scope of these proposals was too broad to overcome their shortcomings or to have a realistic chance of implementation. The following analysis suggests that, despite the fact that state-wide legislation or constitutional amendments might be necessary, more targeted approaches would be both feasible and desirable in the context of comprehensive property tax reform. The first would limit state-mandated variations in property tax rates to new construction, while the second would authorize and encourage pilot programs in split rate taxation. These could be complementary approaches. They could also be implemented in tandem with reforms to reduce the overall level of local property taxes in the state. In fact, they are more likely to be successful if implemented as part of a larger package of reforms.

# Chapter 3a
# Aligning Tax Incentives with the Goals of the State Plan

The May 2006 report analyzed a proposal for varying school property tax rates according to State Plan categories. The concept would encourage development in desired locations by decreasing taxes in places where the State Plan encourages growth relative to areas where it discourages growth. The scenario described in that report was a simple, revenue-neutral two-tiered rate structure on all property. Property taxes in planning areas 1 and 2 (urban and suburban areas) would be decreased by the same total amount as property taxes are increased in planning areas 3 and higher (fringe, rural, and environmentally sensitive areas).

The proposal has considerable appeal from the perspective of land use efficiency, because it would simultaneously address two related policy objectives of "smart growth" by backing up the goals of the State Plan with financial incentives for its implementation, and lessening the incentives for developers to build in greenfields rather than urban and town centers. As such, it ranked high for consistency with State Plan goals, high for education equity, and moderate (compared with other proposals in the report) for affordable housing.

The idea was also ranked for government efficiency and fiscal health. It was considered highly flexible, because it differentiates between places with differing economic environments and can be adjusted annually. It was ranked moderate for fiscal stability, as it would not change the share of state and local revenues coming from property taxes and therefore would have little impact on the state's sensitivity to cyclical fluctuations in the economy. The proposal's affect on fiscal discipline was unclear, and ranked moderate. The impact for this criterion would ultimately be determined by the way the state calculates how much taxes will rise and how they will be allocated over time. While using a formula based on past spending and population changes would have little impact on current spending constraints, other possible formulas could loosen cost constraints and be detrimental to fiscal discipline, or could reduce costs and improve fiscal discipline. For example, a formula could leave it up to school districts to determine costs, with a tacit incentive for them to overestimate, or it could directly set spending limits or provide incentives for efficiency measures that reduce costs.

The lowest ranking for the proposal concerned its impact on local autonomy. Under the scenario described in the May 2006 study, individual municipalities would no longer be able to set their own property tax rates, but would be subject to higher or lower rates depending on how the State Plan characterizes their land. Given the strengthened role of the state in that scenario, the state might also gain a stronger role determining local education spending levels. In sum, the proposal ranked highly overall but raised concerns about its effects on fiscal discipline and local autonomy. In addition, it would be difficult to generate potential consensus for an idea that would so clearly divide municipalities into winners and losers. These hurdles argue for a less sweeping approach, but one that would still help to realign fiscal incentives with the goals of the State Plan.

## Differential Taxes For New Construction

The potential negative impacts of the idea on fiscal discipline and local autonomy could be minimized by implementing the idea for new construction only. This was the original idea of the State and Local Expenditure and Revenue Policy Commission (SLERPC). The scenario recommended in the 1988 SLERPC report was to use the State Plan to set property tax rates for new construction. After 15 years, those properties would revert to the existing local tax rates. This would mean that, for 15 years, property taxes on existing homes would not change, but new construction in urban areas would be subject to lower tax rates than new greenfield construction. This would create incentives for new construction in urban areas and reduce incentives to build on greenfields, fulfilling two of the primary goals of the State Plan.[11]

While this is intended to bring in additional tax-producing activity to urban areas, the lower rates would probably bring some reduction in tax revenue to urban areas, at least in the short run. Therefore, some form of state revenue redistribution should be considered as part of this reform, if only to prevent the tax burden from being shifted to existing property. The SLERPC did not discuss redistributing property tax revenue from rural to urban State Plan areas; SLERPC addressed funds for poor and urban municipalities in other parts of its report. In addition, to prevent perverse incentives from developers choosing between new buildings and renovating older buildings, "new construction" would need to include major renovation as well as new building construction.

