

# **Property Tax Caps: What We Can Learn From Other States**

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Relief

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In reviewing other states' experiences we looked for answers to the following questions:

- What were the immediate and long-term impacts; and were they distributed equally?
- Were the tax cap(s) effective in reducing costs and property taxes or did it result in shifting?
- Are the measures gaining acceptance in their communities?

Some states enacted new revenue sources at the same time caps were instituted. In Michigan, voters had a choice between two different menus of options that included a state

<u>Revenue Source</u>	1993 Law	1994 Voter Options	
		Proposal A Vote "Yes"	Statutory Plan Vote "No"
Sales & Use Tax	4.00%	6.00%	4.00%
Income Tax	4.60%	4.40%	6.00%
Single Business Tax	2.35%	2.35%	2.75%
Cigarette Tax	25 cents/pack	75 cents/pack	40 cents/pack
Other Tobacco Products	None	16%	16%
Real Estate Transfer Tax	None	0.75%	1.00%
Personal Exemption	\$2,100	\$2,100	\$3,000
<b><u>State Education Tax</u></b>			
Homestead Property	None	6 mills	None
Nonhomestead Property	None	6 mills	12 mills
<b><u>Local School Operating</u></b>			
Homestead Property	Statewide Average equals	None	12 mills
Nonhomestead Property		18 mills	12 mills
Annual Cap on Property Value	None	Lesser of 5% or inflation	None
Local Enhancement Mills	None	Up to 3 mills for only 3 years	Up to 3 mills permanent

Source: [http://www.michigan.gov/documents/propa\\_3172\\_7.pdf](http://www.michigan.gov/documents/propa_3172_7.pdf)

In Massachusetts two forms of caps were instituted by voter referendum in 1980.

	Applies to	Growth	Details
PROP 2 ½	Municipalities (Includes School Districts)	2.5%	Levy limit - 2.5% annually  Ceiling limit – 2.5% of total assessed value
Exceptions	Overrides, new property growth, debt exclusions		
Impact on taxes	“ <i>Taxachusetts</i> ” dropped from near the top in the nation to 32 <sup>nd</sup> in the nation		

# The Massachusetts Story

- Regarded as a success because overall educational performance has not fallen as dramatically as in other states (most notably California) and yet property taxes have been reduced somewhat.
- So what happened here? Recall that there was a cap on the total tax levy and on its growth rate. Municipalities (most of which include the school district) in Massachusetts had to reduce their budgets so that they would not exceed 2.5 percent of the total assessed value of the taxing district.

## Massachusetts story, continued

- But many of these cities and towns had not had a revaluation in years (despite a court order in 1974 to do so) and were now racing to quickly implement one upon passage of PROP 2 ½ . Failure to do so would mean that their assessment roll and hence, their ceiling limit would be artificially low.
- Emergency state formulas were put into place but still left localities well above the ceiling.
- The law required annual 15 percent total budget reduction to transition towards compliance.
- A crisis ensued across the 351 municipalities in the state and many were forced to take the one measure that would have them comply—cut jobs, and cut many of them.

When scrambling to find ways to get under the ceiling, decision makers were forced to face the inevitable fact that the majority of a taxing district's expenses are related to staffing.

Salaries and benefits as a share of operating expenses\*

- School districts      75 percent
- Cities                    71 percent
- Towns                    55 percent
- Counties                39 percent

\*Including contractual costs but excluding capital equipment and debt service.

According to a National Institute of Education study in 1983 on the immediate implications of Prop 2 ½, municipalities and school districts in particular had to scramble in order to comply with the law. The following results were documented in their assessment:

### MA Statewide (Year 1 of Prop 2 ½)

- 14.3 % reduction in all school employees.
- 11.6 % of all f/t/e teaching positions were eliminated.
- 22.2% of all reading teachers, 23.2% of librarians.
- 9.3% of all educational revenue was removed in the first year alone.
- 54.4% of food program support was cut, which led to a 25% reduction in participation in the food service program.
- 30% reduction in textbook expenditures.
- 36% reduction in equipment purchases.
- 278 schools were closed (*while only 16 were opened*).
- Evening and adult ed was cut drastically, leading to a decline in enrollment of 48%.
- Fees were raised 23% to help compensate for lost funding.



Half of all municipalities did not need to reduce taxes at all, while a quarter of them were “15% communities.”

*“Every one of the state’s 30 largest cities and towns (with half the population in MA) fell into this category”. - 1983 NIE study*

Some examples of measures that were implemented:

- Hopedale (p. 3,900) “fired” its fire department.
- Freetown (p.7,000) held an auction to raise money lost by Prop 2 ½ to maintain their town functions.
- Upton teachers volunteered their free periods as “substitutes.”
- Lynn (p. 78,000) was subject to a loss of 9.5 million; which when previously negotiated contracts were factored in meant \$15 million would need to be cut.
- Brookline was faced with a 20% budget reduction of \$3.6 m. It called for cutting music programs, arts, double session kindergarten and foreign language programs. Ultimately a 2.24 M reduction was enacted (12 percent).
- Cambridge raised fees by \$5 million.

