

# The Property Tax in Connecticut

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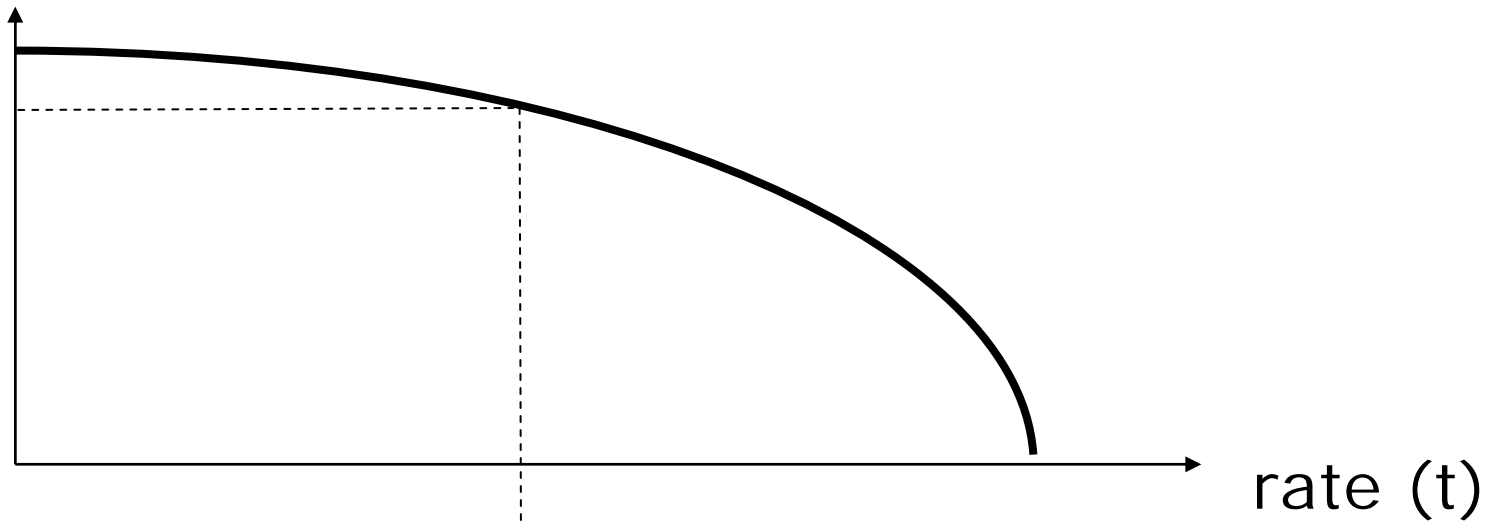
# Agenda

- Property tax rates: how high is “too high”?
- The property tax base: what’s been happening to CT home values?
- How do tax rates and public spending affect home values?
- Some further questions about state aid.

