

# **Seeking Common Ground: Weighing the Costs and Benefits of Regionalism in CT**

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# Agenda

- Identifying costs and benefits
- Is there an “optimal” degree of regionalism?
- Forms of regionalism
  - One size fits all
  - Function-specific (authorities vary in size, by function)
  - Cooperative mechanisms (state-aid, etc.)
- Current patterns: tax, spending, and state-aid differences in CT towns
- CT state & local spending: how do we compare?
- Regional government or incentives to cooperate?

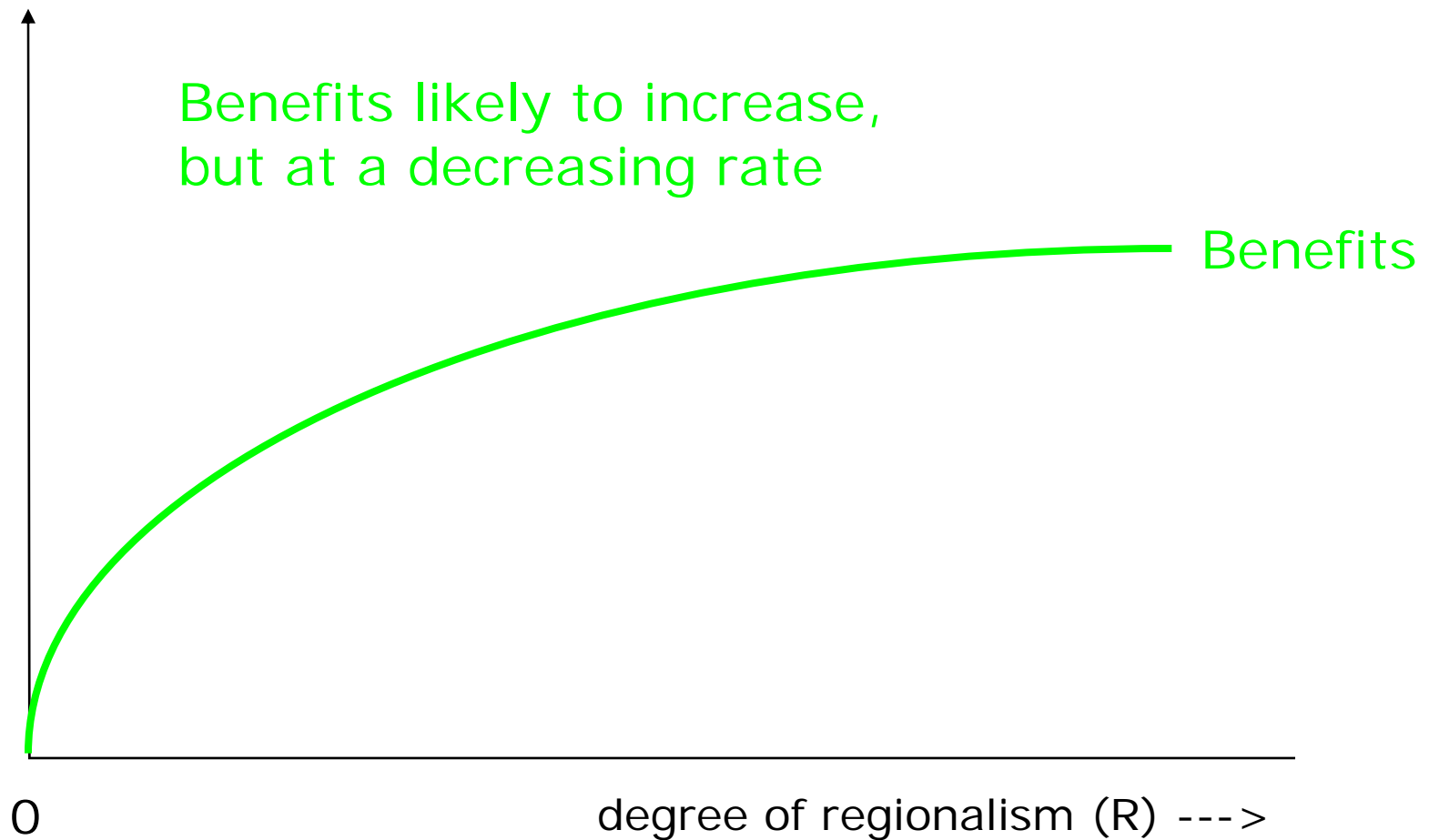
# *Potential benefits of regionalism*

- Public services
  - Lower unit costs (scale economies)
  - Richer variety / better quality (Tiebout, JPE 1956)
  - Fairer distribution across jurisdictions and individuals
- Taxes
  - Less divergence in effective property tax rates
  - More tax instruments (e.g., “local” income tax)
  - Reduction in “free rider” problems, such as unpaid use of urban services by suburban commuters
- Land-use policies
  - Greater consistency
  - Better coordination

