

Incorrect diagnosis of New York's property tax "problem" will lead to a remedy that is likely to do more harm than good.

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Supporters of the Governor's proposed property tax cap argue that Massachusetts' experience with Proposition 2½ is proof that a cap such as the one being proposed in New York could be implemented without hurting the quality of education or the adequacy of basic municipal services. But an analysis of Census Bureau data on state and local government finances together with a review of the Massachusetts law and the New York legislation indicates that the cap on property tax growth being proposed in New York is much more restrictive than the growth cap that has been in place in Massachusetts for the past quarter century. If a hard cap of the lesser of 2% or the rate of inflation, with no overrides, had been in effect in Massachusetts since 1981-82, that state's property tax revenue would be about 60% less than it currently is.

- Between 1981-82 and 2007-08 total property tax revenue in Massachusetts increased from \$2.9 billion to \$11.66 billion. If a hard cap of the lesser of 2% or the rate of inflation, with no overrides, had actually been in place in Massachusetts during this period, total property tax revenue in that state in 2007-08 would have been \$4.83 billion rather than the actual amount of \$11.66 billion. That's a reduction of 59%.
- New York's property tax "problem" is frequently described as being one of runaway increases. In reality, over the past quarter century, New York property taxes without a cap have grown at virtually the same rate as Massachusetts property taxes with a cap. Since 1981-82, property tax revenue in Massachusetts has actually increased at a slightly greater average annual rate (5.48% per year including the personal property tax on motor vehicles; and 5.39% excluding that revenue) than has been the case (5.34% per year) in New York.
- Since 1998, those average annual growth rates, without adjusting for inflation, have been 5.27% in Massachusetts and 4.80% in New York. When adjusted for changes in the cost of living, those average annual growth rates have been 2.38% for Massachusetts and 1.9% for New York.

How is the cap being proposed for New York more restrictive than the Massachusetts growth cap?

1. The New York proposal would require school districts to secure a super majority of 60% of the voters for the approval of an override but, since 1987, Massachusetts has required a simple majority of the vote for the approval of overrides of its growth cap. The proposed 60% super majority requirement would, in effect, make the votes of those who support an override much less powerful than the votes of those who oppose an override.

Under the proposal, even if 59% of the electorate supported an override, it would be deemed disapproved. Moreover, as a result of a little discussed “kicker” in the New York proposal, if a second referendum (or, a first referendum, without a re-vote) on an override does not secure a 60% favorable vote, the default would be to the prior year’s tax levy not to the levy limit.

2. Another important difference between the Massachusetts law and the New York proposal is the wording of override questions. The New York proposal requires that the question be phrased in a confrontational, negative way: "Adoption of this budget requires a tax levy increase of \_\_\_\_\_ which exceeds the statutory tax levy increase limit of \_\_\_\_\_ for this school fiscal year and therefore exceeds the state tax cap and must be approved by sixty percent of the qualified voters present and voting." Compare this with the required wording of override questions under the Massachusetts law: “Shall the (city/town) of \_\_\_\_\_ be allowed to assess an additional \$\_\_\_\_\_ in real estate and personal property taxes for the purposes of (state the purpose(s) for which the monies from this assessment will be used) for the fiscal year beginning July first \_\_\_\_\_?”

3. The Massachusetts law allows multiple override questions on the same ballot and even allows multiple override options of different amounts for the same purpose with the highest approved amount for a purpose prevailing. A study of Proposition 2½ by a Federal Reserve Bank of Boston economist concluded that “Approaches such as these allow voters much more direct control over the local budget than do all-or-nothing votes on a sizable percentage increase in the levy limit. While local officials still control the proposals that appear on the ballot, they (obviously) cannot control which ones the voters approve or vote down, and as a result they have less discretion in making spending decisions after the vote is taken, no matter what the voters enact. Thus offering the voters more choice shifts some power from local officials to the voters.”

4. Under the Massachusetts’ law, each locality’s “levy limit” automatically increases by 2.5% each year, without any “use it or lose it” proviso. In addition, the value of overrides (but not debt exclusions) in Massachusetts are added to a locality’s levy limit and then increased by the same 2.5% increase in subsequent years as the original levy limit. The New York proposal is for a cap of the lesser of 2% or the rate of inflation with a limited carry over allowed.

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The Massachusetts experience does not support the claim that a cap of 2% (or the rate of inflation if it is less) on the growth in property tax levies is workable let alone desirable. The proposed cap would undermine the quality of the entire array of locally-funded public services while providing very little relief, if any in many cases, to those homeowners who are most overburdened by real property taxes. New York can learn from the Massachusetts experience but not if it ignores the reality of that experience.