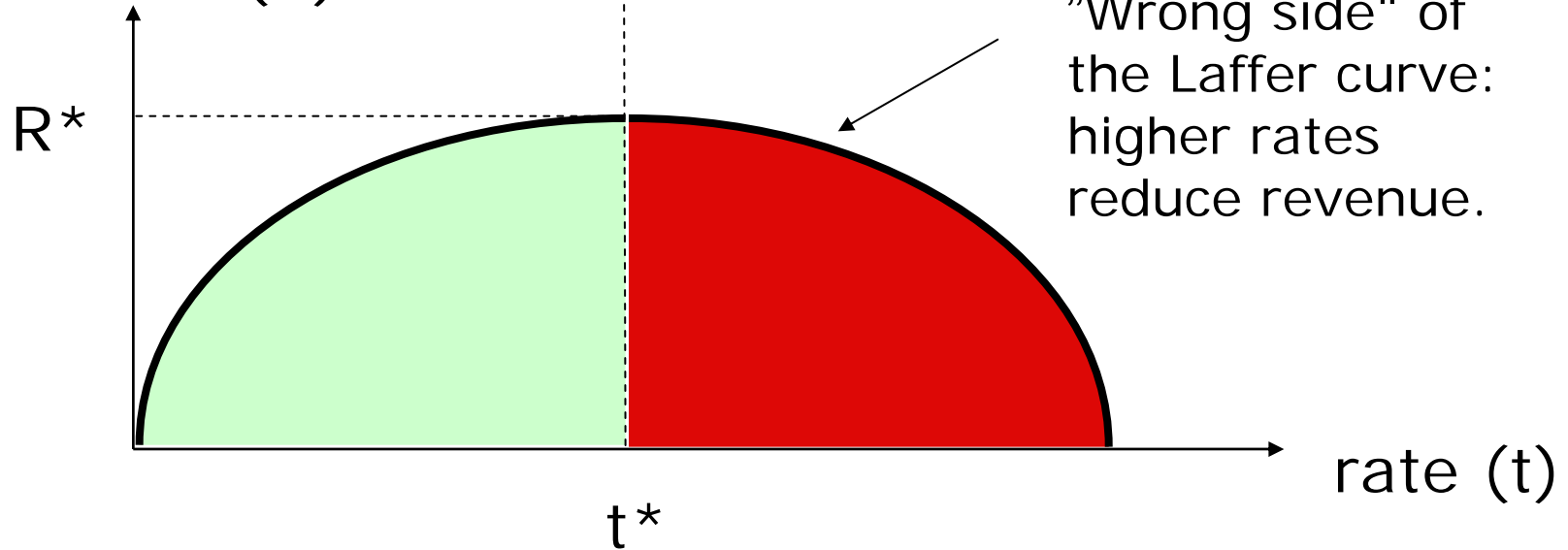
# How High is “Too High” ?

- Market value of property is sensitive to the tax rate: after controlling for other factors, a higher tax rate reduces the market value.
- Total tax revenue = tax rate  $\times$  base
- But, a tax rate increase reduces the base, so the net effect on revenue is uncertain.
- If rate is pushed too high, tax base shrinks enough to reduce revenue.
- Commonly known as the “Laffer curve”

Base (B)



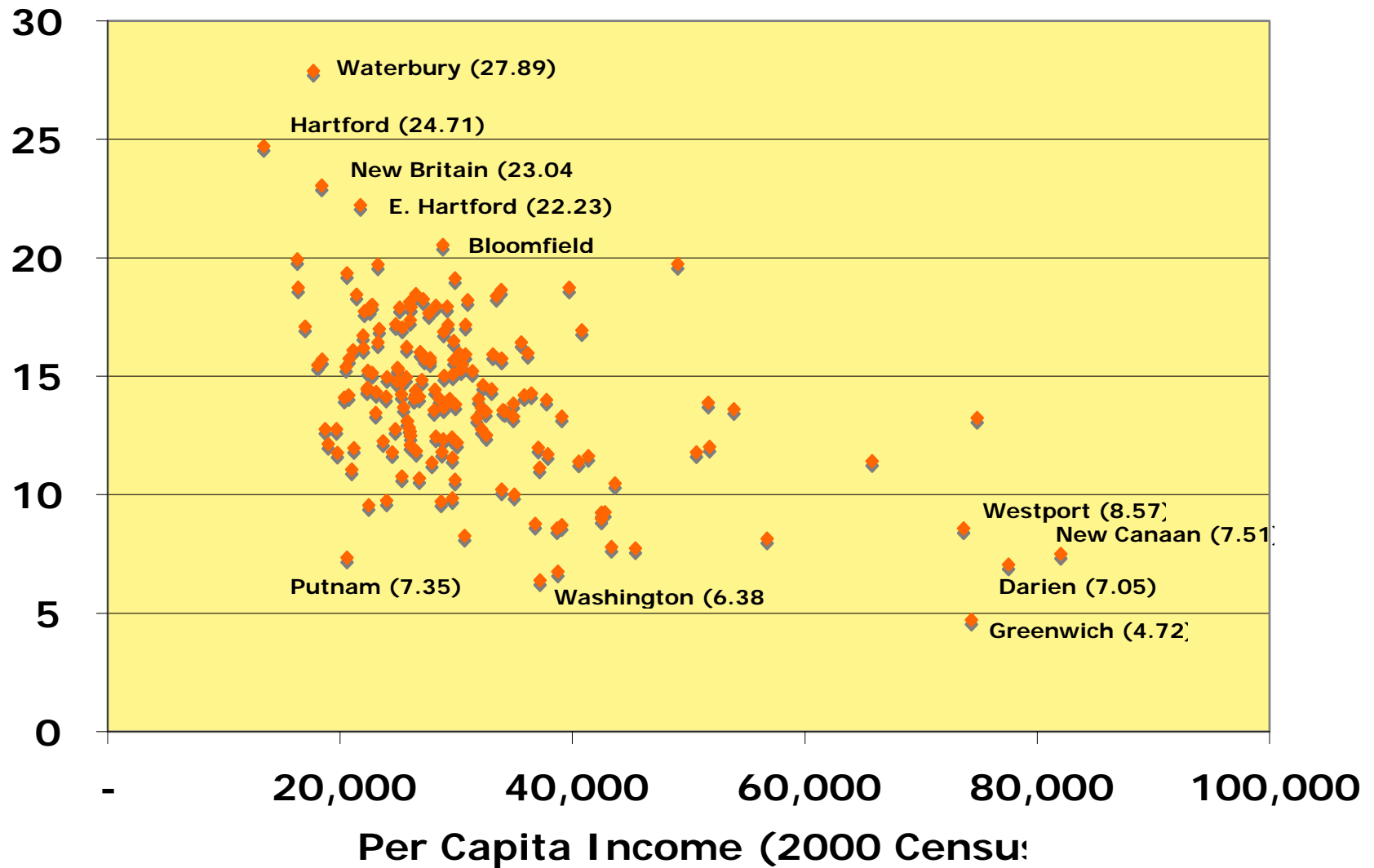
Revenue (R)