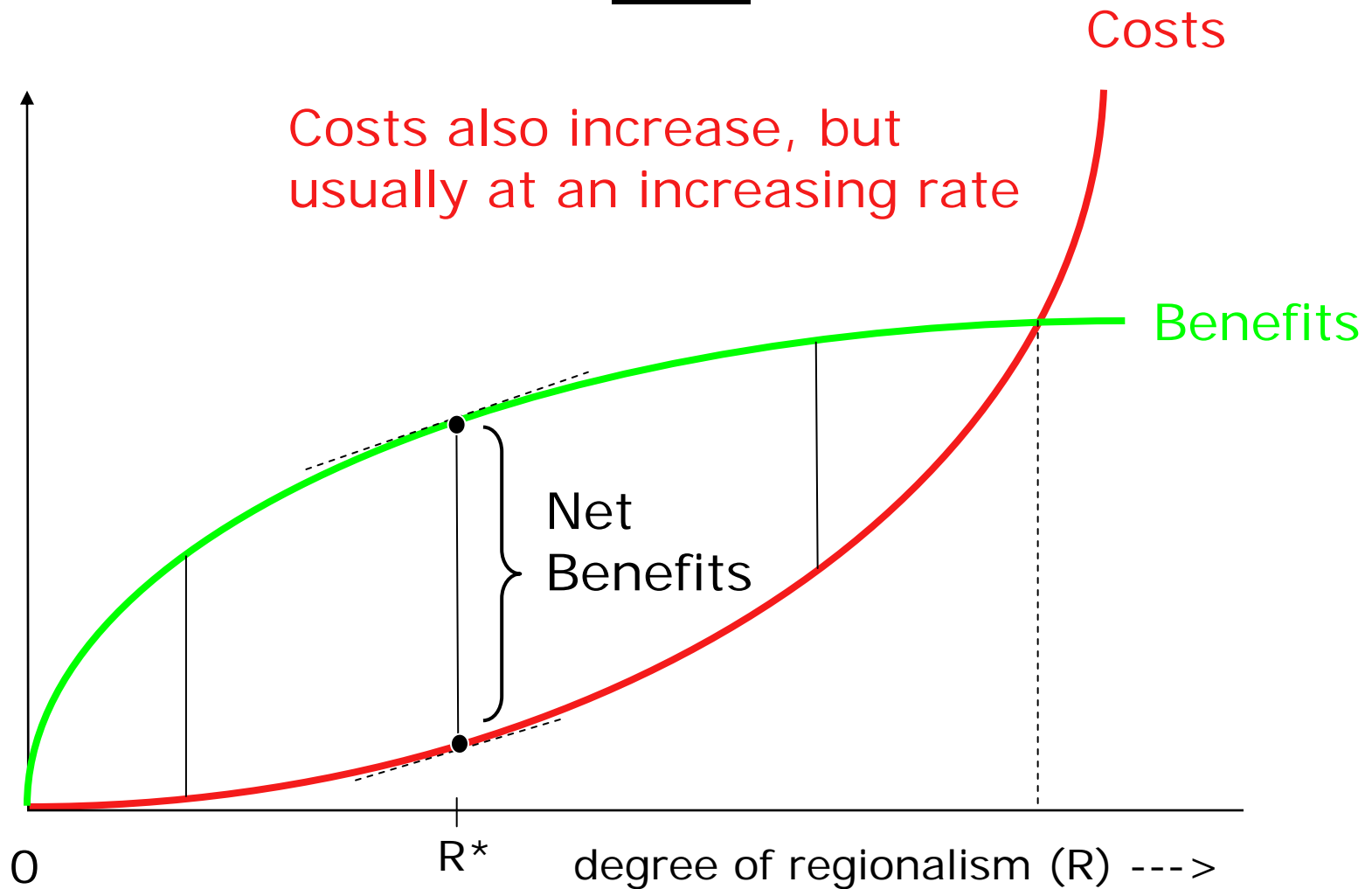
# *Potential costs of regionalization*

- Public services
  - Higher unit costs (diseconomies of scale)
  - Less tailored to local needs or preferences
  - Harder to monitor quality
  - Weaker link between services received and taxes paid
- Taxes
  - Disagreement about appropriate types of taxes
  - Less control over level of taxation
  - Perceived unfairness of “cross-subsidization”
- Land-use policies
  - Less well-tailored to local conditions
  - “Monopolization” of zoning and land-use policies

