LOCAL FISCAL STRESS

State Austerity Policy & Creative Local Response

NY Property Tax Cap
Impact Analysis

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ABSTRACT

What is the current and future impact of the New York State Property Tax Cap on counties, cities, towns, and villages across the state? Our analysis uses data from the NYS Comptroller to look at the short-term expenditure impacts on critical service areas for local municipalities since the cap was enacted. For a long-term perspective we develop a "what-if" model that hypothetically applies the property tax cap ten years prior to determine the impact on local government revenue. **We find capped revenue growth of counties, cities, towns and villages is insufficient to sustain critical services today.** The total loss over ten years is 30% aggregated over all local governments. **Towns and villages are most severely constrained.**

NYS PROPERTY TAX CAP HIGHLIGHTS

2012 year in force

2% * annual tax levy growth
* inflation if lower

60% vote for overrides

-$14.6M cut in AIM for 2011-12

$127M estimated annual mandate relief savings

Source: NYS Dept. of Taxation and Finance; 2011–2012 Executive Budget, NYS Division of the Budget; Mandate Relief Estimate provided by NYS Legislature

SHORT-TERM IMPACTS: EXPENDITURE CUTS IN CRITICAL SERVICES

Using NYS Comptroller data for 2011–2013, we present aggregate expenditure changes for each type of government: county, city (excluding NYC), town, and village. **The only expenditures that increased for all government types were employee benefits.** These costs are largely outside local government control; pension contributions are set by the state comptroller and health insurance is affected by rising premiums. The increasing cost of employee benefits may crowd out other expenditures as the tax cap imposes austerity on local government budgets.
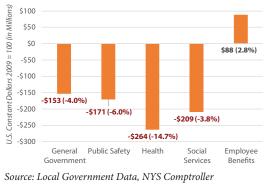
Across all locality types we find cuts in critical service areas, such as public safety (see Figure 1A and 1B). These cuts may be too deep to maintain services at the level citizens expect. Cities cut spending on public safety, their largest expenditure item, by 4.2%. Their second largest expenditure item, transportation, is cut by 8.3%. Increases in spending are concentrated in general government (administration, zoning, planning, and operations).

For counties, spending on social services – the largest expenditure line of counties – was cut by 3.8% or $209 million. Health had the largest cut at 14.7% or $264 million. Counties also cut public safety by 6.0% and general government by 4.0%.

FIGURE 1A – MAJOR EXPENDITURE CHANGES UNDER TAX CAP (2011–2013)

CITIES (EXCEPT NYC)

U.S. Constant Dollars 2009 = 100 (in Millions)

- General Government: $55 (9.0%)
- Public Safety: -$48 (-4.2%)
- Transportation: -$33 (-8.3%)
- Employee Benefits: $66 (6.6%)

ALL COUNTIES

U.S. Constant Dollars 2009 = 100 (in Millions)

- General Government: -$153 (-4.0%)
- Public Safety: -$171 (-6.0%)
- Health: -$264 (-14.7%)
- Social Services: -$209 (-3.8%)
- Employee Benefits: $88 (2.8%)

Source: Local Government Data, NYS Comptroller

Towns and villages made cuts in all major expenditure items except employee benefits. Towns cut their largest expenditure component, transportation, by 2.9%. The second highest expense for towns is sanitation, and it experienced cuts of 6.1%. Cuts were also made in public safety and general government spending.
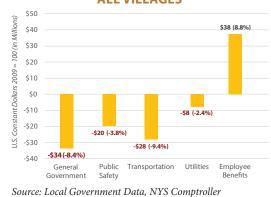
Villages also showed spending cuts across most services. The largest expenditure component for village government is public safety, which dropped by 3.8%. General government is the second largest expense for villages and was cut by 8.4%. Utilities spending, important to villages, dropped by 2.4%.

FIGURE 1B – MAJOR EXPENDITURE CHANGES UNDER TAX CAP (2011–2013)