And the Mayor of Worcester put himself in jail  
until his residents “bailed” him out.  
The money was needed for athletics.



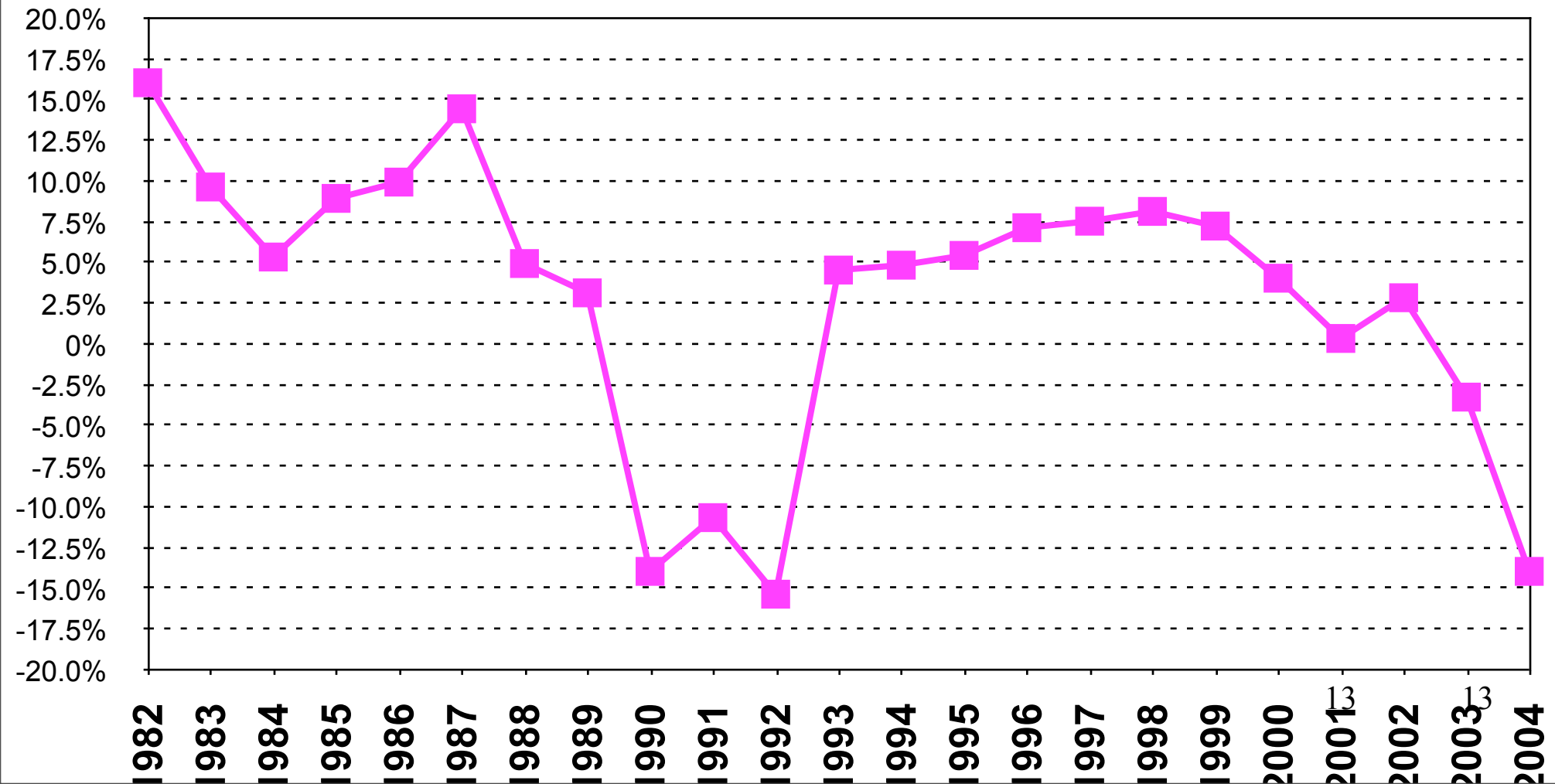
# Massachusetts Local Appropriations Percent Change (FY 81-82)