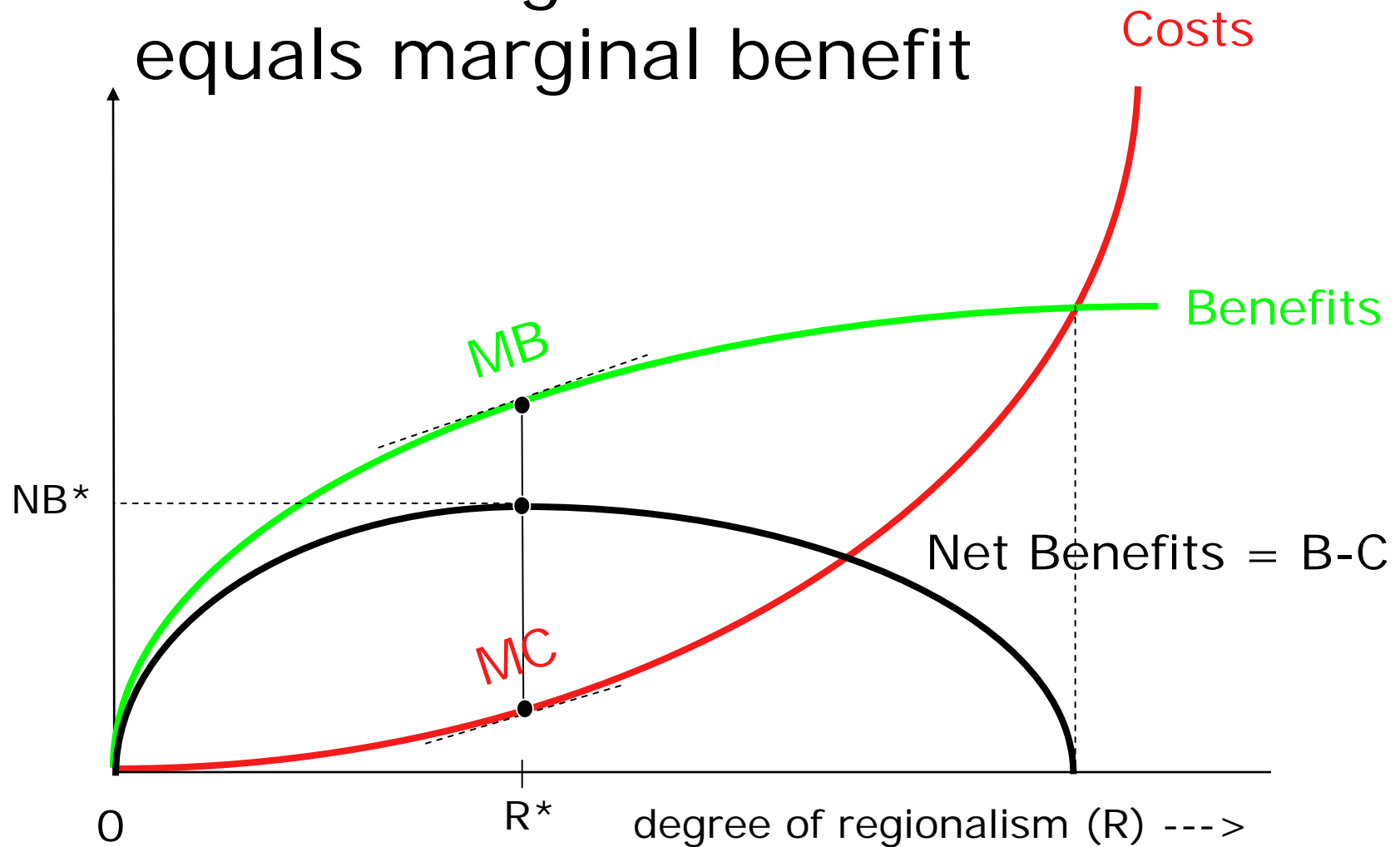
# Is there an optimal degree of regionalism?



