

A Perspective on Redding's Taxation Trends

Wes Higgins

Chair, Long Term Financial Planning Committee

Town of Redding, Connecticut

January, 2020

The Recent History on Property Tax Trends

- The past 10 years have seen relatively modest annual increases in the Town's spending and assessed property taxes. School spending in Redding rose from \$33.2 million in 2010 to \$36.3 million in 2019, an annual increase of less than 1% per year. Overall spending of the Town including the school's rose at a pace of just over 1.3% per year. Cost management was aided by a dramatic drop in school enrollment, low levels of inflation, and low interest rates that have cushioned the rise in overall bonded debt. The loss of State grants increased the tax burden.
- Property taxes rose \$6.45 million from 2010 to 2019, or 1.45% per year, from \$41.6 million to \$48.05 million. This does not include taxes for overlapping fire districts or ER9 taxes.

Should we be concerned about property tax increases over the next 10 years?

- The past 10 years has seen a modest annual need for new tax revenues. Taxes have increased about 1.45% per year. Why will that change?
- The increase in school spending has been just over 1% per year on average. In the coming year the Town's share of the ER9 budget will drop reducing the burden on Redding taxpayers
- However the decline in school enrollment is gradually ending. Projections show a modest increase in RES school enrollment over the next 10 years. ER9 projections show a continued decline, but Easton's projected declines are larger and may shift some costs to Redding.
- Accurate projections for the School's special education budget is challenging, but recent experience has shown costs have risen sharply and there is little reason to expect these costs to plateau.
- Contract costs with school employees will rise 2.5% or more per year.
- Town employee costs also will rise 2% or more per year, and unfunded OPEB and other pension exposures may require additional taxes.
- The period of relatively stable spending by the Town appears to be coming to a close, and a period of low single digit increases will likely become the norm over the next 10 years.

Spending for Town and School services in the last 10 years has grown very modestly

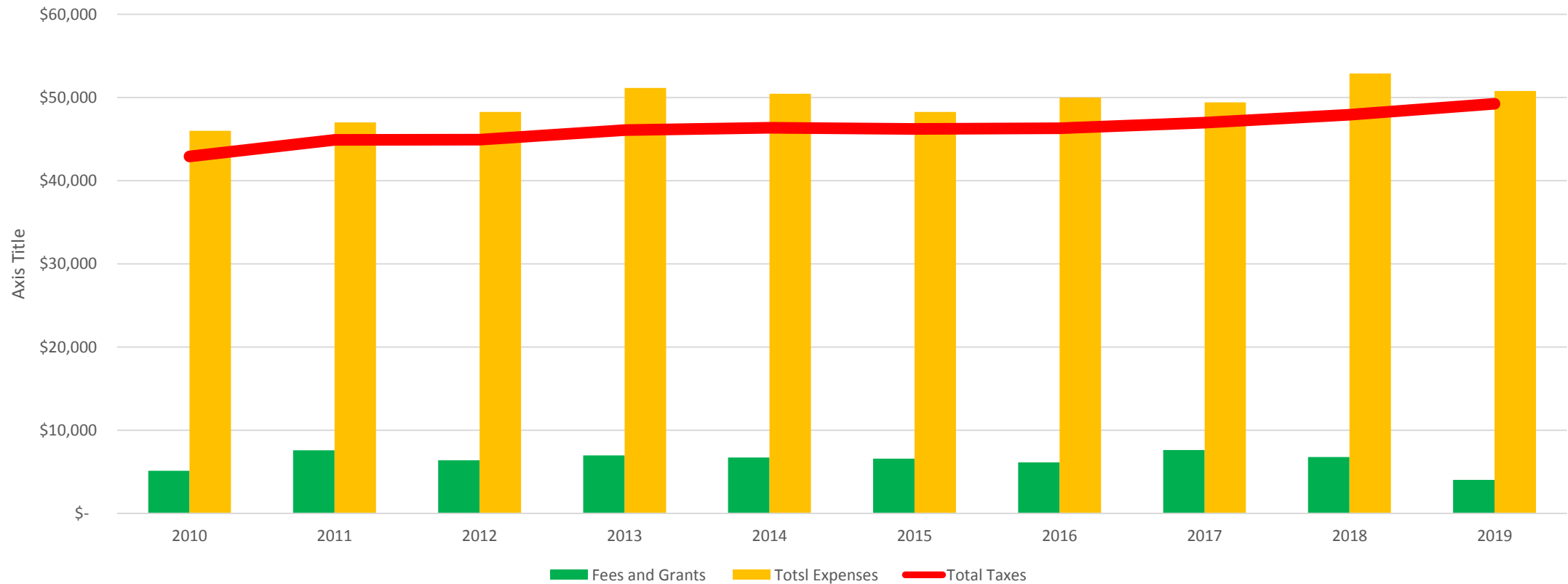
Overall Town Spending up 1% per year



Source: Town of Redding 2019 CAFR

Taxes have risen at a modest pace even as State of Connecticut grant income has declined