Limiting State Plan-related property tax rates to new construction is a targeted approach, geared directly toward the growth and development of municipalities, not at their current land use. However it would result in two otherwise very similar properties being subject to different tax rates. This could seem unfair from a local perspective, where one property owner pays much more for a comparable site than his neighbor. However, given the extensive tax abatements currently given to some properties and not others, towns and cities already have substantially different rates for similar properties. Any seeming inequities from the proposed reform would not necessarily be greater than the effect of these existing policies. In fact, a systematic program that varies taxes according to an established state planning framework would be more transparent and internally consistent than current practices. In addition, by limiting the new policy to new structures, municipalities would hold onto a greater degree of local autonomy while, over time, helping achieve the goals of the State Plan. Likewise the impact of fiscal discipline would be minimal as the state's method for adjusting rates by state planning area each year would only affect a limited number of properties in a given municipality.

By limiting this reform to new construction, the overall property tax structure would only be changed at the margin. However, these changes would be targeted to have the greatest impact on new development patterns. Despite these mitigating measures, the proposal would likely raise fairness issues and generate opposition from places that would see rates increased, even though these places would also benefit from efficiencies, open space protection and other land use benefits. The SLERPC report noted that a state-imposed tax rate on new construction would require an amendment to the New Jersey constitution. This proposal would have the best chance of implementation if considered as part a comprehensive package, particularly one that reduces property taxes across the board, either by cutting spending and/or relying more heavily on another revenue source.

11 Coleman and Gottlieb (2004).

# Chapter 3b
# Encouraging Municipalities To Use Split Rate Taxation

Split rate taxation has been promoted for over 100 years as a method to free the real estate market from restrictions on development while raising revenue for public use. In theory, switching to a heavier land tax and a lighter tax on improvements will promote larger buildings in appropriate locations, maximize development capacity, prevent land banking and derelict areas, and promote rehabilitation and redevelopment. Development would be more likely to occur in areas near existing infrastructure where land values are highest.

The split rate taxation scenario evaluated in our last report ranked highly according to most of the specified criteria: it would result in land use patterns and tax burden shifts that would be consistent with State Plan, affordable housing, and education equity goals. It also might allow municipalities to gain flexibility and more readily adapt to changes in the economy. It would have little or no impact on fiscal stability or fiscal discipline, and would maintain the current high level of local autonomy. The specific proposal examined put three quarters of the school tax burden on the value of the land tax and one quarter on the value of the structures to create a revenue-neutral result at the municipal level.

The major drawbacks to split rate taxation reside in the implementation challenges. These impediments are both technical and political. The major technical hurdle is the need to develop property assessments that accurately distinguish the value of land from the improvements. Given that many municipal assessments are years, if not decades, out of date, and that municipalities often lack sufficient resources and expertise to undertake such an assessment, this is no small task.

The transition would also create potential losers as well as winners, although each community as a whole would likely experience benefits from the new system. The biggest potential losers would be property owners with extensive holdings of vacant or underutilized land, and those groups could be expected to oppose split rate taxation. There may also be some regressive outcomes, depending on the ratio of building to land values and the structure of the reform. As demonstrated by England and Zhao, both the regressive impacts and the political opposition could be mitigated with a revenue-neutral credit provision on tax bills introduced simultaneously with split rate taxation. The optimal formula would vary by town depending on the distribution of property values and rates.[12] Opposition could also be mitigated by phasing the transition to split rate taxation, as was done in many Pennsylvania towns.

The concept is not entirely new to the state. Split rate taxation has been on the table at least twice in New Jersey. In 1972, the Cahill Committee endorsed 'site value taxation' as one of many fiscal tools that should be available to the local governments of major urban municipalities. In 1999, a constitutional amendment was proposed by Assemblyman Michael Arnone that would permit site value taxation; it was not adopted.[13] Despite this rather recent discussion in New Jersey, decades of academic work, and numerous cases of implementation around the globe and from neighboring Pennsylvania, the concept remains largely unfamiliar to those who work with municipal tax policy on a daily basis.