Requires information  
about benefits and costs



Net benefits greatest  
where marginal cost  
equals marginal benefit

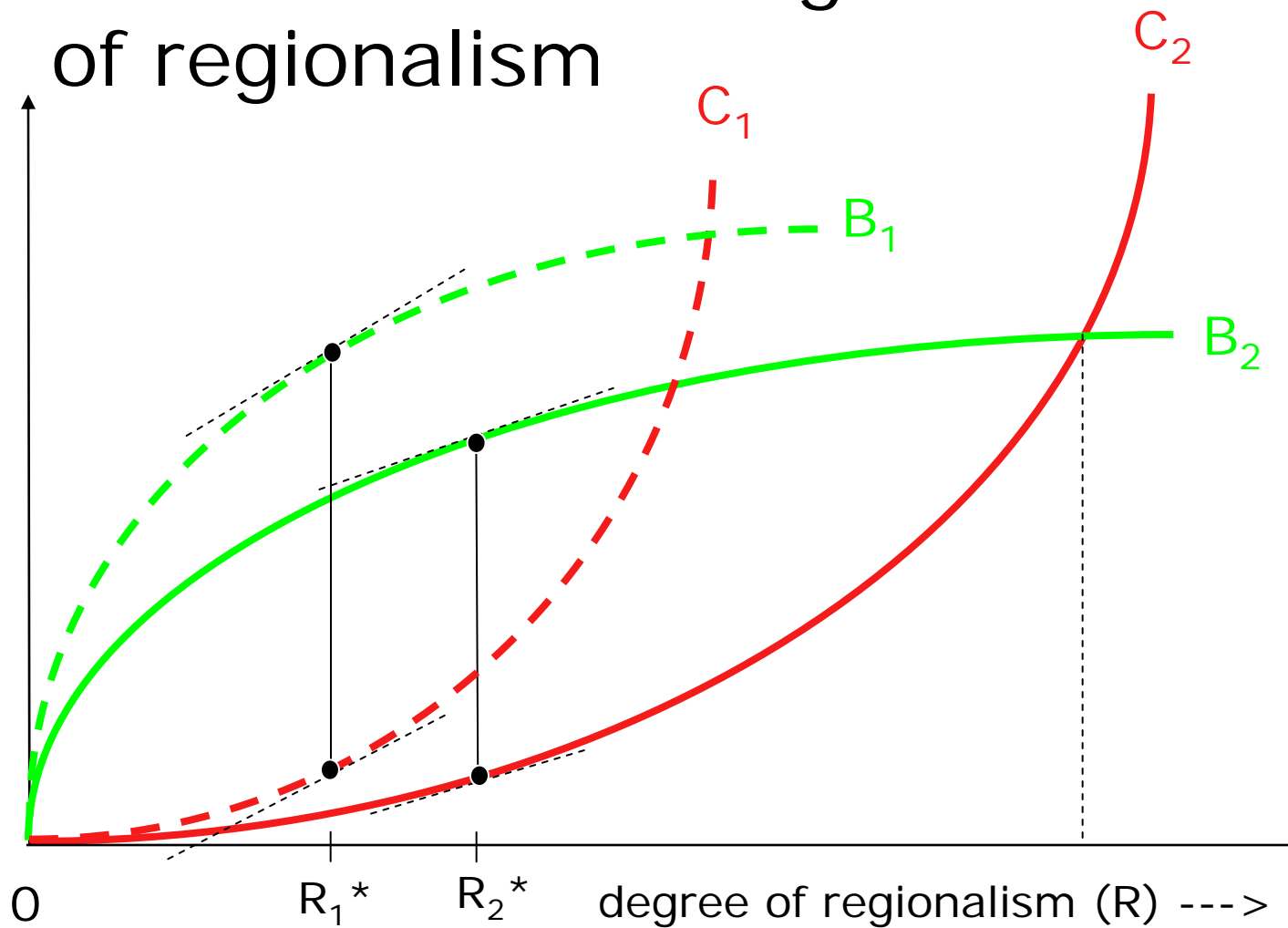


# Forms of regionalism

- Optimal degree of regionalism depends on the structure of costs and benefits
- $R^*$  will likely differ:
  - across geographic areas
  - by type of service or activity
- “One size fits all”...probably won’t
- CT needs to find its own  $R^*$ , and likely that no single  $R^*$  will serve every purpose
  - Example: might need a larger regional authority for efficient taxing & spending than for land-use policy...or vice versa



Different activities may call for different degrees of regionalism



# Layering

- Finding the right size region for each activity likely to maximize total net benefits, but such “layering” also has drawbacks:
  - managerial redundancy
  - more complicated for residents and businesses
  - accountability problems: “...not our responsibility”
- Successful “layering” of regional authorities might require mix of mandates and/or incentives to coordinate outcomes