Property Taxes have risen at a CAGR of 1.4% per year



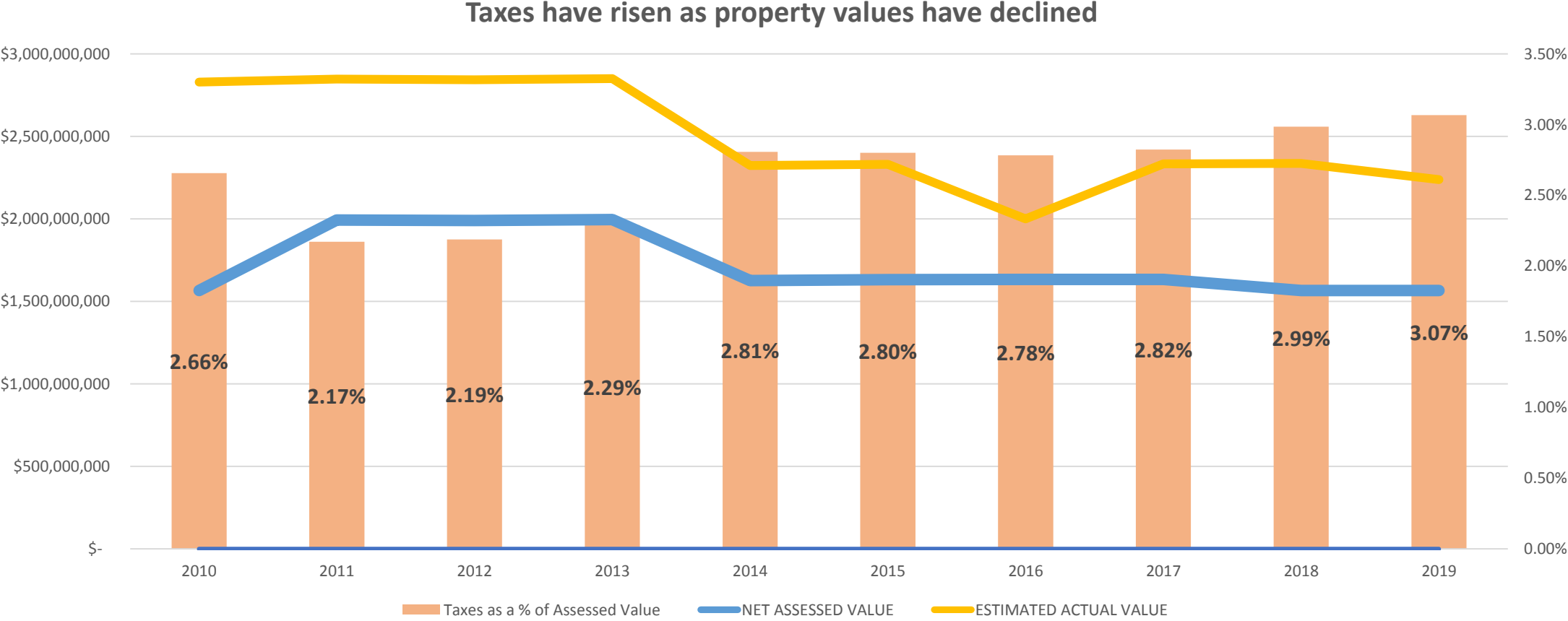
What is troubling about low single digit increases in spending?

- Simply put, the difference between a 1.5% increase vs a 3.0% increase, sustained each year over 10 years, brings about a significantly different outcomes in the required taxes. In the case of a tax payer paying \$14,000 in property tax in 2019 the range between 1.5% to 3% is from \$16,200 to \$18,760 per year by 2029, accumulating a difference in taxes paid of \$12,849

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>Increase in Taxes</u>
1.5% Rise	\$ 49,257	\$ 50,119	\$ 50,871	\$ 51,634	\$ 52,408	\$ 53,194	\$ 53,992	\$ 54,802	\$ 55,624	\$ 56,459	\$ 57,306	116%
2.25% Rise	\$ 49,257	\$ 50,365	\$ 51,499	\$ 52,657	\$ 53,842	\$ 55,053	\$ 56,292	\$ 57,559	\$ 58,854	\$ 60,178	\$ 61,532	125%
3.0% Rise	\$ 49,257	\$ 50,735	\$ 52,257	\$ 53,824	\$ 55,439	\$ 57,102	\$ 58,815	\$ 60,580	\$ 62,397	\$ 64,269	\$ 66,197	134%

Amounts in \$1,000's

Measures of the Town’s tax burden often refer to the ratio of property taxes to real estate values. This ratio has risen as the rise in taxes in the last 10 years have occurred during a declining market for real estate property. It is not a very useful parameter particularly in today’s uncertain market that exists currently for housing



