New York Property Tax Cap Implications On Local Fiscal Health

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New York Property Tax Cap

NY Property Tax Cap Is Complicated

Base Formula

\[
\left( \left( \frac{\text{Prior fiscal year tax levy}}{\text{Prior year reserve offset}} + \frac{\text{Reserve amount (including interest earned)}}{\text{Allowable levy growth factor (1.00 to 1.02)**}} \right) \times \frac{\text{Tax base growth factor}^*}{\text{PILOTs receivable in coming fiscal year}} + \frac{\text{PILOTs receivable in the prior fiscal year}}{\text{Tort exclusion amount, prior fiscal year}} \right) + \frac{\text{Tax levy necessary for expenditures from court orders/judgments resulting from tort actions for any amount in excess of 5% of the total taxes levied in the prior fiscal year}}{\text{Levy necessary to pay for increases to the system average actuarial contribution rate (or normal contribution rate) of pension funds over 2 percentage points}} = \text{Tax Levy Limit, Adjusted for Transfers, Plus Exclusions}
\]

+ Transfer of Function

- Tax Levy Limit
- Net of Transfer of Government Function (as determined by OSC)
- Levy necessary to pay for increases to the system average actuarial contribution rate (or normal contribution rate) of pension funds over 2 percentage points

+ Exclusions

- Tax levy necessary for expenditures from court orders/judgments resulting from tort actions for any amount in excess of 5% of the total taxes levied in the prior fiscal year

*Note: **Non-Mandatory - Based on budgetary control*

Tax Cap Concerns
- Very complicated
- Supermajority for override
- Limited exemptions
- Imposed equally across all municipalities and schools

State Policy Concerns
- No increase in aid to municipalities
- Limited mandate relief

Formula used to calculate tax levy. Source: NY Office of the State Comptroller
Goal
Estimate the impact of the NY Property Tax Cap now and in the future

Approach
- Cross-state comparisons of tax caps
- Study of local government revenues and expenditures
  - “What-If” model of NY Property Tax Cap
  - In-depth case studies of selected states
GENERAL EFFECTS OF TAX CAPS

Do Tax Caps Impact...

- Government Size?
- Local Fiscal Condition?
- Regional Inequality?
- Level and Quality of Public Services?
- Economic Growth?

Most States Have Tax and Expenditure Limitations (TELs)

States with TELs  States w/o TELs

States with TELs (red) and without TELs (green) as of 2012. Source: Lincoln Institute of Land Policy
Do Tax Caps Impact...

- Government Size?
- Local Fiscal Condition?
- Regional Inequality?
- Level and Quality of Public Services?
- Economic Development?

Research Findings

- Little Impact on Local Government Size
- Increase in State Aid and User Fees
- Increases Fiscal Stress
- Worsens Existing Inequalities
- Reduces Public Services
- Could Harm Economic Dev

New York Property Tax Cap | Implications On Local Fiscal Health

Research and findings under the direction of Dr. Mildred Warner, Department of City and Regional Planning
TAX CAP FORCES CUTS IN CRITICAL SERVICES

All Cities  Major Expenditure Changes 2011-2013

- $55 (9.0%)
- $48 (-4.2%)
- $33 (-8.3%)
- $66 (6.6%)

- Public safety cut (largest expenditure of cities) & transportation cut
- Increase in general government and employee benefits

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TAX CAP FORCES CUTS IN CRITICAL SERVICES

All Counties  Major Expenditure Changes 2011-2013

- Social services cut (largest expenditure of counties)
- Broader and steeper range of cuts (counties have largest mandates)

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**TAX CAP FORCES CUTS IN CRITICAL SERVICES**

**All Villages**  Major Expenditure Change 2011-2013

- $38 (8.8%)
- $28 (-9.4%)
- $20 (-3.8%)
- $8 (-2.4%)
- $34 (-8.4%)

- **Public safety cut** (largest expenditure of villages)
- **Even broader cuts**

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Findings

Tax cap induces across-the-board service cuts

Cuts may be too much to maintain service

Employee benefits outside of local government control

What localities need is more state aid and mandate relief

What about the future?
NY Revenue Structure and Outlook

Cities
Percentage of Total Revenues by Source

Counties
Percentage of Total Revenues by Source

- Cities have evenly distributed revenue sources
- Counties have sales taxes as their most important source of revenue

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NY Revenue Structure and Outlook

**Towns**
Percentage of Total Revenues by Source

- Real Property Taxes
- Charges for Services
- Sales and Use Tax
- State Aid

**Villages**
Percentage of Total Revenues by Source

- Real Property Taxes
- Charges for Services
- Sales and Use Tax
- State Aid

- Towns are highly dependent on property taxes above all other sources
- Villages are also dependent but have substantial user fee revenues

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“WHAT-IF” MODEL: QUESTION AND METHODOLOGY

Question
What would the revenue shortfall be if the NY Property Tax Cap was implemented 10 years prior?