<u>Community</u>	<u>Schools</u>	<u>Police</u>	<u>Fire</u>	<u>Streets</u>	<u>Parks</u>	<u>Garbage</u>	<u>Library</u>	<u>Debt</u>	<u>Total</u>
Amesbury	-7.7	10.5	9.0	n.a.	n.a	10.6	-8.2	-2.8	3.5
Burlington	-8.5	0.0	9.4	n.a	-8.1	10.1	-3.6	-1.3	-2.0
Chelsea	-4.8	4.0	7.4	-15.9	-1.0	21.9	-19.5	-1.9	-1.5
Framingham	-9.7	1.7	-1.8	14.8	-6.7	-6.2	-15.0	-13.0	-9.5
Marshfield	-9.0	-10.4	0.7	n.a.	-49.9	12.3	-6.6	39.0	-8.0
Quincy	-19.6	-8.2	-6.8	-67.7	-23.7	-17.0	-23.1	-1.5	-11.5
Salem	-15.7	-1.6	-8.2	-37.1	-34.6	1.7	-16.0	-4.6	-9.1
Springfield	-10.1	2.2	-5.5	-12.5	-12.0	50.8	-6.8	5.9	1.6
Wayland	-5.0	-2.9	-1.9	-22.9	-2.1	-100.0	-0.6	-4.0	-6.1

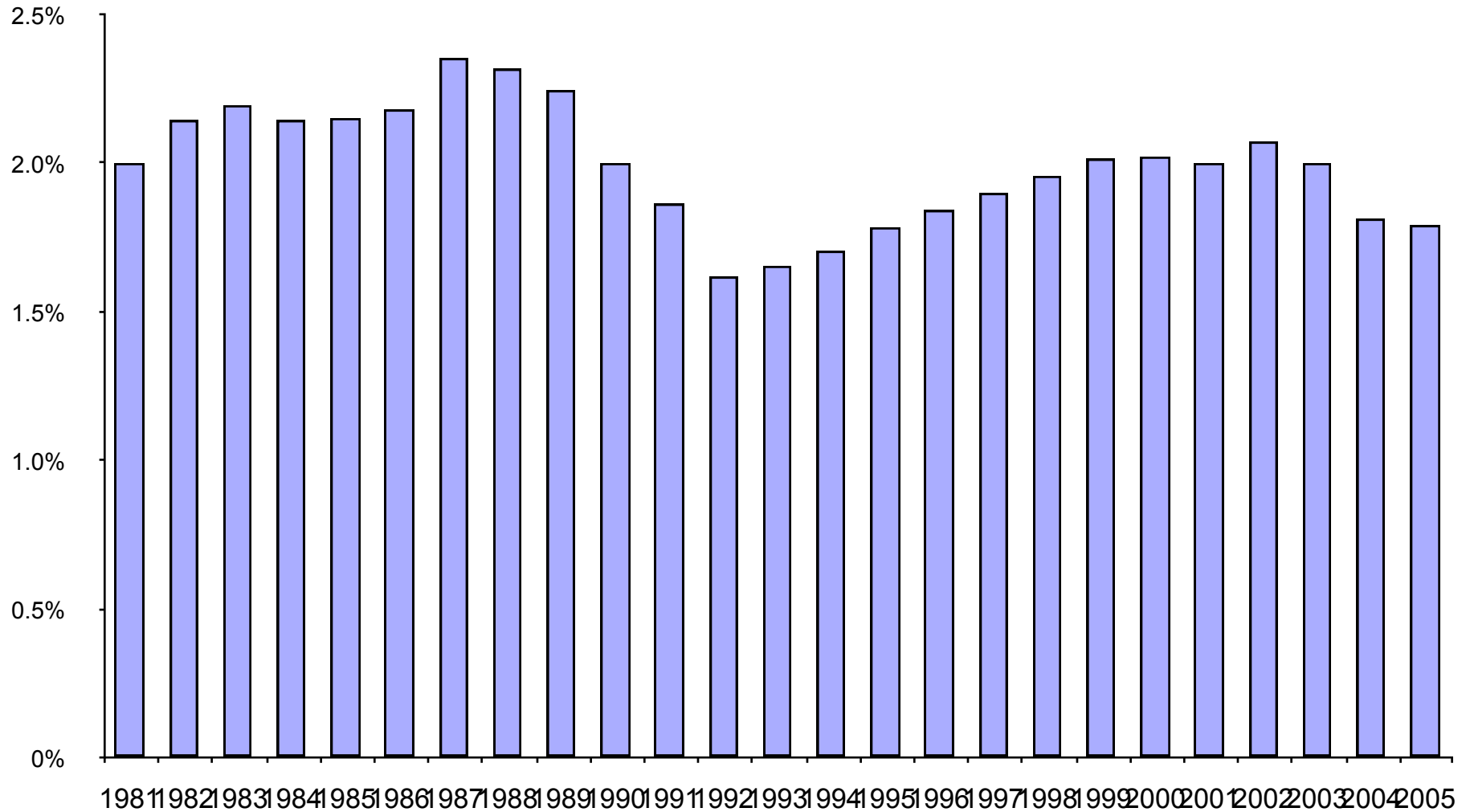
# Looming Crisis Necessitated Last Minute Bailout by State