Source: 2019 Redding CAFR, page 92

The relationship of the taxpayer's income to their property taxes is a more important factor in the burden of the tax than the ratio of tax to property value. In the past 10 years aggregate income data for the Town's residents provided by the Connecticut's Department of Labor hasn't shown very much improvement in income as property taxes have risen



Source: 2019 Town CAFR, page 96

A more precise data source exists for income. The IRS provides taxpayer data compiled by zip code. A comparison of that data for 2017 for Redding residents and surrounding towns reveals that Redding's average tax burden is just over 4% of total income, in the middle of the Towns selected. It is interesting to note that 35% of the tax returns for Redding are from filers over the age of 60, a rate only exceeded by Ridgefield's 46% of their residents returns

<u>Town</u>	<u># of Returns</u>	<u>Total Income</u>	<u>Real Estate Taxes Paid</u>	<u>R/E TAX % OF TOTAL INCOME</u>	<u>ADJUSTED GROSS INCOME (AGI)</u>	<u>R/E TAX % OF AGI</u>	<u>Filers Over 60 Years of age</u>	<u>% Over 60</u>	<u>Filers with SS\$</u>
DARIEN	9460	\$ 5,916,764,000	\$ 126,543,000	2.14%	\$ 3,028,662,000	4.18%	2320	25%	1400
NEW CANNAN	9030	\$ 5,189,893,000	\$ 126,218,000	2.43%	\$ 2,590,973,000	4.87%	2670	30%	1610
WESTPORT	12690	\$ 5,437,941,000	\$ 144,387,000	2.66%	\$ 2,904,249,000	4.97%	4030	32%	2330
RIDGEFIELD	7460	\$ 2,915,540,000	\$ 98,498,000	3.38%	\$ 1,877,112,000	5.25%	3420	46%	2060
WESTON	4490	\$ 1,500,365,000	\$ 57,355,000	3.82%	\$ 905,209,000	6.34%	1260	28%	710
REDDING	4210	\$ 807,054,000	\$ 32,794,000	4.06%	\$ 787,760,000	4.16%	1470	35%	960
NEWTOWN	7640	\$ 1,093,990,000	\$ 45,414,000	4.15%	\$ 699,065,000	6.50%	2340	31%	1430
BETHEL	9780	\$ 815,184,000	\$ 34,295,000	4.21%	\$ 608,262,000	5.64%	2590	26%	1480
EASTON	3570	\$ 697,346,000	\$ 33,163,000	4.76%	\$ 410,437,000	8.08%	1100	31%	650
MONROE	9460	\$ 1,052,777,000	\$ 51,365,000	4.88%	\$ 740,791,000	6.93%	2670	28%	1550

Source <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-statistics-zip-code-data-soi>

Property taxes are notoriously regressive across income cohorts. The IRS data provides clear evidence for Redding taxpayers in 2017, with taxpayers with total income of \$25-50,000 paying about twice the portion of their income than the “average” rate of 4.1%. The top rate highly skews the average.

REDDING TAXPAYERS BY INCOME COHORT

2017

<u>INCOME</u>	<u>FILERS</u>	<u>% OF FILERS</u>	<u>TOTAL INCOME</u>	<u>R/E TAXES</u>	<u>R/E TAX % OF TOTAL INCOME</u>	<u>Filers Over 60 Years of age</u>	<u>% of COHORT OVER 60</u>
0-\$25,000	950	23%	\$ 9,314,000	\$ 941,000	10.1%	170	18%
\$25-50,000	430	10%	\$ 16,368,000	\$ 1,379,000	8.4%	140	33%
\$50-75,000	400	10%	\$ 26,338,000	\$ 1,931,000	7.3%	170	43%
\$75-100,000	380	9%	\$ 34,154,000	\$ 2,536,000	7.4%	180	47%
\$100-200,000	960	23%	\$ 142,393,000	\$ 8,718,000	6.1%	430	45%
\$200,000+	1090	26%	\$ 578,487,000	\$ 17,289,000	3.0%	380	35%
TOTAL	4210		\$ 807,054,000	\$ 32,794,000	4.1%	1470	35%

Source IRS SOI, 2017

The IRS data also can be examined for prior periods, but the earlier periods use only Adjusted Gross Income (AGI) not Total Income and the age related markers available are a smaller group of filers who have tax returns with taxable Social Security income. The chart below reflects the Town's data using these data sets.

