



**THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT**

Stop us before we tax again

**New York State Association of Counties:
Legislative Conference**

**Session: Property Tax Caps & State
Mandates: A Recipe for Disaster?**

*Albany, NY
February 8, 2011*

Donald J. Boyd
Senior Fellow
boydd@rockinst.org

Why a cap?*

- Won't representative democracy and direct budget votes serve majority interest?
- Why representative democracy *could* serve voters:
 - Throw the bums out (median voter theory)
 - Vote with your feet (Tiebout)

* See Rose (2010) for good discussion of these issues.

But maybe the system *doesn't* serve majority

- Some academic research suggests voters are more fiscally conservative than elected officials
- Tax revolts lend some credence to this
- So majority may not always rule (officials may make other choices)
- (Another possible motivation for caps: give greater power to the minority)

Why system might *not* serve majority

- Not so easy to throw bums out (incumbency advantage). Not so easy to move (vote with feet)
- Not so easy to monitor and discipline elected officials -- they have more info, hard for voters to know cost of government
- Interest groups can influence choices

Common approaches to constraining officials

- Political institutions
 - Initiative and referendum
 - Term limits
 - Shift balance of power to executive (e.g., veto power)
 - Supermajority requirements
- Fiscal institutions
 - Balanced budget rules
 - Debt limits
 - **Tax and expenditure limits (TELS)**

Common ways to limit or relieve property taxes

- Part of larger limits (e.g., Colorado TABOR)
- Limits on levies (level or growth)
- Limits on assessed values and on growth in AV
- Alternatives to TELs: Exemptions & circuit breakers (income tax credits for people with high property taxes)

Not easy to tell if limits “work”

- Two friends:
 - Tightfisted friend has rule: “I won’t increase spending by more than 2% a year”
 - Spendthrift friend has no such rule
- Does tightfisted friend spend less because of the rule, or because he/she is tightfisted?
- If spendthrift had rule, would he/she simply find ways around it?
- Same issue with tax caps when comparing states. Ways to deal with this, but not easy.
- Lesson: Be wary of “research,” especially when the analyst has a dog in the fight.

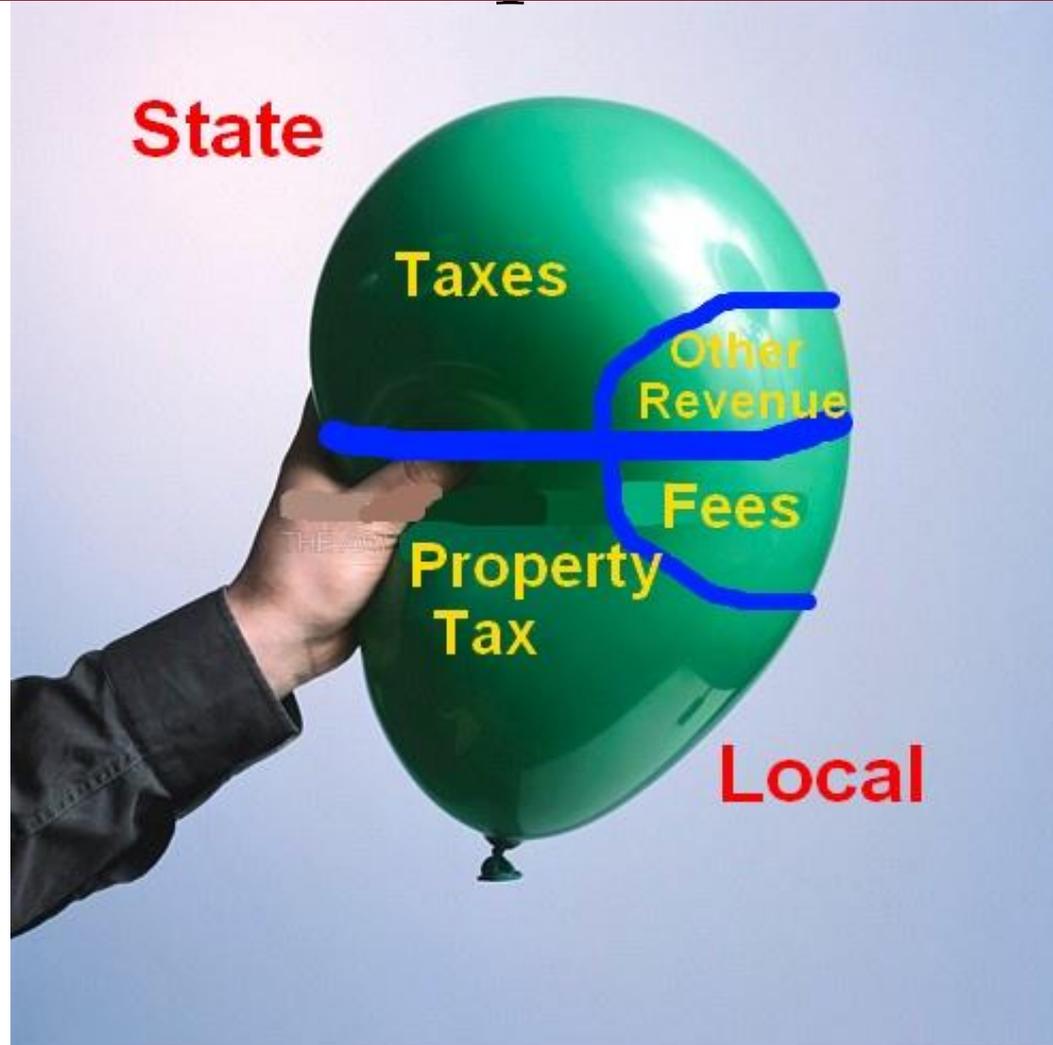
Research on tax limits

- Very little impact on size of public sector. Cause shifts from local to state, from taxes to fees, from local revenue to state aid.
- However, can alter composition of sector:
 - Can reduce property taxes
 - Can reduce school expenditures
- Caps on municipalities more effective than caps on state gov'ts
- Comprehensive caps (TABOR) likely more effective in constraining overall sector
- (N.B.: Supermajority requirements appear particularly effective)