# How Likely?

- Not much empirical evidence that the Laffer effect is really a problem.
- Would only occur if a given % increase in the tax rate ( $t$ ) causes an even larger % decrease in the base ( $B$ ).
- Perhaps most likely to occur in urban areas where tax rates are high and a major deterrent to attracting or retaining residents and businesses.
- No good reason to ever operate on the “wrong side” since the same (or even higher) revenue can be generated with a lower tax rate.

# Property Tax Rates Lower in Richer Tow



# What's Happened to the Property Tax Base in CT?

- Median sales price (MSP) data from The Warren Group.
- Data for 1988-2007, by county.
- Ratio of highest-to-lowest county MSP grew from 2.3 to 3.5 over the 20-year period, reflecting increased geographic concentration of property wealth.
- 20-year growth in MSP ranged from 43.0% in Hartford County to 173.3% in Hartford County.
- Note: MSP reflects tax base only to the extent that *assessed* values keep pace.

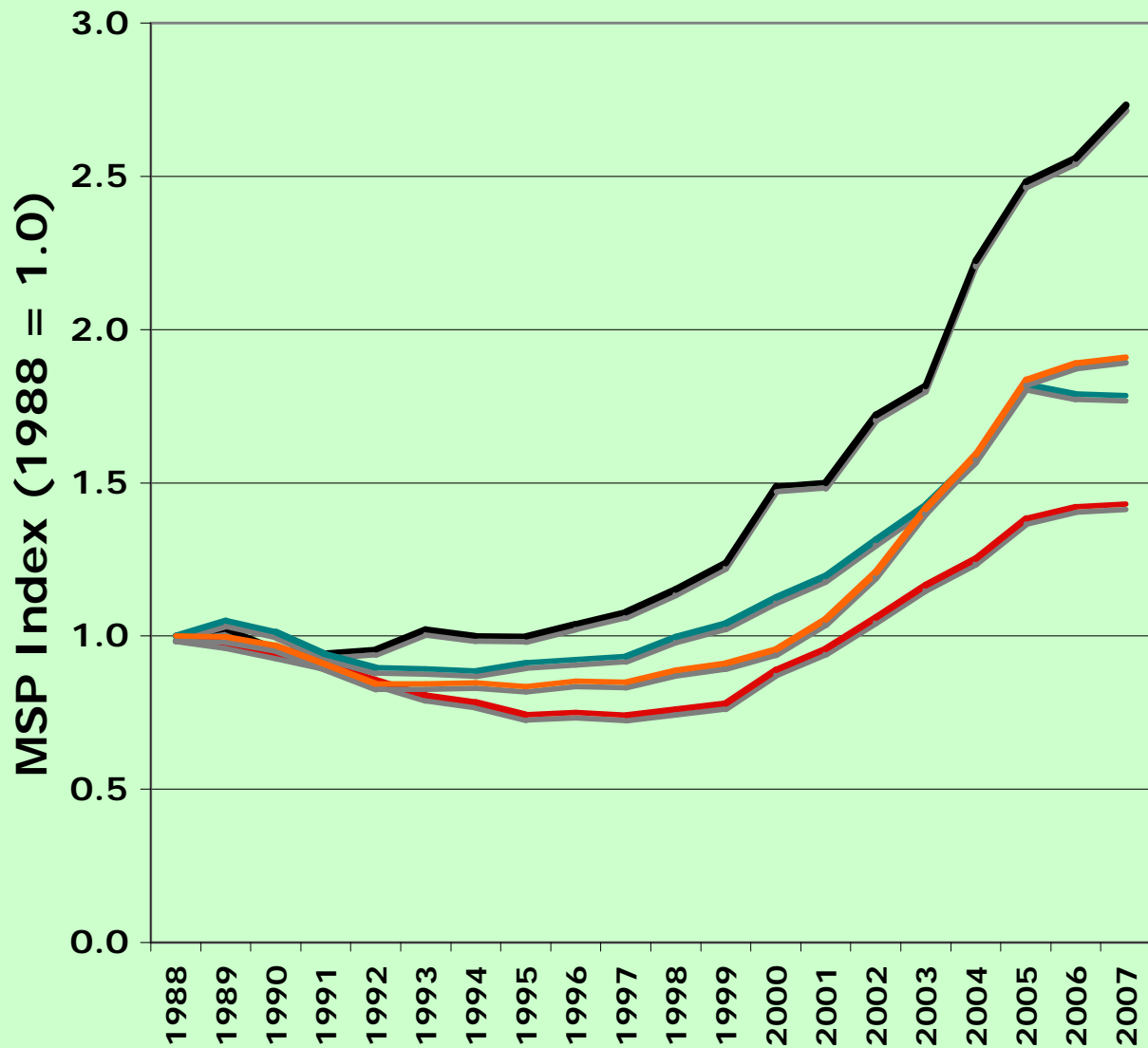
## Median Sales Price by County, 1988-2007

	<u>Fairfield</u>	<u>Hartford</u>	<u>Litchfield</u>	<u>Middlesex</u>	<u>New Haven</u>	<u>New London</u>	<u>Tolland</u>	<u>Windham</u>	<u>High/Low</u>
<b>1988</b>	262,700	175,210	152,661	168,518	160,190	139,232	165,183	112,432	<b>2.3</b>
<b>1989</b>	268,960	171,333	160,182	161,436	156,658	138,880	158,943	116,852	<b>2.3</b>
<b>1990</b>	251,113	165,418	154,509	154,996	149,160	134,959	150,281	117,101	<b>2.1</b>