**REDDING TAXPAYERS BY INCOME
COHORT**

2017

<u>INCOME</u>	<u>FILERS</u>	<u>% OF FILERS</u>	<u>AGI</u>	<u>R/E TAXES</u>	<u>AGI%</u>	<u>SS FILERS</u>	<u>SS %</u>
0-\$25,000	950	23%	\$ 8,857,000.00	\$ 941,000	10.6%	50	5.3%
\$25-50,000	430	10%	\$ 15,750,000.00	\$ 1,379,000	8.8%	90	20.9%
\$50-75,000	400	10%	\$ 25,186,000.00	\$ 1,931,000	7.7%	130	32.5%
\$75-100,000	380	9%	\$ 32,931,000.00	\$ 2,536,000	7.7%	140	36.8%
\$100-200,000	960	23%	\$ 138,781,000.00	\$ 8,718,000	6.3%	320	33.3%
\$200,000+	1090	26%	\$ 566,255,000.00	\$ 17,289,000	3.1%	230	21.1%
TOTAL	4210		\$ 787,760,000.00	\$ 32,794,000	4.2%	960	22.8%

Source: IRS SOI, 2017

The 2012 data shows a higher tax burden in the middle cohorts than the 2007 data presented in the next slide, or the 2017 data of the previous slide. The data is all prior to the significant changes to the Federal tax code treatment of property taxes and the Town's real estate revaluation that tended to move the tax burden from higher priced homes to lower priced homes.

**REDDING TAXPAYERS BY INCOME
COHORT**

			2012				
<u>INCOME</u>	<u>FILERS</u>	<u>% OF FILERS</u>	<u>AGI</u>	<u>R/E TAXES</u>	<u>R/E TAX % OF INCOME</u>	<u>SS FILERS</u>	<u>SS %</u>
0-\$25,000	980	23%	\$ 9,492,000	\$ 1,117,000	11.8%	70	7.1%
\$25-50,000	500	12%	\$ 18,481,000	\$ 1,622,000	8.8%	120	24.0%
\$50-75,000	410	10%	\$ 25,478,000	\$ 2,107,000	8.3%	140	34.1%
\$75-100,000	380	9%	\$ 33,116,000	\$ 2,754,000	8.3%	130	34.2%
\$100-200,000	920	22%	\$ 132,672,000	\$ 8,270,000	6.2%	270	29.3%
<u>\$200,000+</u>	<u>960</u>	<u>23%</u>	<u>\$ 612,246,000</u>	<u>\$ 13,737,000</u>	<u>2.2%</u>	<u>170</u>	<u>17.7%</u>
TOTAL	4150		\$ 831,485,000	\$ 29,607,000	3.6%	900	21.7%

Source: IRS SOI 2012

The 2007 data set has the lowest levels of tax burden across the income cohorts and the smallest number of social security recipients. Unfortunately the IRS data sets for periods earlier than 2007 omits zip code summary of real estate taxes paid and social security income.

REDDING TAXPAYERS BY INCOME COHORT

2007

<u>INCOME</u>	<u>FILERS</u>	<u>% OF FILERS</u>	<u>AGI</u>	<u>R/E TAXES</u>	<u>R/E TAX % OF INCOME</u>	<u>SS FILERS</u>	<u>SS %</u>
0-\$25,000	1202	29%	\$ 8,457,000	\$ 1,022,000	12.1%	24	2.0%
\$25-50,000	438	10%	\$ 6,246,000	\$ 530,000	8.5%	109	24.9%
\$50-75,000	402	10%	\$ 16,264,000	\$ 1,132,000	7.0%	111	27.6%
\$75-100,000	349	8%	\$ 24,805,000	\$ 1,587,000	6.4%	111	31.8%
\$100-200,000	883	21%	\$ 128,749,000	\$ 6,553,000	5.1%	224	25.4%
<u>\$200,000+</u>	<u>1005</u>	<u>24%</u>	<u>\$ 619,913,000</u>	<u>\$ 12,420,000</u>	<u>2.0%</u>	<u>167</u>	<u>16.6%</u>
TOTAL	4279		\$ 807,054,000	\$ 32,794,000	4.1%	746	17.4%

Source IRS SOI 2007

The trends in the data over time reflects a rising burden of tax increases on the middle and lower income brackets, typical of a regressive tax. The data also reflects a rising number of social security participants in these cohorts, indicating an increase in tax payers with relatively fixed sources of income

	<u>2007</u>	<u>2012</u>	<u>2017</u>
% of Filers the Middle Cohorts	28.0%	31.0%	29.0%
% of Tax Burden in Middle Cohorts	6.9%	8.4%	7.9%
% of Middle Cohorts with SS payments	7.7%	9.4%	8.6%

Conclusion

- Tax rates appear to be poised to rise at a modest single digit rate
- Relatively small differences in the rate of increase can accumulate over a 10 year period to significantly different tax levels
- The Town's tax burden appears roughly comparable to surrounding towns as measured by comparison to data regarding resident's income.
- Tax increases need to take into account the rate of increase in the town's residents income, and in particular the distribution of income changes, to avoid outcomes that place excessive burdens on particular members of the community.