Methodology

\[(\text{Previous Property Tax Levy}^1 \times \text{Growth Factor}^2) \times \text{Tax Cap}^3 = \text{Allowable Tax Levy}\]

Data Sources

2. New York State Comptroller Property Tax Cap Data 2012-2013
3. 2.00% or CPI-U Inflation Rate from Bureau of Labor Statistics, if lower
“What-if” Model: Results

Property Tax Revenue Shortfall if NY Property Tax Cap Was Implemented 10 Years Prior

Actual Average Annual Increase = 4.2%

Tax Levy (in Billions of Current U.S. Dollars)

$6.7 $6.9 $7.2 $7.8 $8.4 $8.9 $9.2 $9.5 $9.8 $10.1 $10.4 $10.6

“What-If” Model: Results

Property Tax Revenue Shortfall if NY Property Tax Cap Was Implemented 10 Years Prior

Actual Average Annual Increase = 4.2%

Projected Average Annual Increase Under Tax Cap = 2.2%
“What-If” Model: Results

Property Tax Revenue Shortfall if NY Property Tax Cap Was Implemented 10 Years Prior

Actual Average Annual Increase = 4.2%

30% Property Tax Revenue Loss

Projected Average Annual Increase Under Tax Cap = 2.2%
### Changes to Annual Increase and Total Increase in Property Tax Levy

#### Average Annual Increase

<table>
<thead>
<tr>
<th></th>
<th>Observed</th>
<th>Projected</th>
<th>Shortfall</th>
<th>Avg Annual Tax Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>3.7%</td>
<td>2.1%</td>
<td>-1.6%</td>
<td>$(90,467,044)</td>
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<tr>
<td>County</td>
<td>4.0%</td>
<td>2.2%</td>
<td>-1.8%</td>
<td>$(555,234,244)</td>
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<tr>
<td>Town</td>
<td>4.5%</td>
<td>2.3%</td>
<td>-2.2%</td>
<td>$(408,653,337)</td>
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<tr>
<td>Village</td>
<td>4.8%</td>
<td>2.1%</td>
<td>-2.7%</td>
<td>$(153,634,912)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>4.2%</strong></td>
<td><strong>2.2%</strong></td>
<td><strong>-2.0%</strong></td>
<td><strong>$(1,203,410,567)</strong></td>
</tr>
</tbody>
</table>

#### Total Increase

<table>
<thead>
<tr>
<th></th>
<th>Observed</th>
<th>Projected</th>
<th>Shortfall</th>
<th>Total Tax Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>City</td>
<td>48.9%</td>
<td>26.1%</td>
<td>-22.8%</td>
<td>$(995,137,489)</td>
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<tr>
<td>County</td>
<td>53.7%</td>
<td>27.2%</td>
<td>-26.6%</td>
<td>$(6,107,576,686)</td>
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<tr>
<td>Town</td>
<td>62.2%</td>
<td>28.6%</td>
<td>-33.6%</td>
<td>$(4,495,186,711)</td>
</tr>
<tr>
<td>Village</td>
<td>67.6%</td>
<td>25.9%</td>
<td>-41.7%</td>
<td>$(1,689,984,034)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>57.5%</strong></td>
<td><strong>27.5%</strong></td>
<td><strong>-30.0%</strong></td>
<td><strong>$(13,237,516,241)</strong></td>
</tr>
</tbody>
</table>

- 2.2% average annual property tax increase under cap, 4.2% without
- Over $13 billion loss to NY localities from 2000-2011
- Towns and villages are impacted the most
Model Results

• 231 localities not affected by the cap in the model
• Tax cap impacts localities unevenly
• Mandate relief would reduce fiscal burden of all localities

Proportion of Localities Affected and Unaffected by “What-If” Model

- **Cities**
  - Affected: 9 out of 53
  - Unaffected: 2 out of 55

- **Towns**
  - Affected: 147 out of 785
  - Unaffected: 73 out of 483

- **Counties**

- **Villages**

Red: Localities Affected by Model
Green: Localities Unaffected by Model
DRASTIC CUTS REQUIRED TO REMAIN SOLVENT

Findings
Property tax revenue would have dropped 30% with tax cap over 10 years
Tax loss is too drastic to maintain services
Towns and villages would be hurt most over time

What to do now? Learn from other states.
In-Depth Case Studies

California Prop 13 (1978)

- 2% or inflation assessed value cap
- 1% fixed property tax rate
- $4.85 billion in state aid and mandate relief
  - State centralization of health & welfare programs
  - Doubled categorical aid to schools
  - One-time bailout

State and public implemented
more exceptions to tax cap
- Special local improvement districts exempt from cap
- Reduced supermajority requirements
Massachusetts Prop 2 ½ (1980)

2.5% cap on tax levy growth

50% + 1 vote for override

$265 million in state aid

Economic boom in MA at the same time

K-12 enrollment down during implementation

Schools could afford to operate on a smaller budget

 Overrides more often and for greater amounts in wealthier, more educated localities

Implications for regional inequality
Lessons from Other States

- Enact substantial mandate relief to lower tax burden
- Provide more state aid and targeted aid
- Allow simple majority overrides
- Allow more exceptions for disaster relief, capital outlay, and debt payments
A 30% property tax revenue cut is too deep to maintain and provide critical services that citizens expect.

**If let unaddressed**, the tax cap could seriously undermine the resiliency and long term sustainability of New York.

*Find our full report at*

www.mildredwarner.org/restructuring/fiscal-stress