<b>1991</b>	248,244	159,348	143,720	140,302	147,155	126,277	139,960	109,149	<b>2.3</b>
<b>1992</b>	251,063	149,962	136,838	139,484	140,584	117,449	135,982	100,842	<b>2.5</b>
<b>1993</b>	268,401	141,381	136,413	136,344	132,638	117,391	132,294	97,696	<b>2.7</b>
<b>1994</b>	262,808	137,214	135,262	138,313	129,047	117,868	129,070	97,843	<b>2.7</b>
<b>1995</b>	262,221	130,127	139,364	138,370	124,706	116,257	125,975	95,072	<b>2.8</b>
<b>1996</b>	273,265	131,452	140,943	139,959	122,185	118,668	125,880	95,746	<b>2.9</b>
<b>1997</b>	283,190	129,956	142,459	138,236	123,181	118,121	130,922	93,222	<b>3.0</b>
<b>1998</b>	302,466	133,481	152,117	144,535	132,473	123,503	131,583	100,068	<b>3.0</b>
<b>1999</b>	325,448	136,640	158,953	150,952	140,032	126,771	133,786	104,319	<b>3.1</b>
<b>2000</b>	391,111	155,808	171,812	168,769	152,699	133,121	151,753	113,594	<b>3.4</b>
<b>2001</b>	394,143	167,977	182,674	182,340	165,303	147,008	165,755	119,805	<b>3.3</b>
<b>2002</b>	452,191	185,823	200,607	203,210	185,458	168,371	183,048	130,864	<b>3.5</b>
<b>2003</b>	477,336	204,177	217,768	230,609	211,637	197,282	191,885	155,470	<b>3.1</b>
<b>2004</b>	584,650	219,324	242,138	262,609	227,127	221,651	212,026	181,346	<b>3.2</b>
<b>2005</b>	652,053	242,247	277,955	290,207	255,139	255,556	234,812	206,335	<b>3.2</b>
<b>2006</b>	672,610	248,982	273,188	297,174	271,961	263,281	245,140	212,138	<b>3.2</b>
<b>2007</b>	717,892	250,601	272,486	292,559	263,129	265,910	249,810	203,336	<b>3.5</b>