ALL TOWNS

ALL VILLAGES

Source: Local Government Data, NYS Comptroller

LONG-TERM IMPACTS: DEPENDENCE ON PROPERTY TAX REVENUES

To assess relative reliance of local governments on the property tax, we disaggregated the major sources of revenue for each type of local government from 2000–2013 (see Figure 2). **Although the property tax makes up a large portion of city and county revenue (20%–25%), cities and counties have alternative revenue sources.** For county government, sales and use tax is the most important revenue source, higher than property tax. Charges for services and state aid are all decreasing but still account for more than 10%. City governments have a more even and diverse revenue structure, with alternative revenue sources from service fees, sales and use taxes, and state aid.
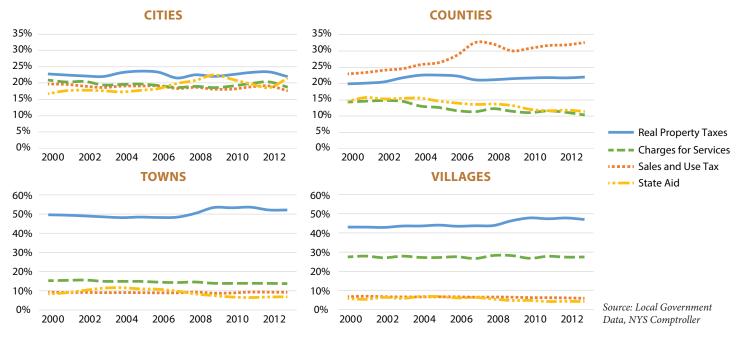
Towns and villages, in contrast to cities and counties, are largely dependent on the property tax (around 50%). Villages have more charges for services (around 30%) compared to towns (around 15%). Both sales tax and state aid for towns and villages are below 10% and do not represent a significant source of revenue. Dependence on the property tax may put town and village governments at a greater disadvantage under the tax cap.

FIGURE 2 – REVENUE SOURCES BY LOCAL GOVERNMENT TYPE OVER TIME (2000–2013)

CITIES

COUNTIES

TOWNS

VILLAGES

Source: Local Government Data, NYS Comptroller

To quantify how much fiscal stress the tax cap might cause, we projected a counter factual baseline to compare with what actually happened. To avoid making too many future assumptions, **our model used historical data to project how the current tax cap would impact property tax revenues if it had been implemented for the previous decade.**

Our model estimates the tax levy a locality can charge each year if it had a tax cap from 2001 to 2011 by using the formula below.

(Previous Year Property Tax Levy × Growth Factor) × Tax Cap = Current Year Allowable Tax Levy

The formula is a simplified version of the complex formula used to determine the NY Property Tax Cap. The "previous property tax levy" for each year is multiplied by a "growth factor" (explained below) to generate the allowable tax levy base. That levy base is increased by the tax cap, which is the lower of the inflation rate (Consumer Price Index from the Bureau of Labor Statistics) or 2%. These steps were repeated for each year from 2001 to 2011 to calculate our 10-year projection of property tax revenues.

Our projection covers all local governments in New York State excluding New York City. Both the annual and 10-year total property tax revenue loss (amount and percentage) is calculated, and the impact is differentiated by type of local government, providing aggregated totals for cities, counties, towns and villages.

ESTIMATING INFLATION OR CAP INCREASE

The actual level of property tax increase rate in a given year is determined by the prior year inflation rate based on the Consumer Price Index (CPI) or 2%, whichever is lower. Figure 3 compares the prior year inflation rate with the 2% cap. In 7 out of 10 years inflation is higher than 2%, so the tax cap is used. The only years where previous year inflation was less than 2% are 2003, 2010 (where the cap was set to 0%), and 2011.
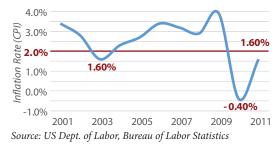
GROWTH FACTOR

The growth factor is a number computed by the NYS Comptroller which accounts for physical growth of each locality. The growth factor for 2012–2013 is the only one available and is used in our projection. Table 1 shows the growth factor in 2013 averaged for each type of local government. The first of our two estimates of property tax revenue uses this averaged growth factor to calculate the allowable tax levy base for each type of local government. As the growth factor varies by localities, our second estimate applies local growth factors for each individual locality to calculate the allowed increase in tax levy base.

MODEL LIMITATIONS

The model does not include any carryovers or exclusions that may have been applied. We controlled the variance of the growth factor by types of government and localities, but we could not control its variance by year due to data limits. The accurate measurement of exclusions and carryovers, as well as the growth factor for each year, would improve the projection. Nevertheless, the model is still useful as a first approximation.

FIGURE 3 – CPI OVER TIME (2001–2011)

Source: US Dept. of Labor, Bureau of Labor Statistics

TABLE 1 – AVERAGE GROWTH FACTORS FOR ALL LOCAL GOVERNMENT TYPES

Type	Min	Avg	Max	SD
City	1	1.0038	1.0298	0.0049
County	1	1.0046	1.0092	0.0020
Town	1	1.0056	1.2555	0.0100
Village	1	1.0036	1.0354	0.0055
Total	*1*	*1.0048*	*1.2555*	*0.0084*

Source: NYS Comptroller Property Tax Cap Data 2012–2013

ESTIMATE 1:
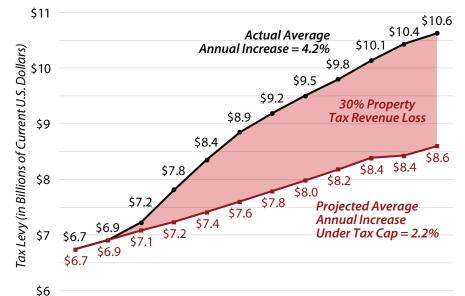#### TAX CAP + AVERAGE GROWTH FACTOR
30% LOSS IN PROPERTY TAX REVENUE

For all local governments in New York State, **the total aggregate shortfall of property tax revenues would be 30%** (see Fig. 4), or over $13 billion in forgone revenues, if the tax cap had been imposed 2001–2011. **The average annual levy increase would be 2.2%** compared to the actual increase of 4.2% (see Table 2).

