



## Education Law Center

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### THE 2.5% TAX CAP: MORE HARM FOR NJ PUBLIC SCHOOLS

#### OUTCOMES IN OTHER STATES RAISE RED FLAGS

Governor Christie has proposed cutting \$1.08 billion from New Jersey public schools in his FY11 State Budget. This represents almost 14% of state support for K-12 public education. On top of this massive cut, the Governor will soon propose a constitutional amendment limiting property tax increases to 2.5%. He wants the Legislature to act quickly and place the measure on the November ballot.

Constitutional property tax caps are not a new idea. Several other states, including Massachusetts, Colorado, Illinois and California, have implemented the same type of cap Governor Christie wants for New Jersey. These caps have had many unintended negative consequences in the states that have tried them, and they have caused serious damage to the quality of public education. Here's a snapshot of what's happened in California and Massachusetts, two states with constitutional tax caps similar to Governor Christie's proposal.

#### *California*

California's Proposition 13, a property tax cap passed in 1978, has devastated the state's public schools. The tax cap has been a major factor in a 30-plus year decline from California's status as first in the nation in student achievement to almost dead last.

According to researchers from Rand, K-12 spending per pupil in California fell significantly under Proposition 13, dropping from more than \$600 above the national average in 1978 (when Proposition 13 was passed) to more than \$600 *below* the national average in 2000.<sup>1</sup> This has forced many school districts in the state to cut programs such as music, physical education, and art; reduce class offerings; and cut positions, such as librarians and counselors.<sup>2</sup>

California now has the second-highest student-teacher ratio of any state. And by 1999–2000, about 15% of the teacher workforce consisted of newly employed teachers, the majority of whom were not yet formally trained and certified. These relatively underqualified teachers have been concentrated in urban schools, in low performing schools, and in schools with high percentages of low-income and minority students.<sup>3</sup>

Test scores in California public schools are now close to the bottom. Rand researchers analyzed scores on the National Assessment of Educational Progress on reading and mathematics for 4th and 8th graders in all 50 states from 1990 through 2003. California fared worse than every state except Louisiana and Mississippi.<sup>4</sup>

#### *Massachusetts*

In 1980, Massachusetts adopted Proposition 2 ½, a law limiting property tax growth to 2.5% a year. A 2008 report from the Center on Budget and Policy Priorities (CBPP), [\*Hidden Consequences: Lessons from Massachusetts for States Considering a Property Tax Cap\*](#), shows that by limiting Massachusetts localities' only major source of revenue, the law has:

- arbitrarily constrained local governments' ability to raise revenues without any consideration of the actual cost of providing services;

- made local governments heavily dependent on state aid, which tends to fluctuate with economic cycles and state policies (This is a particular problem in an economic downturn when state aid usually declines but the need for local services, such as education and fire and police protection, does not decline.);
- **exacerbated disparities between wealthier communities and poorer ones in terms of access to quality local services, as many of the former have voted to override Proposition 2 ½'s revenue cap while the latter have generally had to adhere to it;**
- triggered cuts to valued services rather than simply calling forth greater efficiency from local governments; and
- forced lay-offs of teachers, police officers, firefighters, and other public employees; closed fire stations; shut libraries, senior centers, and recreation centers or sharply reduced their hours; and scaled back public school programs.

### ***Proceed with Extreme Caution***

California and Massachusetts are not unique. There is strong evidence from Colorado and other states that constitutional tax caps disproportionately affect lower-income communities.<sup>5</sup> And studies have found evidence that property tax caps lead to lower student test scores, higher dropout rates and a reduction in teacher preparedness.<sup>6</sup>

Before proceeding down this path, the NJ Legislature should undertake an in-depth study and analysis, aided by independent experts, to assess the impact of "constitutionalizing" a tax cap, especially with regard to New Jersey's ability to fairly fund the State's public schools.

It is important to remember that New Jersey has had a property tax cap on both municipal and school levies for some time. Those caps have done what they are supposed to do *without* making it impossible for communities to provide residents with much-needed services and school children with a "thorough and efficient" education. Municipalities and school districts have found efficiencies, shared services and cut programs and staff where appropriate, while property taxes have risen at rates more or less commensurate with the cost of living. For example, property taxes to fund schools rose at a rate of just 3% last year.

Imposing a hard cap of 2.5% now would wreak havoc on schools and school children, especially if the State reduces its level of support for public education. Public schools in the Garden State are the envy of the nation and an engine that powers our highly-skilled economy. Let's not go the way of California.

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<sup>1</sup> Jennifer Sloan McCombs and Stephen J. Carroll, "*Who Is Accountable for Education If Everybody Fails?*" RAND, 2005, pp. 46-47. [http://www.rand.org/pubs/monographs/2004/RAND\\_MG186.pdf](http://www.rand.org/pubs/monographs/2004/RAND_MG186.pdf)

<sup>2</sup> Tom Bell, "Fort Bragg schools feel sting of Proposition 13," Portland Press Herald, May 16, 2004.

<sup>3</sup> See Rand report, pp. 122-130.

<sup>4</sup> See Rand report, pp. 60-67.

<sup>5</sup> Daniel R. Mullins, "Tax and Expenditure Limitations and the Fiscal Response of Local Government: Asymmetric Intra-Local Fiscal Effects," *Public Budgeting & Finance*, 24:4 (2004), pp. 111-147

<sup>6</sup> Thomas Downes and David Figlio, "Do Tax and Expenditure Limits Provide a Free Lunch? Evidence on the Link Between Limits and Public Service Quality," *National Tax Journal*, Vol. 52 No. 1 (March 1999), pp. 113-128.