



Five reasons N.J.'s property tax system is failing you

Monday, September 28, 2009
GANNETT NEW JERSEY

In New Jersey, land rich and cash poor usually means a homeowner soon will be in debt to the tax collector. The average homeowner spends 11 cents of every dollar earned on property taxes. In 2000, that rate was just 8 cents per dollar.

Social Security and Medicare taxes cost the average worker less -- 7.7 cents on every dollar.

Property tax rates vary wildly among the state's 566 municipalities. New Jersey is, by almost all demographic measures, a wealthy state: Its median income -- half are above, half are below -- is fifth in the nation.

But because the state relies so much on property taxes to fund local government, the distribution of New Jersey's resources is uneven, according to Henry A. Coleman of Rutgers' Bloustein School. He was executive director of a 1988 state commission that studied local expenditures and revenues.

Homeowners with high incomes usually pay a smaller percentage of their earnings toward property taxes. At the same time, those with lower or even moderate incomes usually end up sending more of their paychecks to town hall.

New York-northeastern New Jersey is the most economically segregated area of the 25 largest metropolitan centers in the nation, according to a study by the National Poverty Center in 2005.

That means the gulf between the very rich and very poor was most pronounced in New York-northeastern New Jersey. The Philadelphia-South Jersey area came in fourth.

And because race and income are closely linked in this state, Gannett found that as the percentage of minorities in a municipality increases, property taxes take a bigger bite out of homeowners' paychecks, according to a statistical analysis of income, race and taxes.

There are 14 municipalities that fall at the lowest end of the economic scale, those where the median household income is below \$38,000, or 40 percent lower than the state median of \$64,000. The municipalities include Bridgeton, Salem, Camden and Newark. All have a large percentage of minority residents.

An average-income homeowner would see 14 percent of his or her paycheck go toward property taxes in those 14 towns. That means if a family took in \$40,000 last year, about \$5,600 went to property taxes, leaving them with \$34,400 for food, transportation, education, utilities and other taxes, such as sales and gasoline taxes. Some of that tax money may come back from state and federal tax deductions in the following year.

But, in the 106 towns that have household incomes above \$102,000, or 60 percent higher than the state median, an average homeowner would pay just 9 percent of his or her income toward property taxes.

In Vineland, typical homeowners (median income \$49,521) pay 7.6 percent of their earnings (\$3,771) to property taxes. In Millville, typical homeowners (median income \$48,008) fork over 8 percent of their paycheck (\$3,824) to the taxman.

Reason 2: Layers of government

When Jerry Casciano, 54, of Rumson boarded the scenic Durango and Silverton railway in Colorado during a recent vacation, he didn't know that New Jersey would be the center of attention.

When the tour guide conductor asked where he was from, Casciano said New Jersey.

"OK, a collective quiz," the conductor announced to the group. "Where is the worst place to live in the United States?" All yelled, "New Jersey," Casciano said.

"They said New Jersey people are so asleep at the wheel," said Casciano, a freelance photographer. "It's like the sheep going to slaughter. You keep paying and paying and paying. And you keep getting less and less. It's a runaway train. Even in a wealthy town like Rumson, (residents) have been stretched to the limit living here. You are just being feed'd and taxed, and there is no way to ever get ahead."

Over the past decade, the amount of tax revenue derived from property taxes has grown at twice the inflation rate.

Local school taxes are up 77 percent to \$12 billion. Municipal taxes are up 87 percent to \$6 billion. County taxes are up 70 percent to \$4 billion, according to tax collection figures.

Inflation for the same time, 1998 through 2008, was just 36 percent.

But towns can't sustain themselves on property taxes alone. The state will spend \$15.7 billion -- about half of its budget -- on schools, municipal aid and homestead rebates.

To offset rising property taxes, \$1.1 billion of revenue raised by the state through its own taxes will be sent back to 1 million homeowners, with some income limitations. But to help do this, the state raised the sales tax in 2006.

Gov. Jon S. Corzine told the Legislature in March although sharing services across municipal and school lines is a way to cut costs, "no governor can single-handedly fix New Jersey's local property tax problem."

Corzine has tasked the state Department of Education to find ways to consolidate the 605 school districts (California has just 63). But to date, there has been no firm estimate of how much of a savings consolidation will bring.

Reason 3: Economic drain as some leave N.J.

"The power to tax involves the power to destroy," U.S. Chief Justice John Marshall said in 1819.

But, in 1927, U.S. Supreme Court Justice Oliver Wendell Holmes said, "Taxes are what we pay for a civilized society,"

There always has been a tug of war between those two views on taxation. But a number of New Jersey residents say they have reached their own breaking point. They are leaving New Jersey for cheaper places to live.

Former Monmouth County residents William and Carole Cerase decided to flee New Jersey two years ago. This, after the taxes on their 1,700-square-foot home soared from about \$6,000 a year to \$10,000 after a revaluation.

