

MIDDLETOWN LEADS

WHAT IS MIDDLETOWN LEADS?

Middletown Leads is a weekly newsletter intended to connect the Middletown community by providing information about the civic undertakings of the Town.

MIDDLETOWN TOWN COUNCIL – BACK TO WORK

Following the summer break, the Middletown Town Council met on Monday, August 19, 2019.

Proceedings began with a PowerPoint presentation by John Simmons from the Rhode Island Public Expenditure Council of the report entitled *Middletown Property Tax Analysis: Assessing the Impact of the Alternative Property Tax Models on Fiscal Stability and Taxpayer Equity*.

THE TAX PROPOSALS

Mr. Simmons began with a Summary of the two tax proposals sent to the General Assembly in 2018. The first would prohibit Middletown from increasing its tax levy by more than 2%, with minor exceptions. The second would authorize Middletown to place limitations in assessment increases.

CASE STUDY: PROPOSITION 13 IN CALIFORNIA

Mr. Simmons provided a review of the experience of California which implemented such an alternative tax structure in 1978. He traced the experience of the state as it came to terms with the tax bill.

The short-term impact was that, by 1983, California had spent its approximately \$5.0 billion surplus and faced an approximate \$1.0 billion deficit.

The long-term impact was that home ownership rates rose among older Californians and fell among younger Californians. Furthermore, property owners with similarly valued property often pay a very different amount in property taxes.

MIDDLETOWN PROPERTY TAX MODEL

RIPEC created models to estimate the fiscal impact of the 2 bills on Middletown's budget, residents, and businesses. Tax year 2005 was used as the base year and historical data from tax years 2005 – 2018 were utilized for the model.

Real historical data, rather than future projections, were able to give a more accurate picture of the long-term impact of the policy under consideration. In this 14-year period, there were 2 full property revaluation cycles and 3 statistical updates.

Three different models were examined. Model 1 and Model 2 included a cap on the tax levy and produced an annual revenue shortfall every year beginning in 2006 (ranging from a low of approximately \$1.4 million in 2006 to a high of approximately \$5.3 million in 2016.). Model 3 did not include the cap, so it did not result in a revenue shortfall although it did have other ramifications.

IMPACT ON THE TOWN

Implementing both the levy growth cap and the assessed value growth cap could affect the fiscal health of Middletown in other ways as well. First, it restricts the ability of Middletown to raise tax revenues; doing so could have an impact on Middletown's bond rating, making borrowing for capital projects more expensive in the future.

IMPACT ON RESIDENTIAL TAXPAYERS

More importantly, it would have an impact on residential taxpayers, depending on where they lived. The models examined the impact on 28 Middletown neighborhoods.

Because property taxes are apportioned based on assessed value, adopting the "assessed value escalator" **would shift a greater portion of Middletown's total property tax burden to 2 of the town's least wealthy areas.**

TAX PRINCIPLES

The Tax Foundation developed a set of 4 principles to help policymakers develop a sound tax policy. They include *Simplicity*, *Transparency*, *Neutrality*, and *Stability*. The report analyzes the following impacts on the tax principles:

Impact on Tax Code Simplicity and Ease of Administration

Assessed value caps usually make it less costly for governments and easier for taxpayers to understand. However, the state will still require revaluations, and tax code simplicity may be impacted due to complicated reassessment exemptions that accompany value caps.

Impact on Tax Code Transparency and Accountability to Taxpayers

The proposed policies could improve the transparency as they became more predictable. However, as a whole, the policies serve to undermine transparency. The relative tax burden would not be clearly related to the current market value of the property and, because each property would be assessed at a different point in time, the distribution of the tax burden would be less transparent.

Impact on Tax Code Neutrality and Taxpayers' Spending Decisions

Because the market value of property tends to increase, a policy that locks in a property's assessed value incentivizes long-term property ownership, and mobility would be discouraged because property owners could choose to remain in a property they would have otherwise sold. This inefficient use of available resources could have a net-negative effect on the economy.

Impact on Stability and Revenue Collections

Tax collection stability does not guarantee that revenues will be sufficient. Both Models 1 and 2 predict a budget shortfall for Middletown, and raising the levy in Model 3 would require a referendum.

Impact on Taxpayer Equity

Adopting an assessment model based on purchase price uncouples the link between market value and tax resulting in taxpayer equity.

Therefore, it is likely that **taxpayers with the most and highest-valued property** will generally derive the **greatest economic benefit** for an assessed value cap.

This policy would also shift the tax burden away from long-term property owners and towards newer property owners, likely **shifting the tax burden** from older property owners **to their younger peers.**

Editorial essays appear occasionally at the following website: <https://middletownleads.blogspot.com/>