<b>%chg 88-07</b>	<b>173.3</b>	<b>43.0</b>	<b>78.5</b>	<b>73.6</b>	<b>64.3</b>	<b>91.0</b>	<b>51.2</b>	<b>80.9</b>
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**Source:** *The Connecticut Economy*, based on data from the Warren Group (Boston, MA).

# Four Counties, Four Tale



Fairfield County

New London County

Litchfield County

Hartford County

Developed by *The Connecticut Economy* based on data from The Warren Group (Boston, MA).

# Effects of Tax Rates and Public Spending on MSP

- To see these effects, must also control for other factors that influence the median sales price.
- Multiple regression analysis of 2006 MSP in 169 CT towns.
- Fiscal variables and their expected effects:
  - School spending per pupil (+)
  - Non-educational spending per person (+)
  - Equalized mill rate (-)
- Other control variables: median # rooms, %BA+, %Poor, crimes/100K, distances to Boston & NY.
- Together the 9 variables account for almost 95% of the variation in MSP across the 169 towns.

# Factors That Contribute to Median Sales Price Differences Across Connecticut's 169 Towns

	<u>MIN</u>	<u>AVG</u>	<u>MAX</u>	<u>MAX/MIN</u>	<u>% Change in MSP per 10% increase in variable:</u>	<u>p-value</u>
<u>MSP (2006)</u>	159,900	302,954	1,767,500	11.1		
<b><u>Explanatory Variables:</u></b>						
Median #Rooms	5.5	6.6	9.1	1.7	13.3	0.00
%BA Degree or Higher	10.2	30.8	74.4	7.3	1.9	0.00
%Poor	0.7	3.9	30.6	45.9	-0.2	0.38
#Index Crimes per 100K	144.9	1234.9	9979.4	68.9	-0.3	0.02
School Exp. per Pupil	8,089.0	10,498.2	15,163.0	1.9	2.5	0.00
Non-Ed. Exp. per Person	382.6	893.4	2,373.3	6.2	1.1	0.00
Equalized Mill Rate	5.26	14.7	30.7	5.8	-4.1	0.00
Distance to Boston	50.2	100.7	161.4	3.2	-5.2	0.00
Distance to New York	31.5	87.7	140.8	4.5	-9.4	0.00
<b>#Observations:</b>	169					
<b>Adjusted R-Square:</b>	0.947					

Source: Developed by *The Connecticut Economy* based on data from the Connecticut Economic Resource Center (CERC), the CT Office of Policy and Management (OPM), The Warren Group (Boston, MA), and the U.S. Census Bureau. Thanks to Jeff Blodgett and Dale Shannon at CERC for their assistance.

# Further Questions

- How much will additional state aid reduce local property taxes?
- Should state aid be distributed more equally or less equally than is currently the practice?
- By reducing the need to raise property tax revenue from new development, will additional state aid promote open-space preservation?
- Can we use state aid *incentives* to achieve some potential benefits of regional coordination without abandoning the benefits of local control and public oversight?

# More Information?

- [www.econ.uconn.edu](http://www.econ.uconn.edu)
- [cteconomy.uconn.edu](http://cteconomy.uconn.edu)
- [cteconomy.uconn.edu/archives.html](http://cteconomy.uconn.edu/archives.html)
- [www.repec.org](http://www.repec.org)
- [ideas.repec.org](http://ideas.repec.org)

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