Pennsylvania provides the most extensive example of how land value taxation can be adopted town by town.[14] Starting in 1913, Pennsylvania has been passing legislation to allow different classes of municipalities to tax land and structures at different rates. Pittsburgh and Scranton adopted the policy in 1913, 17 third-class cities joined them between 1974 and 1994, and since 1993 there have been several bills to extend the option to some school districts, boroughs and other governmental units. As of 2006, 15 Pennsylvania towns tax buildings at a lower rate than land on the construction. All of the towns were distressed prior to adopting the policy, and all shared the goal of increasing economic activity and revitalizing vacant areas.[15]

Results of the tax policy vary according to different studies of the cities. Proponents note that after 1979, when Pittsburgh dramatically widened the gap between its land and property tax rates, the city enjoyed a construction boom consistent with compact development patterns and unlike the sprawling patterns of many other American cities. Opponents and others attribute the construction boom and land use pattern to forces other than the tax policy. There is more consensus around the results for Harrisburg, Pennsylvania. Harrisburg adopted the split rate in 1975. The tax policy is credited by the Mayor and others for changing Harrisburg from one of the most distressed cities in the nation to a two-time "All-American City" honoree and Outstanding Community, the top state recognition from the Chamber of Business and Industry in Pennsylvania. Its total assessed value of real estate has risen, vacant structures are becoming scarce, and the retail sector is booming.[16]

12 England, Richard W., and Zhao, Min Quiang. "Assessing the Distributive Impact of a Revenue-Neutral Shift from a Uniform Property Tax to a Two-Rate Property Tax with a Uniform Credit." National Tax Journal LVII No. 2 (June 2005): 247-260.

13 Assembly Concurrent Resolution No. 145 (1R) would have authorized Legislature to permit municipalities to replace single tax rate system with site valuation system for school and municipal tax purposes.

14 Other more scattered examples from the U.S. include Amsterdam, NY, which was permitted to adopt land value taxation in 1993 by enabling legislation specific to that town; and Virginia, where enabling legislation passed in 2003 that applies to the cities of Roanoke and Fairfax. "The Adoption and Repeal of the Two Rate Property Tax in Amsterdam, New York," by Donald J. Reeb, Working paper from the Lincoln Institute of Land Policy (1998).

15 Florenz Plassmann and T. Nicolaus Tideman, "A Markov Chain Monte Carlo Analysis of the Effect of Two-Rate Property Taxes on Construction," Journal of Urban Economics 47 (2000): 216-247. Pennsylvania towns using split rate taxation include Aliquippa, Clairton, Coatesville, Connelsville, DuBois, Duquesne, Harrisburg, Lock Haven, McKeesport, New Castle, Oil City, Pittsburgh, Scranton, Titusville, and Washington.

16 Alana Hartzok, "Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax," 20 April 1998, Earth Rights Institute.

## Implementing Pilot Programs

While the empirical evidence in the U.S. is limited to Pennsylvania and a few other cities, it supports a strong theoretical basis and the results of the analysis in RPA's May 2006 report. The examples from Pennsylvania also demonstrate that implementation should not be beyond the abilities and resources of New Jersey. However, a wholesale or rapid transition across the state is probably neither possible nor desirable. Rather, enabling legislation with incentives for pilot programs is a more pragmatic approach that will allow willing municipalities to adopt reforms that fit local circumstances and provide the state with a basis for evaluating the concept's effectiveness.

Establishing a legal framework that permits localities to adopt split rate taxation may require a constitutional amendment, but there may be other legislative routes. The New Jersey constitution discusses taxation of real property, and separately provides for taxation of agricultural land according to the value it has for that use. There is no mention of a land tax. It may be necessary to amend the state constitution to allow land and property to be taxed at different rates, as Assemblyman Arnone attempted in 1999. There may also be a possibility of instituting split rate taxation by using abatements. The state constitution provides for tax abatements for property in need of rehabilitation. A smaller-scale split tax pilot program might be developed as a type of property tax abatement in some areas, coupled with a tax rate increase that effectively only applies to the value of the land. Legal and legislative expertise is required to determine the constitutionality of this option.

