

“Property taxes in New Jersey: are homeowners paying for school districts at disproportionate rates... Is there tax equity in New Jersey?”

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Property taxes in New Jersey: are homeowners paying for school districts at disproportionate rates... Is there tax equity in New Jersey?

Abstract

In March 2010, the New Jersey State administration stated in a letter to the New Jersey school districts that reductions in the state school aid for fiscal year 2011 emerged as a result of the fiscal crisis currently impacting the United States overall economy. The reduction of funding for public education for fiscal years 2010-2011 beginning this July equals \$820 million. Will New Jersey maintain a quality education program if funding to school districts declines dramatically? Can New Jersey home owners' concerns pertaining to ever increasing school taxes take precedence over the goal of a quality education system?

Keywords: budget deficit, property taxes, school taxes.

JEL Classification: K11.

Introduction

New Jersey State lawmakers recently announced that in addition to decreasing the overall education budget, they were placing a 2% cap on annual increases in property taxes. This move is a direct correlation to the New Jersey property owners overwhelming dissatisfaction with the current property tax system in place. Can a state decrease education funding without compromising quality?

Not all areas of the school budget were reduced. For example, there was an increase in funding to "special interest" areas pertaining to preschool education and extraordinary special education. Both segments are part of the "Other Aid" category in the budget. The "Other Aid" budget for FY2011 is \$7.98 billion, amounting to an overall decrease of 11.3% when compared to the FY2010 budget. "Other Aid" also provides funding for debt service, Social Security, and pension liabilities of school districts. The State of New Jersey also pays for post-retirement medical expenses of school districts former employees and the FY2011 \$823 million budget represents a \$48 million increase from FY2010.

State aid to all New Jersey school districts represents a significant portion of the annual state budget and spending. New Jersey State lawmakers, faced with declining tax revenues resulting from the worldwide economic downturn, attempted to reduce the school budgets without undermining the quality of the public education system. Some of the targeted areas included a reduction in staff in the New Jersey Department of Education and elimination of certain programs. Also elimination was the federal stimulus package of \$1.057 billion that the school districts received this year. As a result of these proposals, education funding will

decrease approximately 7.4% in FY 2011, from \$11.13 billion to \$10.31 billion. Interestingly, many of the spending cuts proposed could disproportionately affect middle income districts most.

1. Problem solved?

The School Funding Reform Act was proposed to create an equitable formula for calculating reductions in school aid provided to each district. Initially, the total New Jersey State education budget provided for no increases for 2011. It was subsequently reduced by 4.994%, providing less funding to the school districts than the prior FY2010 budget. As a result of the budget cuts, 59 school districts in New Jersey will lose 100% of their formula-derived aid for FY2011. These districts will only receive additional funding from the "Other Aid" categories (Bozza, website). The elimination of 100% of state education funding to these 59 districts was the result of Governor Christie's campaign promise to eliminate the \$10.7 billion state deficit. This decision will negatively impact the educational resources available to the students residing in those 59 targeted school districts.

2. Are state reductions equitable?

Twenty-seven of the school districts losing all their state funding are located in Bergen County. These districts are viewed as wealthy districts with high per capita income ranging between \$70,000 and \$300,000. The school districts most adversely affected are Glen Rock (-\$1,750,107); Northern Valley Regional (-\$1,893,524); Ramsey (-\$2,191,203); Ridgewood (-\$2,985,477); and Tenafly (-\$1,943,347) (2010-2011 State Aid Summaries). These wealthier school districts have other financial resources available to compensate for the lost funding from the state in contrast to the poorer school districts. As the figure indicates, the school

districts with the greater sources of property driven revenues, receive the greatest amount of school funding from those funds.

An interesting fact to note is that the property tax rates in 2009 for the districts receiving the 100% reduction of New Jersey State aid are low; very few have more than a 2.5% general tax rate imposed on their property. Furthermore, some of these districts had their property tax rates reduced in 2008 and 2009 including: Fairfield (-48%) and Livingston (-87%) in Essex County, Deal Borough (-59%) in Monmouth County, and Bay Head (-39%) in Ocean County. Perhaps the State of New Jersey should reconsider this decision as the lower property taxes have resulted in school funding reductions. Many of the wealthier towns have the ability to raise funds from alternate resources, such as private fund raising and donations, to make-up for the lost state revenues.

However, those funding alternatives are less available in the lower income districts. Alternate state funding sources must be found if equitable education is to be provided to all students residing in New

Jersey regardless of their median income levels. Whether these resources should come from the wealthier school districts is a problematic decision facing the Christie administration. Many taxpayers believe that solution is merely a redistribution of wealth and not a viable solution to the problems of equitable funding for all school districts.

