

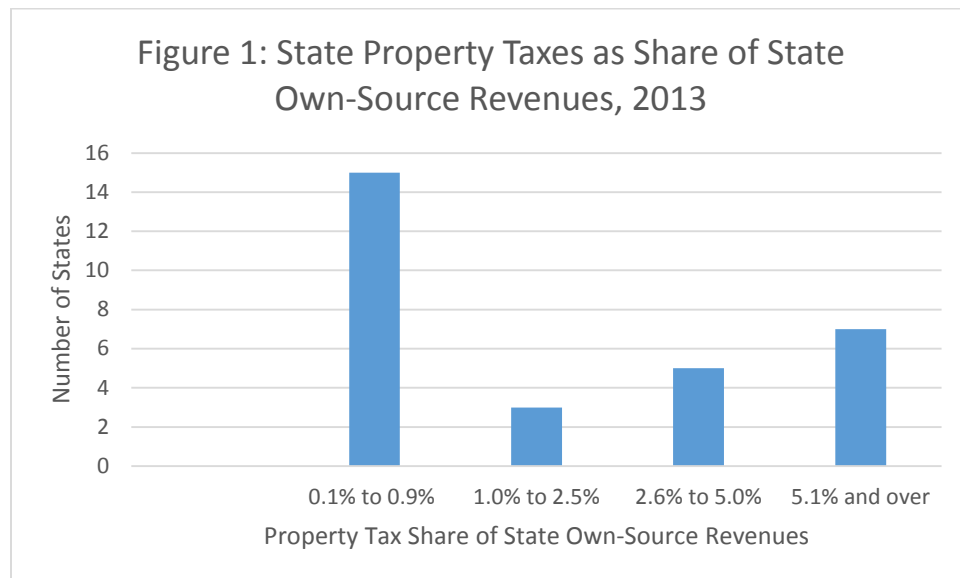
Replacing the Education Component of the Local Property Tax with a A Statewide Property Tax

Discussion Document

Michael Bell

December 3, 2015

In 2013 thirty-six states generated some own-source revenues from a state property tax. More than half of the states with a state property tax generate less than 1 percent of state own-source revenues from property taxes. Seven states generate more than 5 percent of their own-source revenues from a state property tax and Vermont has the highest dependence on the state property tax accounting for 25.8 percent of state own-source revenues (see Government Finance data from the Census Bureau displayed in Figure 1).



In the late 1990s Vermont (1997) and New Hampshire (1999) shifted the funding of education to a state property tax. In Vermont equal per pupil block grants were received by towns in an effort to make a foundation for greater equity in education funding. A new statewide property tax provided revenue for the block grants.¹

New Hampshire has school districts similar to Connecticut – most are coterminous with municipal boundaries, but some school districts are cooperatives composed of students from multiple municipalities. Before the 1999 reform, local property taxes financed 87 percent of total primary and secondary education funding. This resulted in great inequities in property tax burdens and educational resources across towns in the state. The education finance reform ordered by the courts included a statewide property tax which imposed a uniform rate on all property in the state. The revenues from the statewide property tax were used to fund education.²

State Property Tax

At present Connecticut education is funded by a combination of local property taxes and state equalization grants. Approximately 60 percent of local property tax revenues are used to fund education. In 2013 that amounted to approximately \$5.3 billion of total property tax revenues of \$9.5 billion.

A statewide property tax in Connecticut dedicated to replace local property taxes currently raised to fund education would provide property tax relief for local governments in the state by eliminating the local share of property taxes used to fund education and substituting a statewide property tax. Local effective property tax rates would fall by 60 percent and most municipalities would have effective property tax rates between 0.8 and 1.2 percent. *In the aggregate the same amount of revenue would flow to education. That is, for the system as a whole it is revenue neutral.*

In this scenario, the local property taxes funding education would be replaced by a statewide real property tax that raises an equal amount of property tax revenue, \$5.3 billion for the education system. The revenue from a statewide real property tax plus the current level of funding for state equalization grants would fund education at exactly the same level as now. Thus, there is no change in the total number of dollars available to fund k-12 schooling.

The statewide property tax would be an additional line item on the property tax bill mailed to property owners by each municipality. The state mill rate would be applied to the net assessed value of each property. The municipality would collect the state property tax and remit it to the state.

The total state resources could be allocated among local governments to fund education in a variety of ways. A discussion of education grant design is beyond the scope of this note. All that is being presented here is a discussion of the potential impact of substituting a statewide property tax for the education component of the current local property tax. The net result ameliorates, to some extent, fiscal disparities across Connecticut municipalities. The following discussion highlights some revenue implications of converting current local real property taxes for education to a statewide real property tax raising the same amount of revenues for education.

Remainder of Page Intentionally Blank

(Some) Equalization Outcome

Table 1 provides summary information on the impact of shifting from the local share of real property taxes to fund education to a statewide real property tax that raises the same amount of revenue. The total revenue to be raised by a statewide income tax is divided by the aggregate net grand list value in the entire state to calculate a mill rate for the statewide property tax that raises the same revenue. In this case the equal yield mill rate is 16.40 mills.