"I gave up on New Jersey," said William Cerase, 49, who now lives in Lumberton, N.C. He and his wife pay about \$1,500 a year in taxes for a house he says is twice the size of their former Keyport home.

"Quite honestly, we are both blue-collar people, and blue-collar people are not going to be able to survive in New Jersey," Cerase said. "I don't know where New Jersey is going, but I think it's in a lot of trouble."

Since 2000, more than 149,000 manufacturing jobs have left New Jersey, according to the U.S. census.

Signs of an economic drain are apparent. According to IRS taxpayer data, more than \$9 billion in net income has left New Jersey in five years as more taxpayers move to other states. If not for births and immigration, New Jersey's population likely would have stopped growing.

Reason 4: Special tax for farmland, woods

One of the biggest loopholes in New Jersey's property tax system is the farmland and woodland assessments in which wealthy landholders and corporations can pay virtually no property taxes. That ultimately means homeowners pay more.

It works this way: A landowner with five or more acres can have his parcel deemed farmland if \$500 in agricultural goods are sold each year from that land. Goods can be anything from corn to firewood to Christmas trees.

Farmland assessment is meant to preserve working farms and to save the land from the developer's bulldozer. If a farmer were taxed at the regular homeowner's rate, it would cost tens of thousands of dollars a year, enough to bankrupt the farm.

But since the threshold is so low, \$500, and there is no way to determine exactly what constitutes a farmer, wealthy and famous landholders who maintain massive privacy buffers around their homesteads have made use of these special assessments.

Vernon Hill II, the former head of the now-defunct Commerce Bank, bought 50 acres in Moorestown for \$2.1 million. Of that land, he carved out seven acres and built a 22,152-square-foot home that was completed in 2002. For the house and those seven acres, he pays \$391,000 in property taxes.

But the remaining 43 acres are under woodland management, which means he needs to keep the forest in its natural state. There is no requirement to sell farm products. The tax today on those 43 acres: \$107.42.

From the owners of Six Flags Great Adventure to rock star Jon Bon Jovi, corporations and the wealthy have cut their property taxes on undeveloped land by millions of dollars through the use of those special assessments.

In the state's richest communities, where the median household income topped \$107,000 a year, 1,423 farmland acres were purchased in the past 25 years, according to a Gannett New Jersey review of land sales. (The review excluded government purchases and intrafamily transfers.)

There is no way to tell what is being used as a buffer for a mansion vs. a full-time farm. But the sale price does give an indication. In the state's richest communities with open space, farmland sold at an average of \$87,000 an acre to corporations and individuals.

In Colts Neck, for example, 1,174 various acres throughout the township sold at an average price of \$63,700 per acre. Those Colts Neck parcels bought at the market price of \$74.8 million have a farmland assessment of \$1.7 million, or 2 percent of the purchase prices. Total taxes: About \$56,000. If those parcels were assessed at the full \$74.8 million, another \$2.3 million would be added to the local tax coffers.

By comparison, in Vineland the average sale price per acre was \$12,400.

Reason 5: Costly education

New Jersey's heavy reliance on property taxes as the main source of education funding creates extreme disparities in school funding that the state repeatedly has tried to address.

It also pits communities against each other, with residents of suburban districts complaining that too many of the state's resources have been funneled to underperforming urban schools.

The state constitution requires local school districts to provide children with a "thorough and efficient" education from kindergarten through high school, and establishes rules and regulations governing everything from core curriculum to teacher training to class sizes.

But the state provides about 40 percent of the total cost of financing education, well below the 53 percent national average. Local school districts must rely on property taxes for the balance.

For the 2009-10 school year, the state will provide about \$11.4 billion in education aid to schools. The state, under court order, each year funnels billions of dollars to poorer school districts, such as Vineland and Millville, in an attempt to equalize educational opportunities for children who live in lower-income areas.

With 591 school districts (14 other districts don't have schools in them), it's easy in New Jersey to drive from an ultra-wealthy school system to an extremely poor district in less than five minutes.

"When you have communities with very different economic bases at their disposal, you are going to have very different qualities of education when you rely so heavily on property taxes," said Dianne R. Brake, president of PlanSmart N.J., a policy group that focuses on smart growth and reducing economic inequality among towns.

Fifty-five percent of property tax revenue is used to support local schools. The state ranks second in the nation in per-pupil spending, trailing only New York, according to a July U.S. Census Bureau report that looked at figures from the 2006-2007 school year.

New Jersey spent \$15,691 per pupil, above the national average of \$9,666.

The state's children do score in the top 10 nationally on standardized tests in math and reading given to fourth- and eighth-graders.

But Massachusetts, which ranked first in both reading and math scores for fourth- and eighth-graders in 2007, spends considerably less per pupil than New Jersey, at \$12,738.