While legal authority and education are the most important actions to implement pilot programs, the state could also implement incentives to move toward split rate taxation. These could include increased state aid, dedicating a new line of state aid specifically for towns implementing split rate taxation, or directly reimbursing towns for added school costs that result from development. Any incentive program that is established to encourage towns to switch to split rate taxation would need to be considered in the larger policy context. Incentive programs should be reviewed periodically to ensure that they are both sufficient to convince some municipalities to try split rate taxation, and conservative enough to prevent an erosion of fiscal discipline or other unintended consequences.

Regardless of whether or not incentives are offered, public education and outreach among the public, mayors, legislators, and local tax officials will be necessary to initially promote the idea. Assessments pose another challenge: while it would be preferable to implement split rate taxation in a place that was recently and accurately assessed, the new tax policy might be confused as the source of the increased taxes by some constituents. Done carefully, however, a split rate system can be implemented following the 'sticker shock' of a recent assessment, allowing a clear, initial demonstration of the policy's benefits for many taxpayers.

In addition to education, the state would need to offer technical assistance to municipalities seeking to switch to split rate taxation. Technical assistance could come in the form of ongoing assistance from state personnel, additional staff for town planning and tax departments, training sessions, and updated software that can calculate tax rolls using two rates.

Certain municipalities may be good candidates for a split rate taxation pilot program, and incentives could be geared toward those. The policy makes especially good sense for towns that are already built up. Unlike current property taxes, relying more heavily on a land tax encourages infill development and appropriate levels of density in those areas and can help those places save on their total tax bill as they improve property and build up instead of out. The greatest beneficiaries would likely be distressed cities where speculation and land banking are problematic. To a lesser extent, landowners in other built-up urban and suburban communities with room for increased density – for example, transit villages – would benefit from a lower tax rate on buildings and a higher land tax rate. Suburban communities with large amounts of land devoted to low density office parks or parking would probably not benefit in the short term from split rate taxation.

Towns choosing to implement the policy will also need to consider how often and how accurately their properties have been assessed. Municipalities may be hesitant to switch to split rate taxation if they feel their land and property assessments are inaccurate. As noted above, the policy option might be most attractive to places where property and land have been recently assessed, since they might feel their land and property values are closer to reality, and since, for many of them, split rate taxation will mean lower tax bills than otherwise possible under the recent assessment. However, the very places that might benefit most - inner city, dense urban areas – often have out-of-date assessments or are assessed at unrealistically high rates. This is due in part to a paucity of commercial property in inner city areas (commercial property holders often fight for lower assessments). Additional incentives may be necessary to overcome these hurdles that would otherwise prevent poorer areas from benefiting from using split rate taxation.

Phasing in the types of places that can use the system and increasing the magnitude of the policy itself over time also has support from the experience in Pennsylvania. There the state allowed different classes of towns to adopt split rate taxation over time, and the approach worked, as evidenced by the continued expansion of the enabling legislation and continued use of split rate taxation. It also may have sparked increased land values in some areas, at least initially. In addition, in Pittsburgh, Harrisburg and other towns, the difference between the land tax rate and the structures tax rate increased over time. This provided some flexibility for the towns to adjust to economic changes.

# Conclusions & Recommendations

Given the complexity of the property tax system and its pervasive impacts, it is not surprising that it is difficult to devise a single approach that meets the multiple objectives that have been promoted for tax reform. While relief from high and escalating property taxes is the primary motivation for reform, this straightforward goal implies a number of related objectives. Can we make the tax system fairer through property tax reform? Will reforms encourage economic efficiencies that can sustain the growth that is needed to provide quality services without higher tax rates? Will the development patterns that property taxes help to shape be improved to support greater fairness and efficiency? The analysis in the preceding chapters indicates a number of promising policy directions that can help to answer these questions.