3. Who pays for school aid?

The largest source of New Jersey public school funding comes from property taxes. Historical data indicates that in order to satisfy the increasing demand for a quality public education system in New Jersey, property taxes need to increase almost every year. Even during the most recent fiscal crisis, the property tax rates in New Jersey continued to escalate. It is important to recognize the correlation between the increases in property taxes and the education aid provided to the school districts. There appears to be a direct connection between the two variables, taxes and school aid, as depicted on the Figure 1 below.

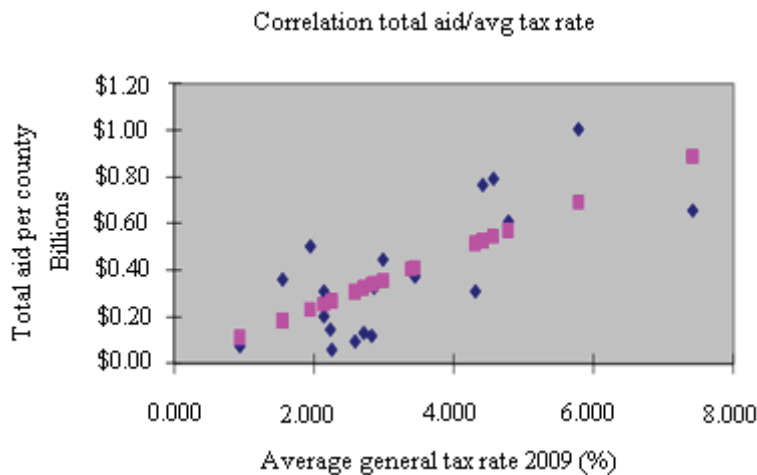


Fig.1. Property tax rate schedule

Most of the New Jersey School districts that will be eligible to receive up to the \$600 million in state aid available have general property tax rates that range between 2%-3%. Counties eligible to receive additional state funds had average tax rates of 4%. For FY2011, Essex County has received the greatest total education aid, or \$1.376 billion, followed by Hudson County (\$1.005 billion) and Passaic County (\$793 million). The average general tax rates for 2009 for the same counties are respectively 4.386%, 5.781%, and 4.565%. These rates are among the highest average general rates per county in New Jersey. Furthermore, New Jersey counties receiving lower total education aid have historically paid lower property taxes. In 2009 the highest effective property tax rates (General Tax Rates by County and Municipality-NJ Taxation) ranging between 3% and

3.7% were primarily located in Camden County. The highest general property tax rates for 2009, ranging from 7% to 20%, are found in Union County. There is one exception – Winfield in Union County which has a general property tax rate for 2009 of 191% and effective rate of 15%.

More than half of the school districts in New Jersey have seen their property taxes increase by more than 2.5% between 2008 and 2009. The highest percentage increases in property taxes were found in Washington in Burlington County (57%), Loch Arbour Village in Monmouth County (55%), Lower Alloway Creek in Salem County (29%), and West New York Town in Hudson County (23%). As result of these increases, Governor Christie has proposed legislation to restrict increases on property taxes to 2% per annum.

The homes in the wealthier school districts pay higher property taxes than the homeowners who live in poorer school districts. These higher property taxes provide more funding for those wealthier school districts because there is a direct correlation between the property taxes collected and the aid distributed to school districts. As the figure 1 indicates, the more property taxes the homeowners pay in a particular school district the more the schools are funded by those taxes. Unfortunately, the reverse is true as well, the lower the property taxes, the less aid available for the schools in those districts.

Conclusion

The Christie Administration has pledged to lower property taxes. Governor Christie was quoted as saying: “Do (the people of New Jersey) want to know for sure that their property taxes will increase no more than 2.5 percent a year or do they want to continue to engage in the game of Trenton roulette, where the amount of increase depends on which slot the ball falls in, which special interest is going to be catered to, which tax is going to be increased that year.”

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The goal is to provide an equitable distribution of state aid that will end the current policy of property tax increases to one school district that is used to benefit another. However, opponents of Governor Christie’s budget cuts posit that reductions in school aid resulting from significantly lower property taxes will have a detrimental effect on essential educational services (Reitmeyer, 2010).

The 2% cap on increases to property taxes in New Jersey will not impact utility, health care, and pension costs. These exemptions to the proposed cap are crucial to the workforces of many municipalities (Method, 2010).

There must be equity in the New Jersey property tax system concerning both the tax rate and the allocation of the funds to the school districts. Our primary goal is to provide an excellent public education without undermining the rights of the property owner with excessive tax rates. Whether this goal can become a reality is up to the New Jersey State lawmakers and the voters of New Jersey.