The NY Property Tax Cap and similar tax and expenditure limitations (TELS) are intended to relieve tax burdens for homeowners and are often promoted as a means to increase local government efficiency. However, studies examining the effectiveness of TELs reveal otherwise. Under a tax cap, local governments face greater fiscal stress and rely more heavily on other sources of revenues.\(^1\) Limiting local governments’ taxing powers also generates unintended consequences, such as regional inequalities and service cuts.\(^2\) In our full issue briefs, we consider the potential long-term impact of the NY Property Tax Cap on local governments and the impact of similar legislation in other states. We hope policymakers can implement changes that will make the cap more sensible to the different needs of local governments across New York.

**Property Tax Levy – All Local Governments**

**30% Shortfall if the Tax Cap had been Adopted 10 Years Ago**

<table>
<thead>
<tr>
<th>Year</th>
<th>Observed Tax Levy (Billions)</th>
<th>Hypothetical Tax Levy (Cap+Avg Growth Factor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$6.9</td>
<td>$8.4</td>
</tr>
<tr>
<td>2002</td>
<td>$7.1</td>
<td>$8.8</td>
</tr>
<tr>
<td>2003</td>
<td>$7.2</td>
<td>$8.9</td>
</tr>
<tr>
<td>2004</td>
<td>$7.4</td>
<td>$9.2</td>
</tr>
<tr>
<td>2005</td>
<td>$7.6</td>
<td>$9.5</td>
</tr>
<tr>
<td>2006</td>
<td>$7.8</td>
<td>$9.8</td>
</tr>
<tr>
<td>2007</td>
<td>$8.0</td>
<td>$10.1</td>
</tr>
<tr>
<td>2008</td>
<td>$8.2</td>
<td>$10.4</td>
</tr>
<tr>
<td>2009</td>
<td>$8.4</td>
<td>$10.6</td>
</tr>
<tr>
<td>2010</td>
<td>$8.4</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$8.6</td>
<td></td>
</tr>
</tbody>
</table>

Average annual increase = 4.2%

Average annual increase = 2.2%

Data source: Author analysis of Local Government Data 2000-2011, New York State Comptroller Aggregate for all local governments. Detailed methodology in issue brief

**Tax Cap Key Facts**

- Implemented in FY2012
- Limits levy increases to lower of 2% or inflation rate, plus growth factor
- Exceptions for torts and pension increases above 2%
- Overrides require 60% supermajority
- No increase in state aid
- Minimal mandate relief for municipalities and schools
- Up for renewal in 2015

**Model**

We examined the current New York property tax cap using data from the NY State Comptroller. Our model projects what would have happened to local government revenue if the tax cap had been adopted ten years ago. We determine the impact on revenue and expenditure for counties, cities, towns and villages and find local government revenue would be almost 30% lower, too low to maintain the level of services citizens expect.

Our full analysis also examines the revenue shortfall for each type of local government and we find that towns and villages would be the most severely constrained as they rely more heavily on property tax.

Massachusetts’ Proposition 2 ½ was adopted in 1982 and served as the inspiration for the NY Property Tax Cap. It fixes the annual tax levy growth to 2.5% and implements a maximum levy ceiling of 2.5% of total assessed value. Proposition 2 ½ was adopted when the state was experiencing an economic boom that came to be known as the “Massachusetts Miracle.” After the proposition passed, the state was able to increase aid by $265 million in the first year. Loss of revenue was also made up through successful local overrides.

Prop 2 ½ overrides require simple majorities and are meant to preserve local control of taxation. However, override attempts have been more successful in municipalities with above-average income and higher education levels, suggesting the development of regional inequalities. Greater reliance on state aid has also affected communities when economic conditions changed. Poorer communities were hit harder when state aid dropped. Some expenses were also beyond the control of local governments, which resulted in other programs being cut.

Case Study – Massachusetts Proposition 2 ½

New York’s communities are being affected as local governments cannot maintain services with lower taxes. Wealthier communities can afford to tax themselves more than poorer communities. With no state action to balance this, the NY Property Tax Cap will only exacerbate the regional inequalities that exist today.

Case Study – California Proposition 13

Introduced in 1978, California’s Proposition 13 was one of the first TELs in the country. Unlike New York, Prop 13 limits the annual increase in assessed value of real property to the lower of 2% or inflation and fixes the property tax to 1% of assessed value. The state government also implemented a $4.85 billion relief program which included a one-time bailout, doubled categorical aid to schools, and increased state responsibility for certain health and welfare costs. Local revenue loss would have been 28% without this relief program, while state aid held the loss to 10%. The generous aid was possible because of a state budget surplus, and as a result, local services were reduced only moderately.

Some long-term consequences identified by researchers include cities encouraging development primarily to increase their tax rolls, the growth of local improvement districts exempt from the law, and increased local reliance on state aid. Within 10 years of Proposition 13, real per capita revenue and expenditure exceeded pre-Prop 13 levels because local governments made up the loss of revenue with user fees, special districts, as well as intergovernmental grants.

NY Property Tax Cap: Implications for Local Fiscal Health – 2

Lessons for New York

Tax Cap Effects
- Adds to fiscal stress
- Encourages municipalities to cut services
- Does not directly address rising expenditures
- Municipalities shift to other sources of revenue
- Override options may increase inherent inequalities
- Limited resources used to address mandated functions over others (e.g. economic development)

Proposed Changes
- Enact substantial mandate relief to lower local tax burden
- Provide more state aid
- Allow simple majority overrides
- Address possible inequalities with targeted aid
- Allow exceptions for disaster relief and capital outlays

References
4. Ibid.
10. Ibid.