Table 1 Differential Impact of Statewide Property Tax: Summary		
	Towns Where Property Taxes Increase	Towns Where Property Taxes Decrease
Number of Communities	71	98
Population	1,125,092	2,470,988
Percent of Total Population	31.3%	68.7%
Share of Property Taxes Under Current System	40.0%	60.0%
Share of Property Taxes With a Statewide Property Tax	47.8%	52.2%
Total Tax Change	\$ 682,124,697	\$(682,134,207)
Average Change in Per Capita Property Taxes	\$ 597.33	\$ (206.71)

In the scenario with a statewide real property tax total property taxes paid by residents in each town would be composed of 40 percent of current local property taxes (the non-education portion of current local property taxes) and the statewide property tax which is the towns' net grand list multiplied by the statewide mill rate.

Under this new scenario, residents in 98 towns would pay less in real property taxes than they do under the current scenario and residents in 71 towns would pay more. Towns experiencing a decrease in property taxes paid represent 68.7 percent of the state's population and currently pay 60 percent of local property taxes. Under the scenario with a statewide property tax they would pay 52.2 percent of total property tax revenues. Average property taxes per capita would fall by \$206.71.

Alternatively, the 71 towns with an increase in property taxes under the statewide property tax scenario account for 31.3 percent of the state's population who currently pay 40 percent of local property taxes, but would pay 47.8 percent under the statewide property tax scenario. Per capita property taxes would increase by \$597.33.

The impact of a statewide property tax would tend to be equalizing because it would raise taxes in communities with higher per capita property values and lower taxes in communities with lower per capita property values. A statewide property tax would apply uniformly to the value of all property in each town. As a result, towns with higher net grand list values per capita would pay more than towns with lower grand lists per capita.

Table 2 reports the impact of the hypothetical statewide real property tax scenario described here across municipalities based on their per capita Net Grand List values. Specifically, towns were arrayed according per capita Net Grand List values from the lowest to the highest. They were then divided into 5 quintiles with information on the impact of moving to a scenario with a statewide property tax reported in Table 2.

Communities Per Capita Net Grand List Level	Average Per Capita Net Grand List	Total Change in Taxes (millions)	Percentage Change in Taxes
Lowest 20 percent	\$ 46,253	\$ (412.2)	-18.7
Second 20 percent	\$ 67,246	\$ (70.7)	-6.8
Middle 20 percent	\$ 79,948	\$ (98.7)	-7.0
Fourth 20 percent	\$ 102,032	\$ (22.8)	-1.4
Highest 20 percent	\$ 209,322	\$ 603.8	24.1

For the properties in the lowest four quintiles the average per capita Net Grand List ranges up to \$102,032 in the fourth quintile. Table 3 indicates the municipalities in these four quintiles would see their property taxes fall by between \$412.2 and \$22.8 million reflecting a *decline* in property taxes of between 18.7 percent and 1.4 percent.³ The quintile with the 20 percent of municipalities with the highest per capita Net Grand List has an average per capita Net Grand List value of \$209,322 and would pay \$603.8 million more in property taxes, which represents an increase in property taxes paid by these municipalities of 24.1 percent.

Table 3 reports the impact of the hypothetical statewide real property tax scenario described here across municipalities based on their per capita personal income. Specifically, towns were arrayed according per capita personal income from the lowest to the highest. They were then divided into 5 quintiles with information on the impact of moving to a scenario with a statewide property tax reported in Table 3.

Communities by Income Level	Per Capita Personal Income (median)	Total Change in Taxes (millions)	Percentage Change in Taxes
Lowest 20 percent	\$ 1,729.76	\$ (176.50)	-12.5
Second 20 percent	\$ 2,207.39	\$ (230.90)	-14.0
Middle 20 percent	\$ 2,607.80	\$ (45.70)	-3.6
Fourth 20 percent	\$ 3,125.41	\$ (38.30)	-2.3
Highest 20 percent	\$ 3,887.47	\$ 491.40	17.7

For the properties in the lowest four quintiles the median per capita personal income ranges up to \$3,125 in the fourth quintile. Table 2 indicates the municipalities in these four quintiles would see their property taxes fall by between \$230.9 and \$38.3 million reflecting a *decline* in property taxes of between 14.0 percent and 2.3 percent.⁴ The quintile with the 20 percent of municipalities with the highest per capita personal income has a median per capita personal income of \$3,887, would pay \$491 million more in property taxes, which represents an increase in property taxes paid by these municipalities of 17.7 percent.

Summary

If 60 percent of local property taxes currently collected were eliminated from local government revenues and replaced on an equal yield (revenue neutral) basis by a statewide property tax dedicated to education, 68.7 percent of the state's population living in the 98 municipalities that would experience a reduction in property taxes would see a reduction in their share of property taxes, albeit they would still pay a majority of property taxes. They would experience an average decline of \$207 in per capita property taxes. The scenario with a statewide property tax would reduce property taxes in those communities with moderate to low incomes and increase property taxes in those communities with the highest incomes, thereby moderating to some extent the regressivity of the property tax in Connecticut.

The fifth of the households in Connecticut with the highest per capita personal income own 40.1 percent of the total net grand list value in the state. Under the current system they pay 31.6 percent of total property taxes and under the scenario with a statewide property tax they would pay 37.2 percent of property taxes.

¹ Darcy Rollins Saas, “School Finance in Vermont: Balancing Equal Education and Fair Tax Burdens,” in *State Tax Notes*, April 2, 2007, pp 33-42.

² Lisa Shapiro, Richard England, Daphne Kenyon, and Charles Connor, “Impacts of a Uniform Statewide Property Tax in New Hampshire,” posted on *State Tax Notes* June 14, 1999.

³ Not all towns within each quintile would experience decreases in property taxes.

⁴ Not all towns within each quintile would experience decreases in property taxes.