Possible unintended consequences

- Possible higher borrowing costs
- Possible lower quality of services
- Governments may *increase* taxes *before* limits go into effect to drive up the “base”

A big water balloon - squeeze one place and expand elsewhere?



Key design features

- Cap what? Levy? Assessments? Level? Growth?
- Scope: entities and revenue included
- Exclusions (Pensions? Debt service? Capital construction?)
- Overrides, underrides, and fallbacks
- “Cap banking”? If revenue is below cap in one year, can “underage” be used later?
- Other issues
 - New construction, valuation increases
 - Service transfers, consolidations

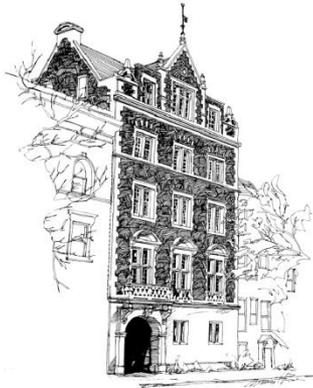
	NY (2011?)	CA (1978)	MA (1980)	NJ (2010)	RI (2006..)
Cap what?	Levy growth $\leq \min(2\%$ or CPI) --- or 0% if no SD voter approval!	2% growth on acquisition value; 1%-of-value cap; rollback;...	2.5% growth in "limit"; $\leq 2.5\%$ of full cash value	2% growth in levy	4.5% growth in levy; will be 4% in 2013
Scope	All local govts x- NYC	All local gov't. State distributes rev.	Cities & towns (effectively all local govt fin)	Municipal, school, county, district	Cities & towns (incl. school fin)
Exclusions	Capital (all govts); Legal settlements $>10\%$ levy (cnty/muni); TANF/safety net adjustment (cnty)		Capital & DS; <u>2/3 vote of legis. then maj. of voters</u>	Capital, DS, enrollment, emergencies; pension & health $>2\%$	DS; certified loss of other rev; expend emergencies
Overrides	2/3 vote of legis. for munis; 60% of school voters	2/3 of voters for "special taxes"	Maj. of legis., then majority of voters	Majority of voters	4/5 majority of governing board
Underrides			Maj. of legis. then maj. voters		
Cap "banking"	1 year, up to 1.5% of prior levy		Yes	Up to 3 years	

Conclusions

- Tax caps can be effective at reducing property taxes and spending
- Much less effective at reducing overall size of public sector – can cause shift to other gov'ts and rev sources
- Can have unintended consequences
- NY proposed cap more restrictive than nearby states. (Less restrictive than Colorado's TABOR)
- Tax caps don't reduce spending – only you can. Do you have the tools?

References & bibliography

- Anderson, Nathan B., "Property Tax Limitations: An Interpretive Review", *National Tax Journal*, September 2006.
- Commonwealth of Massachusetts, Department of Revenue, Levy Limits: A Primer on Proposition 2 ½, 2007
- Cutler, David M., Douglas W. Elemendorf, and Richard Zeckhauser. 1992. "Restraining the Leviathan: Property Tax Limitations in Massachusetts," *Journal of Public Economics* 71: 313-334
- Lohman, Judith, Rhode Island Property Tax Cap, Memorandum 2006-R-0544, Connecticut Office of Legislative Research Services, September 5, 2006
- New Jersey Department of Community Affairs, Division of Local Government Services, *2010 Levy Cap Law Guidance and CY 2011 Budgets*, Local Finance Notice 2011-3, January 14, 2011.
- New York State Senate Bill #2706 of 2011, (Governor Cuomo's proposed property tax cap legislation)
- Rhode Island Office of the Auditor General, Maximum Levy Standards and Procedures, 2007.
- Rhode Island Department of Revenue Division of Municipal Finance, *Report on the Property Tax Cap Fiscal Year 2010*, December 31, 2009
- Rose, Shanna, "Institutions and Fiscal Sustainability", *National Tax Journal*, May 2010.
- Suozzi, Thomas R., *Final Report to Governor David A. Paterson*, New York State Commission on Property Tax Relief, December 1, 2008
- Tiebout, Charles. 1956. "A Pure Theory of Local Public Expenditures," *Journal of Political Economy* 64
- Wallin, Bruce, and Jeffrey Zabel. "Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2½ in Massachusetts", *Lincoln Institute of Land Policy Working Paper*, 2010.
- Youngman, Joan, The Variety of Property Tax Limits: Goals, Consequences, and Alternatives, State Tax Notes, November 19, 2007.



THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT

Rockefeller Institute

*The Public Policy Institute of
the
State University of New York*

411 State Street
Albany, NY 12203-1003
www.rockinst.org

**Donald J. Boyd,
Senior Fellow**

boydd@rockinst.org