### Recommended Actions

The recent agreement by Governor Jon Corzine and the New Jersey legislature to dedicate half of a one percentage point increase in the sales tax to reduce property taxes is an opportunity to begin reforming this system. However, this requires a thoughtful strategy for how to use this revenue for more than simple property tax relief. If structured properly, it can help hold down future property tax increases and support sustainable economic growth. It can also be packaged with other reforms that can lead to more lasting structural reforms. Based on the analysis in this report, several actions are indicated.

**1 The sales tax relief should come as municipal aid and be tied to reforms that promote greater government and economic efficiency.** Aid that is passed along in the form of rebates to individual taxpayers provides no incentive for school districts, counties and municipalities to hold down property taxes or change practices of fiscal zoning that encourage sprawl and limit housing production. Targeted municipal assistance, on the other hand, can both provide property tax relief and incentives for reform. Specifically, the estimated $550 million in additional revenue can be targeted more effectively in two ways.

➜ **A portion of the revenue should be used to reward school districts and municipalities that reduce costs by consolidating units of government and sharing services.** This can be used both to defray any initial costs that consolidation would require and provide additional per capita aid for these municipalities. This should result both in immediate property tax reductions and long-term cost efficiencies.

➜ **Revenue should also be used to lower property taxes for new construction for compact development in areas designated for growth by New Jersey's State Development and Redevelopment Plan.** As summarized below and described more fully in Chapter 3, this would create incentives for private development in places that make efficient use of land and public infrastructure.

**2 A broader package of reforms should include a constitutional amendment to allow municipalities to tax land and structures at different rates and consideration of new state aid formulas such as cost-based state aid.** These actions, described more fully below, would provide greater efficiency and fairness to the property tax system while supporting the goals of the State Plan, affordable housing and equitable education finance.

**3 Income taxes should be considered as a source that could be increased to allow for further property tax reduction.** As described below, income taxes appear to be the most promising alternative to property taxes. This and other alternatives should be examined in the context of the state's long-term fiscal needs.

### Summary of Findings and Conclusions

In assessing alternative revenue sources that could be used to lower property taxes, **Chapter 1** acknowledges that specific proposals need to be carefully evaluated for tax incidence, economic impacts and, most importantly, their impact on the state's fiscal health. While that evaluation is beyond the scope of this report, the analysis suggests that some revenue sources are more promising than others. In particular, this analysis leads to two broad conclusions:

➜ **Substituting other revenues for property taxes can meet most of the criteria for sound property tax reform and create a more balanced mix of state and local taxes.** The state's portfolio of taxes is heavily weighted toward property taxes. While other state and local taxes are also high on a per capita basis, as a proportion of income the overall tax burden in New Jersey is only slightly higher than the national average, much lower than New York's, and in line with those of Connecticut, Pennsylvania and Delaware. By itself, a shift from local property taxes to statewide taxes should have beneficial impacts on land use, housing construction and tax fairness, and could be constructed in a way that minimizes negative impacts on local autonomy, fiscal stability and fiscal discipline.

➜ **The most promising revenue options for lowering property taxes appear to be the state income tax or a broad-based combination of revenue sources.** As a share of personal income, individual income taxes are below the national average, far lower than in New York or Connecticut and only slightly higher than in Pennsylvania. However, any shift to income taxes should also consider changes in the rate structure and mechanisms that would maximize local incentives to control costs. Other revenue sources either have too small a base to generate significant revenue, are already high, or in the case of the sales tax, are already targeted for property tax relief. However, a substantial reduction in property taxes would also require a substantial increase in income taxes. Another alternative would be to make incremental increases to several sources of revenue and fund property tax reductions through general revenues. This would balance the benefits and risks inherent in selecting a single source. **In Chapter 2,** two approaches for controlling costs—shared services and state aid reform—were favorably assessed. Both of these could be included as part of a comprehensive reform package. They could also be enacted independent of other reforms and still hold down the rate of increase in property taxes. While these may appear less straightforward and robust than simple caps on spending, they pose fewer risks to the quality of local services and are more likely to promote efficiency in the long run. However, they are not without trade-offs of their own that need to be explicitly considered. Specific findings include the following:

**➜ School district consolidation and other shared services would address the fragmentation in New Jersey's system of local governance, a root cause of New Jersey's high property taxes.** New Jersey's ratio of school districts per household is 50% higher than the national average and nearly twice as high as in Pennsylvania or Connecticut. The share of education expenses going to administration is also higher than the national average as well as the share for New York, Pennsylvania and Connecticut. To be effective, any school consolidation would need to resist adding local layers of governance or bureaucracy. Non-education services could also benefit from more ambitious incentives to replicate successful programs, such as the consolidation of fire services in North Hudson County. These incentives could include program evaluation, dissemination of lessons learned, and state aid that would reward cooperative actions. Ultimately, however, school consolidation and service sharing require a political choice. Citizens would have to conclude that the cost savings are worth giving up some measure of local autonomy.

**➜ State aid formulas could be reformed to encourage local government efficiency, but would involve trade-offs with other objectives.** Per capita aid is more likely to encourage municipalities to reduce costs than matching grants or cost-based aid, because the town gets the same amount of assistance regardless of how much it actually spends. However, per capita aid is more likely to encourage fiscal zoning that promotes inefficient land use than is cost-based aid. Even with these trade-offs, however, a case can be made that the long-run fiscal impacts of greater land use efficiency can outweigh the short-term disincentives to fiscal discipline.

**Chapter 3** recommends specific measures for improving land use efficiency. While these would likely meet initial political resistance, they have the potential for creating a fairer and more economically efficient property tax system regardless of other measures taken to reduce the overall property tax burden. The two main ideas have been proposed in the past, but there is logical and, in the case of split rate taxation, empirical evidence that supports their implementation. Both of the specific proposals are targeted in scope to overcome resistance to innovation.

**➜ Varying property tax rates for new construction by State Plan designation would meet many of the criteria articulated for property tax reform.** The overall tax structure would only be changed at the margin, and for most property owners rates would be unaffected. However, by specifying lower tax rates for new construction in urban areas and suburban centers, and higher rates in exurban and greenfield areas, it would encourage growth in places targeted for development by the State Plan and discourage growth in environmentally sensitive areas. In fact, this is not a radical departure from current practice. Given the extensive tax abatements currently available to some properties and not others, towns and cities already have substantially different rates for similar properties. Any seeming inequities from the proposed reform would not necessarily be greater than the effect of these existing policies. In fact, a systematic program that varies taxes by place according to an established state planning framework would be more transparent and internally consistent than current practices.

**➜ Split rate taxation – charging a higher tax on land than on structures – should be encouraged on a voluntary basis for willing municipalities.** This reform ranks highly by most of the criteria for sound property tax reform, and would improve local autonomy by giving localities the option of adopting this reform incrementally. Successful implementation in Pennsylvania indicates that implementation on a pilot basis is not beyond the capabilities of New Jersey and could provide a number of benefits. However, there are considerable technical hurdles to overcome. Implementation would likely require a constitutional amendment to establish the legal framework for willing communities to adapt a system. Assessments would need to be updated to accurately value both land and buildings, and rates would need to be structured and phased to fit the particular circumstances of the municipality. Technical assistance and other incentives from the state could encourage implementation, particularly in distressed cities and other locations that would benefit most from this reform.

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Melanie Willoughby

# Regional Plan Association

NJ CT NY

4 Irving Place, 7th floor
New York, NY 10003
212.253.2727
fax 212. 253.5666

Two Landmark Square, Suite 108
Stamford, CT 06901
203.356.0390
fax 203.356.0390

94 Church Street, Suite 401
New Brunswick, NJ 08901
732.828.9945
fax 732.828.9949

**Regional Plan Association (RPA)** is an independent regional planning organization that improves the quality of life and the economic competitiveness of the 31-county, New York-New Jersey-Connecticut region through research, planning, and advocacy. Since 1922, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the region's civic, business, and government sectors to take action.

**RPA's current work** is aimed largely at implementing the ideas put forth in the Third Regional Plan, with efforts focused in five project areas: community design, open space, transportation, workforce and the economy, and housing. For more information about Regional Plan Association, please visit our website, www.rpa.org.

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