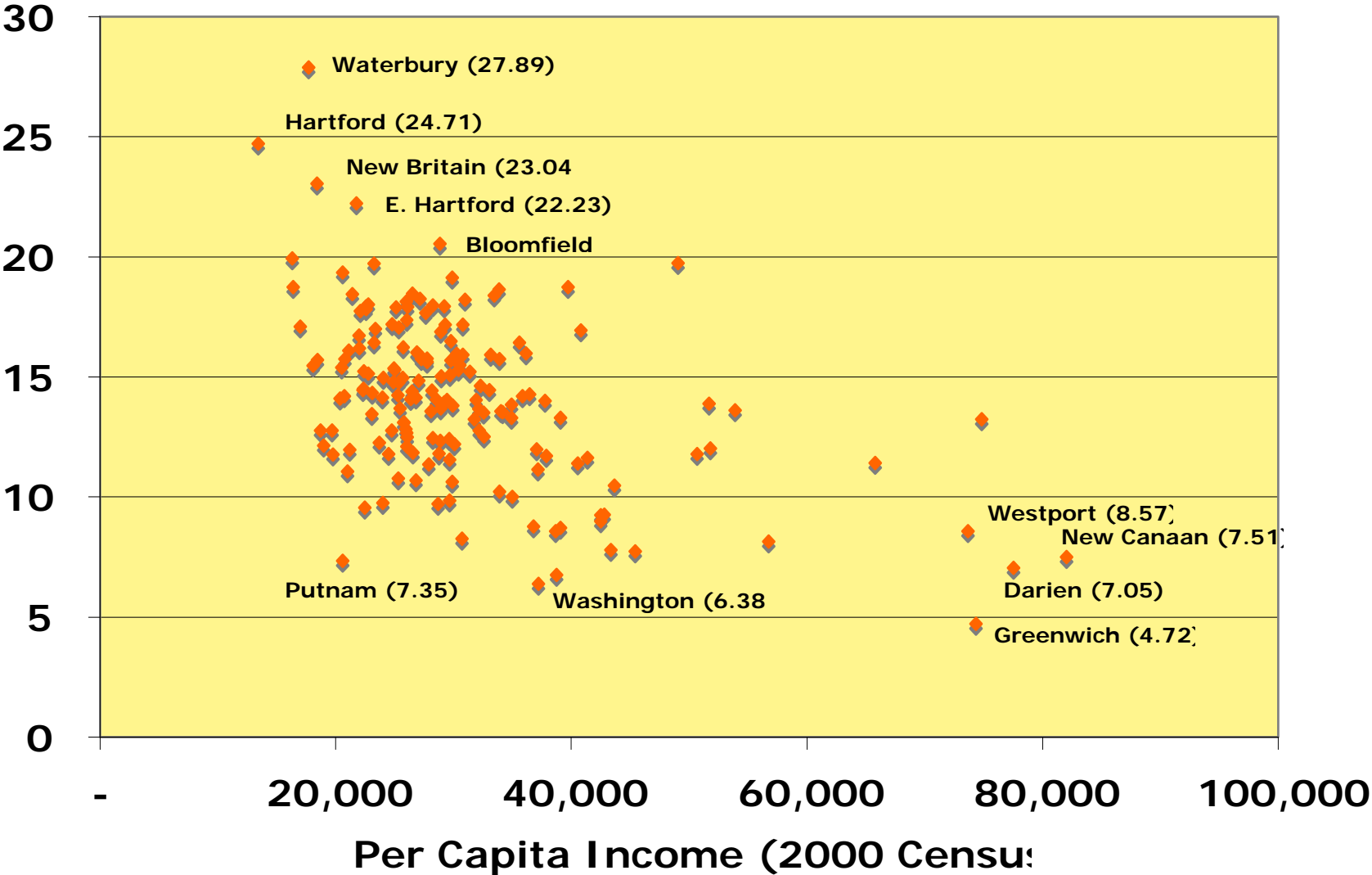
# Pressures to regionalize

- Regional government proposals often seek to:
  - level uneven tax rates and spending patterns
  - trim costs of providing public services (even more important in current economic climate)
  - better coordinate public policies to avoid duplication or competition

# Facts to consider

- Do the data support the move to regionalize local government in CT?
  - Property wealth, tax rates, and spending patterns
  - Distribution of state-aid
  - Uneven changes in tax base (property values) over time
  - Costs of CT state and local government relative to other states

