New Jersey Future's

# Tax Reform Scorecard

An easy-to-use scorecard for identifying the strengths and weaknesses of tax reform proposals.

## Introduction

Citizens and lawmakers agree that New Jersey's property tax system is broken. No other state's property tax bills are higher than ours. It is obvious some measure of relief is required—to help seniors on fixed income, the working poor, and other hardworking citizens who are finding it difficult to make ends meet because of these skyrocketing bills.

But if we are to find real solutions to our property tax dilemma, we must look beyond our pocketbooks. There are other, more important but hidden problems created by this system, problems which threaten the very quality of life for everyone in New Jersey, not just a targeted few. Of particular concern are the many bad land use decisions that can be blamed on the powerful economic incentives created by a system that relies far too heavily on property taxes to fund local services and schools. Across New Jersey, our open space is being gobbled up at record rates while vital urban centers remain neglected. And families everywhere are having a difficult time finding affordable places to live, because too many municipalities make the economically rational choice to zone out housing for people with children. Compounding an already challenging situation is the fact that ill-planned development helps drive up the cost of government, which is a main reason for the high taxes in the first place. Clearly, this is a vicious circle—but it is a situation that can and must be changed.

Solutions to New Jersey's property tax crisis must be evaluated on whether the proposals respond both to the crushing tax bill that citizens face ("tax relief"), while also changing the system that has brought us to this current untenable position ("tax reform"). New Jersey Future has devised five simple questions to help decision-makers determine which solutions can provide the greatest good for the greatest number of Garden State residents. A proposal that garners a "yes" to all five questions, for example, clearly deserves priority consideration.

## 1. Does it provide meaningful tax relief that will last?

The median property tax bill in New Jersey is $5,352, the highest in the nation. Moreover, property tax rates are highest in New Jersey's poorest municipalities, causing financial hardship to those least able to afford it, and creating a clear incentive for businesses to locate elsewhere. Stories abound of New Jersey residents leaving to live in lower-cost states; indeed, more than 100,000 people commute to the Garden State each day from Pennsylvania, according to U.S. Census data. Many people believe that they cannot afford to live here in their retirement, and that their children can't afford to own a house and start a family here. Today, nearly one-third of all New Jersey households spend more than 35 percent of their income on housing costs.

Each proposal must be evaluated on whether it offers tax relief. More important, each proposal should be evaluated on whether the relief will last. Do we have reason to believe that these proposals are offering systemic changes that will yield permanent decreases in the tax burden, or will the relief be only temporary—with higher levels that come roaring back in the future?

## 2. Does it end New Jersey's anti-housing and anti-family bias?

Our overreliance on property taxes to pay for local services and public schools encourages too many New Jersey towns, for understandable economic reasons, to avoid building housing for families. Consider the math: the median cost of educating a child in NJ is $12,981 while the median residential property tax bill (only part of which goes to pay for schools) is $5,352. It's obvious why not enough houses get built and why New Jersey's housing costs have topped the nation's for the last three years: the limited housing supply has driven prices and rents upward, forcing people to pay more than they can afford or else move out of New Jersey to find a cheaper place to live.

Furthermore, not only isn't there enough housing to meet the demand, but the supply is skewed toward the high end of the market, compounding the affordability problem. According to the latest American Community Survey data, between 2000 and 2005 houses with nine or more rooms, sometimes called "McMansions," increased by 9.3 percent, more than double the rate of increase in total housing units. Tax proposals must be evaluated on whether they change the anti-housing and anti-family incentives that municipalities now face.

## 3. Does it end incentives for sprawl and the ratables chase?

The simple math comparing school costs to local property taxes compels every municipality to chase commercial ratables to bolster the local tax rolls. Today, commercial development is sought by towns everywhere, whether or not suitable transportation, sewer service, water supply, workforce housing or other obviously relevant factors are available. The ratables chase is usually won by sparsely developed municipalities at the urban fringe where tax rates are lower, at least at first, thanks to their limited infrastructure and service needs. The result of all this is New Jersey's notorious sprawling growth patterns, which have hurt not just our people but also our cities, the environment, and our economy.

Today, New Jersey suffers the third worst commute in the United States—30 minutes each way. And we are gobbling up land at a rate that is 2.3 times faster than the increase in the population; that means each day almost 50 acres of open space is lost. The growing—and largely unnecessary—loss of open space to development poses a real threat to our future. It puts our safe drinking water supply at risk, increases flooding and storm runoff, reduces tourism dollars, and adversely affects the quality of life for everyone. If development patterns here continue apace, it is estimated that New Jersey will be completely built-out in the next 20 to 50 years.

Encouraging the redevelopment of our urban centers could greatly help reverse some of the more disturbing environmental and economic trends created by the chase for commercial tax ratables. Much more could be done to encourage the development of commercial enterprises in urban centers and older suburbs, where many properties now sit abandoned and unused. Currently, our system stacks the deck against any place with aging infrastructure, because as a place ages, it must generally raise its tax rate to pay for the inevitable repairs, instantly rendering it less attractive to potential new residents and businesses—creating a vicious cycle that hurts everyone. Tax proposals that eliminate the ratables chase deserve special consideration, because they would lead to long-term benefits for all New Jerseyans.

## 4. Does it reduce the cost of government without affecting quality services?

Sprawl is expensive—and much of the cost associated with this kind of growth is paid by government. New developments require new roads, sewer and water lines, schools, police, and ambulance services, and myriad other services that we all enjoy, but also must pay for. Yet, as development patterns sprawl over the landscape, we are still paying for the infrastructure expenses of the places left behind. All taxpayers in the state subsidize the services of struggling communities, mostly because these places do not have the economic vitality to pay their own way. The cost-benefit of reversing sprawl and redirecting growth back to our aging urban centers is significant: over 20 years, the State Plan Impact Assessment estimates the savings to be $2.3 billion in capital costs and as much as $160 million per year in reduced fiscal deficits from municipalities and school districts.

Unnecessary costs are also evident in our fragmented system of local government, in which 566 municipalities and more than 600 school districts all individually seek to provide the same set of government facilities and services. Tax proposals must be evaluated as to whether they reduce the total cost of government by increasing incentives, or eliminating the disincentives, for economic development in urban and older municipalities, which want to stand on their own feet. The proposals should also seek to reduce unnecessary duplication of costs and services.

## 5. What about the economy?

Environmental concerns, congested roads, rising housing costs, unsustainable development patterns—the trends encouraged by the current property tax system—pose an undeniable threat to New Jersey's economy. Our state now ranks at the bottom nationally in terms of wage growth. We are losing high-paying jobs and gaining low-wage ones. And significantly, since 1995, we have lost more high-tech employment than any other state, according to the Brookings Institution.

The future of New Jersey's economy depends on how well we address these questions. New Jersey cannot continue to prosper if we fail to make room for new residents, or if we abandon built-out places in favor of developing on the suburban fringe. If people can't afford to live here because we're not building enough housing, they will move somewhere else, and businesses will follow. And if we insist on duplicating our infrastructure costs—building new while also paying to keep up barely-used facilities in depopulated, built-out communities—we will not be able to compete with states that make wiser use of their money. Without a thriving economy, all tax rates will rise no matter how they are formulated, driving yet another devastating downward cycle.

Every tax proposal currently on the table must be evaluated in the context of the competitive world economy, and whether the proposed changes would improve the long-term economic viability of the state.

*New Jersey Future works to revitalize New Jersey's cities and towns, protect the state's open spaces, provide better, more affordable housing choices, and improve people's ability to get around by encouraging smarter growth and development. We achieve our mission though research, policy analysis and advocacy.*

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