**If Massachusetts had a hard cap of 2% (or the rate of inflation, if lower), with no overrides, in force since 1981-82, its property tax revenue today would be about 60% less than it actually is.**

Fiscal Year		Property Tax Revenue, in Thousands of Dollars					
		Actual			If a Hard Cap of 2% (or the Rate of Inflation, if lower), With No Overrides, Had Been in Effect Since 1981-82		
		Massachusetts		New York as Reported by the US Bureau of the Census	Massachusetts		New York as Reported by the US Bureau of the Census
		As Reported by US Bureau of the Census	Minus Personal Property Tax on Motor Vehicles		As Reported by US Bureau of the Census	Minus Personal Property Tax on Motor Vehicles	
1976	- 1977	2,838,196		8,062,557	2,838,196		8,062,557
1977	- 1978	3,013,737		8,364,634	3,013,737		8,364,634
1978	- 1979	3,149,702		8,504,449	3,149,702		8,504,449
1979	- 1980	3,183,499	2,917,387	8,791,074	3,183,499	2,917,387	8,791,074
1980	- 1981	3,370,501	3,209,959	9,266,742	3,370,501	3,209,959	9,266,742
1981	- 1982	2,916,366	2,803,905	10,106,904	2,916,366	2,803,905	10,106,904
1982	- 1983	3,017,948	2,892,288	10,754,225	2,974,693	2,859,983	10,309,042
1983	- 1984	3,094,499	2,946,690	11,519,608	3,034,187	2,917,183	10,515,223
1984	- 1985	3,305,050	3,120,642	12,237,584	3,094,871	2,975,526	10,725,527
1985	- 1986	3,504,782	3,262,919	13,292,828	3,156,768	3,035,037	10,940,038
1986	- 1987	3,751,095	3,526,387	14,252,474	3,219,904	3,095,738	11,158,839
1987	- 1988	4,067,796	3,800,871	15,398,065	3,279,753	3,153,279	11,366,252
1988	- 1989	4,395,298	4,058,045	16,684,363	3,345,348	3,216,345	11,593,577
1989	- 1990	4,677,758	4,393,055	18,399,741	3,412,255	3,280,672	11,825,449
1990	- 1991	4,976,097	4,690,754	19,875,087	3,480,500	3,346,285	12,061,958
1991	- 1992	5,255,671	4,974,187	21,373,124	3,550,110	3,413,211	12,303,197
1992	- 1993	5,497,033	5,176,851	22,413,159	3,621,113	3,481,475	12,549,261
1993	- 1994	5,948,686	5,641,279	22,639,100	3,693,535	3,551,105	12,800,246
1994	- 1995	6,319,738	5,938,243	22,782,106	3,767,406	3,622,127	13,056,251
1995	- 1996	6,475,097	6,093,559	23,262,491	3,842,754	3,694,569	13,317,376
1996	- 1997	6,612,515	6,199,389	24,121,718	3,919,609	3,768,461	13,583,723
1997	- 1998	6,981,120	6,511,854	24,444,988	3,998,001	3,843,830	13,855,398
1998	- 1999	7,300,559	6,827,591	24,758,694	4,077,961	3,920,706	14,132,506
1999	- 2000	7,642,521	7,108,438	25,201,914	4,141,481	3,981,777	14,352,638
2000	- 2001						
2001	- 2002	8,721,832	8,111,898	26,825,697	4,308,796	4,142,640	14,932,485
2002	- 2003						
2003	- 2004	9,814,315	9,178,488	32,333,564	4,464,458	4,292,299	15,471,943
2004	- 2005	10,341,126	9,657,958	34,149,967	4,553,747	4,378,145	15,781,382
2005	- 2006	10,828,955	10,134,696	36,438,151	4,644,822	4,465,708	16,097,009
2006	- 2007	11,041,925	10,405,039	38,076,399	4,737,719	4,555,022	16,418,950
2007	- 2008	11,664,990	10,978,198	39,068,724	4,832,473	4,646,123	16,747,329
Average Annual Growth Rate Since 1981-82		5.48%	5.39%	5.34%	1.96%	1.96%	1.96%
Reduction in Revenue Compared to Actual					-6,832,517	-6,332,075	-22,321,395
					-59%	-58%	-57%

SOURCE NOTES: The actual property tax revenue data is from the Governments Division of the US Census Bureau via the Tax Policy Center data base. The hard cap calculations are by the Fiscal Policy Institute (FPI) using national Consumer Price Index data from the US Bureau of Labor Statistics. The Census Bureau did not publish local government financial data for 2000-2001 or 2002-2003. FPI used Massachusetts Department of Revenue data for the proceeds of the personal property tax on automobiles to calculate Total Property Tax Revenue Minus Personal Property Taxes on Motor Vehicles. The 1979-80 fiscal year is the earliest year for which Motor Vehicle Tax revenue data is available on the Department of Revenue's website.