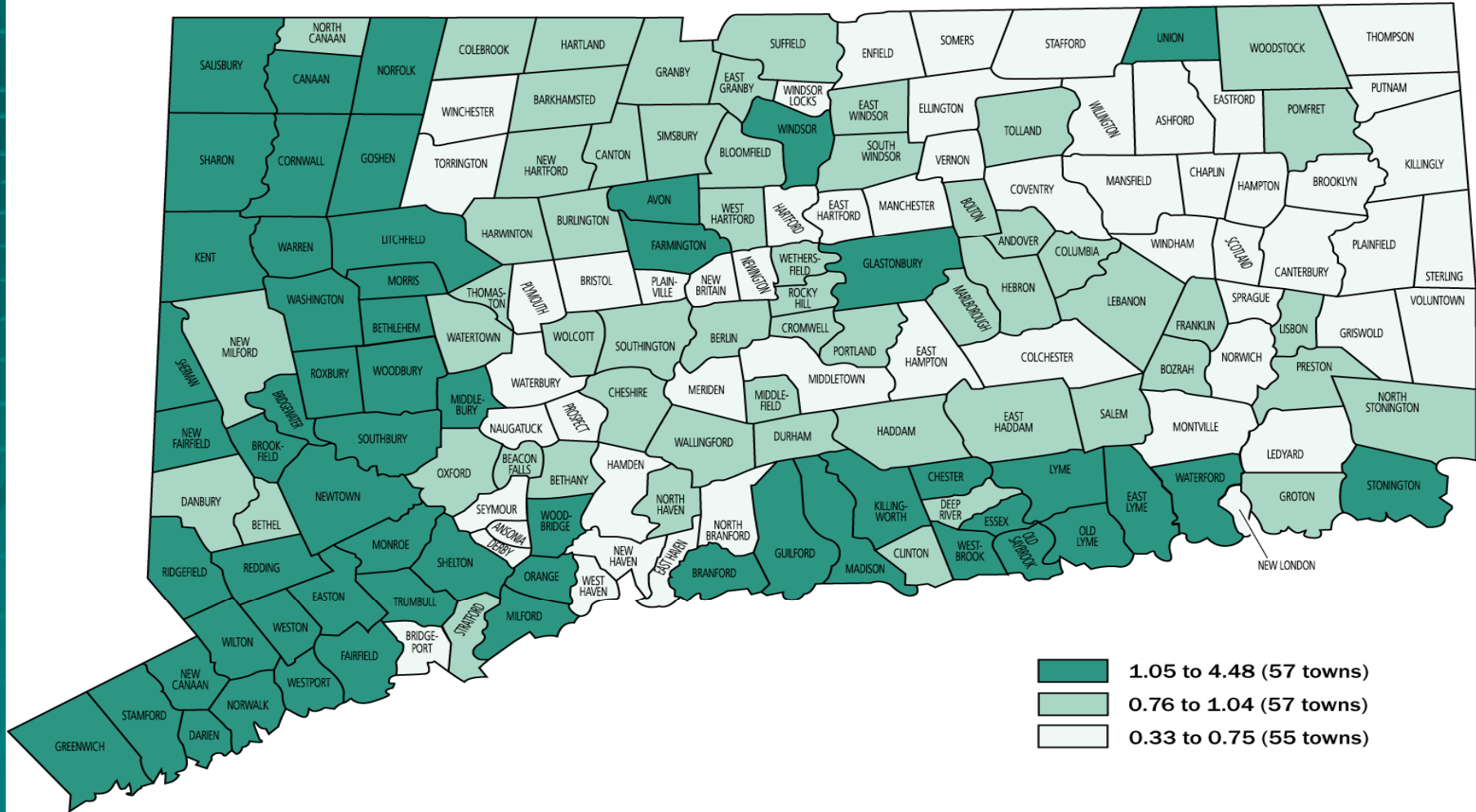
# Property Tax Rates Lower in Richer Tow



# Why do wealthy towns have the lowest tax rates?

- High income towns have more property wealth per capita (larger, more expensive homes & cars)
- Allows such towns to tax this larger “base” at a lower rate and still generate more tax revenue per resident (tax revenue = rate x base)
- This pattern is not unique to CT
- Next slide, from Fall 08 issue of *The Connecticut Economy*, shows each town’s 2005 share of state property wealth (ENGL) divided by its share of population--pattern reinforces the popular notion of two Connecticut