Villages and towns are projected to suffer the most from the tax cap, missing out on 33.6% and 41.7% of property tax revenue over time. The average annual loss for all towns is $400 million, and the aggregate average annual loss for all villages is $150 million. Although cities and counties may have a smaller percentage gap, the aggregate average annual loss is $90 million for cities, and $550 million for counties.

ESTIMATE 2:
TAX CAP + LOCAL GROWTH FACTOR
34% LOSS IN PROPERTY TAX REVENUE

The second estimate uses the local growth factor for each locality. For all local governments, the projected average annual levy increase is 2.0% compared to the actual increase of 4.2% (see Table 3). The total tax revenue shortfall is 33.6% or $15 billion. Towns and villages still have the highest tax revenues loss of over 40%. The average annual loss for all towns is $500 million, and the average annual loss for all villages is almost $190 million.

In applying the actual local growth factors to project the tax cap impact, we found not all local governments experience a tax revenue loss. This explains why the average annual tax loss is smaller. There are 231 local governments whose actual tax rates were lower than the cap (9 cities, 2 counties, 147 towns, and 73 villages). Property taxes rates in these localities were already under the tax cap.

FIGURE 4 – TAX CAP IMPACT PROJECTION (2000–2011)

Source: Author analysis of Local Government Data 2000–2011, NYS Comptroller

TABLE 2 – TAX CAP IMPACT WITH AVERAGE GROWTH FACTOR

	Average Annual Increase				Total 10-Year Increase			
	Observed	Projected	Shortfall	Avg Annual Tax Loss	Observed	Projected	Shortfall	Total Tax Loss
City	3.7%	2.1%	-1.6%	$ (90,467,044)	48.9%	26.1%	-22.8%	$ (995,137,489)
County	4.0%	2.2%	-1.8%	$ (555,234,244)	53.7%	27.2%	-26.6%	$ (6,107,576,686)
Town	4.5%	2.3%	-2.2%	$ (408,653,337)	62.2%	28.6%	-33.6%	$ (4,495,186,711)
Village	4.8%	2.1%	-2.7%	$ (153,634,912)	67.6%	25.9%	-41.7%	$ (1,689,984,034)
Total	*4.2%*	*2.2%*	*-2.0%*	*$ (1,203,410,567)*	*57.5%*	*27.5%*	*-30.0%*	*$ (13,237,516,241)*

TABLE 3 – TAX CAP IMPACT WITH LOCAL GROWTH FACTOR

	Average Annual Increase				Total 10-Year Increase			
	Observed	Projected	Shortfall	Avg Annual Tax Loss	Observed	Projected	Shortfall	Total Tax Loss
City	3.7%	1.8%	-2.0%	$ (119,564,974)	48.9%	21.1%	-27.7%	$ (1,315,214,714)
County	4.0%	2.2%	-1.8%	$ (559,426,755)	53.7%	26.9%	-26.8%	$ (6,153,694,301)
Town	4.5%	1.8%	-2.7%	$ (537,642,745)	62.2%	21.6%	-40.6%	$ (5,914,070,200)
Village	4.8%	1.7%	-3.1%	$ (189,880,786)	67.6%	20.7%	-46.9%	$ (2,088,688,641)
Total	*4.2%*	*2.0%*	*-2.3%*	*$ (202,887,629)*	*57.5%*	*23.9%*	*-33.6%*	*$ (15,471,667,855)*

Sources: Author analysis of Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; US Department of Labor, Bureau of Labor Statistics, 2013

CONCLUSION

Keeping revenues below the rate of inflation means local government expenditures must drop in real terms. However, services cannot be maintained with a 30% drop in property tax revenue. Based on experience in other states[1], we recommend changes in the structure of exclusions and overrides, as well as increases in state aid and mandate relief to ensure that New York's Property Tax Cap does not undermine the state's capacity for economic growth or endanger the long-term resiliency and sustainability of New York localities.

[1] See Chang and Wen (2014) "Tax Caps in Other States: Lessons for New York." www.mildredwarner.org/restructuring/fiscal-stress.