# PROPERTY WEALTH IN CONNECTICUT BY TOWN, 2005



# Local public spending is also very uneven

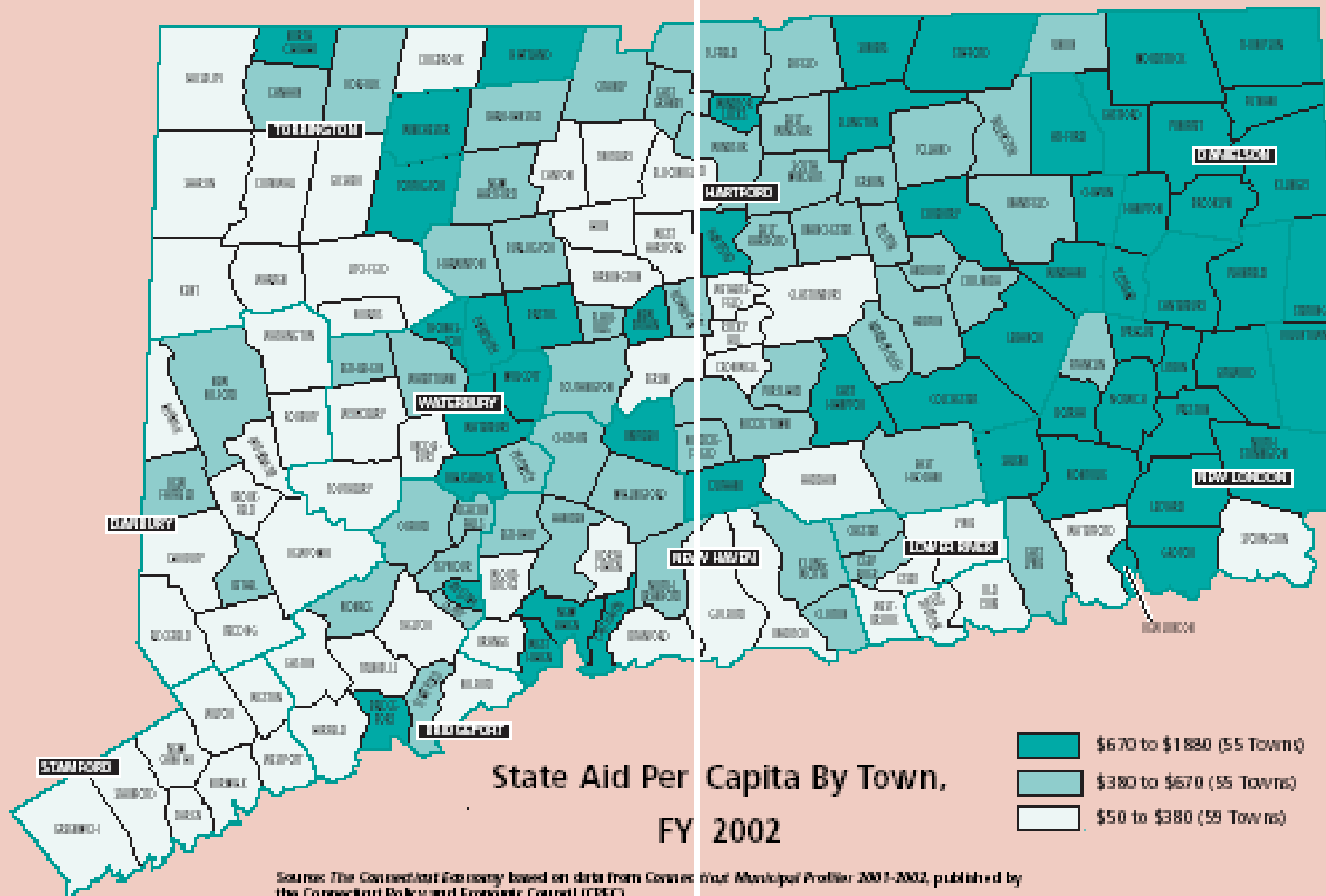
- Since tax revenue = rate x base, smaller rate can still generate more revenue if the base is sufficiently large
- Often the case in wealthier towns, and it allows them to spend more on public services, especially education, despite lower property tax rates
- The following map, from Summer 08 issue of *The Connecticut Economy*, shows each town's 2006 spending on education per pupil
- Note the pattern of higher spending in many of the same towns that enjoyed lower property tax rates





# How effective is current remedy for unequal tax & spending?

- Primary way in CT to address uneven patterns of property taxation and local public spending has been *state-aid* to towns
- State aid formula is complex, but it is “progressive,” in that lower-income towns typically receive more state-aid per person
- The following map, from an earlier issue of *The Connecticut Economy*, shows each town’s 2002 state-aid per capita
- Note that pattern is roughly the reverse of the property wealth map



# What's happened to the property tax base in CT?

- Median sales price (MSP) data from The Warren Group, 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 Fairfield County.
- Note: MSP reflects tax base only to the extent that *assessed* values keep pace.

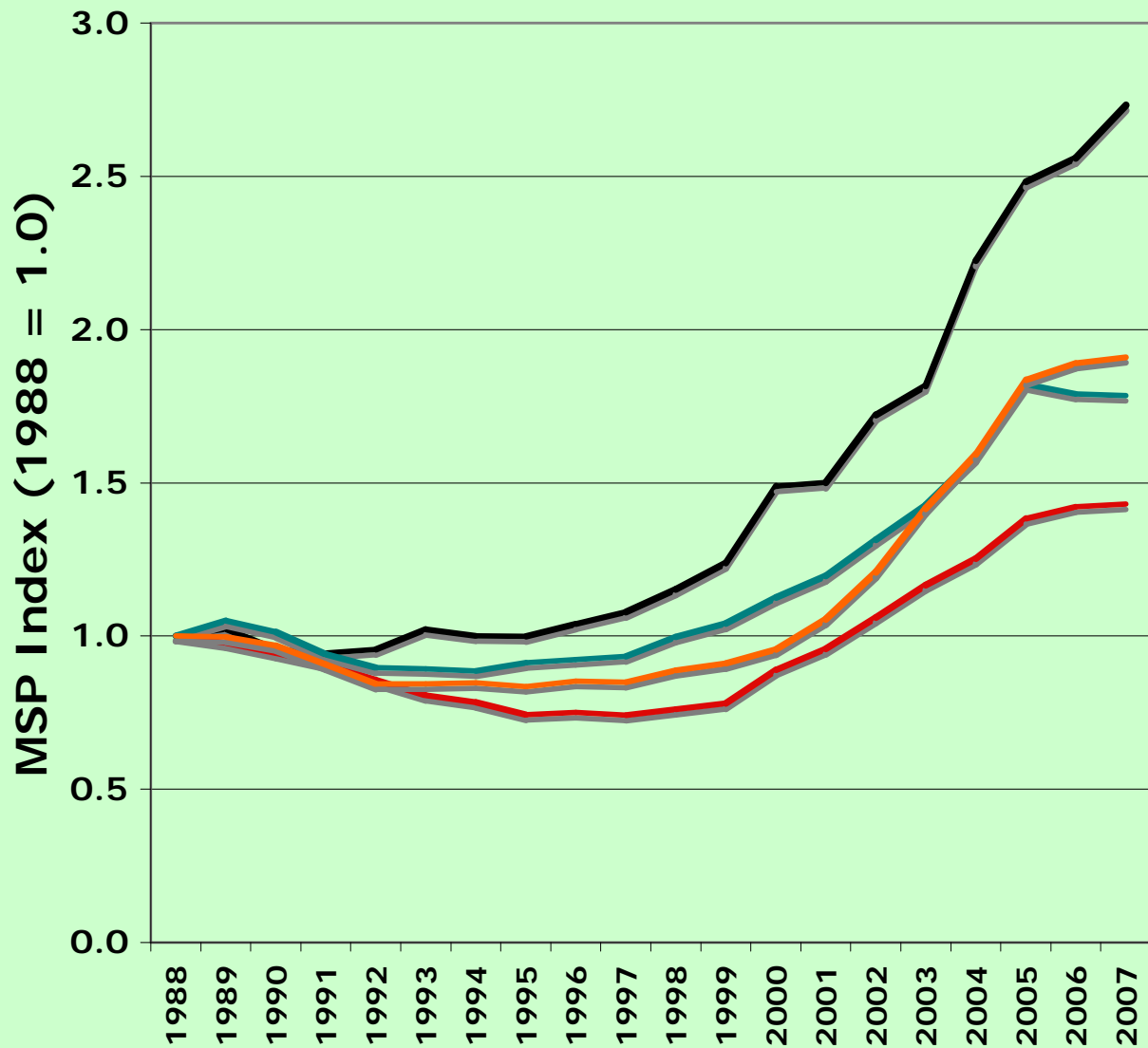
## Median Sales Price by County, 1988-2007

	<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).

# Will regionalism control spending?

- In addition to reducing uneven taxing and spending patterns, controlling spending is often seen as a reason for regional government or cooperation
- How does CT compare to other states in its level of state and local spending?
- Absence of county government in CT means normal county functions either shifted up to state government or down to town government
- Fair comparisons across states require that all levels of non-federal government be merged, as in the following data



# Some alternative measures of state & local spending

- Fall 2002 issue of *The Connecticut Economy* examined five S&L spending measures for all 50 states (largest = 1; smallest = 50):
  - S&L share of GSP (2000): CT ranked 49th at 6.7%
  - S&L spending as % of GSP (1999): CT ranked 45th at 14.9%
  - S&L spending as % of personal income (1999): CT ranked 48th at 17.1%
  - S&L FTE employment per 10K pop (2000): CT ranked 39th at 14.9%
  - S&L FTE employment as % of non-farm employment (2000): CT ranked 43rd at 14.9%
  - Overall rank, based on all 5 measures: 49th; only New Hampshire was more “frugal” than CT



# Further Questions

- How much will additional state aid reduce or equalize 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?

- [cteconomy.uconn.edu](http://cteconomy.uconn.edu)
- [cteconomy.uconn.edu/archives.html](http://cteconomy.uconn.edu/archives.html)
- [www.econ.uconn.edu](http://www.econ.uconn.edu)
- <http://uconnecon.wordpress.com/>
- [www.repec.org](http://www.repec.org)
- [ideas.repec.org](http://ideas.repec.org)

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