- The Massachusetts state government eventually stepped in and raised state aid by \$265 million to help offset more than \$456 million in local revenue.
- There was, however, no relationship between lost local revenue and state increases in their determinations, forcing many communities to enact severe budget cuts along multiple service lines

# State Aid has been uneven in Massachusetts as it has in New York.



In Massachusetts, local aid was cut during the economic downturn and when the state cut taxes.

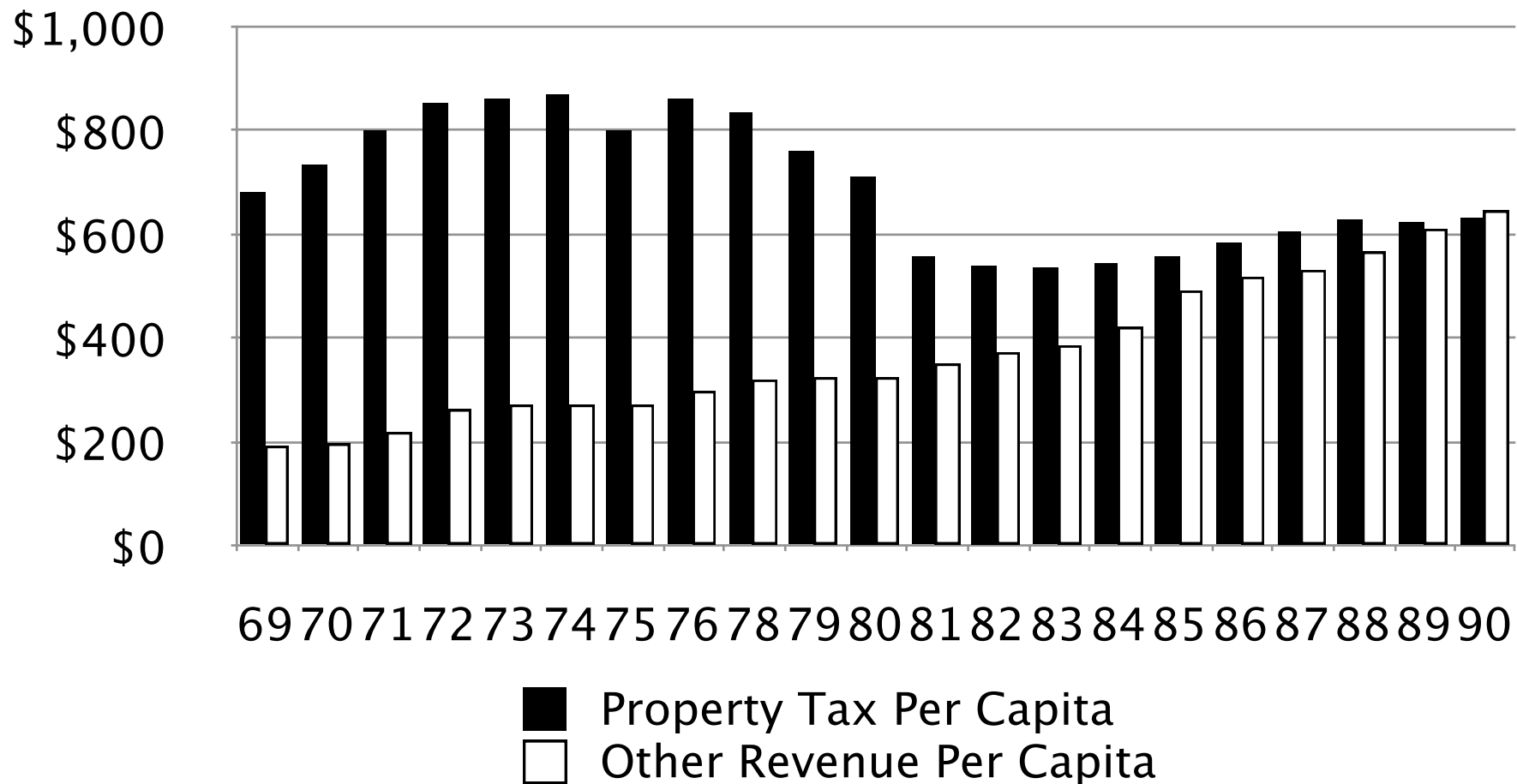


But average annual increases in the 1990s were 11 percent in Massachusetts, more than in New York.

Other offsetting measures that were taken:

- Raid surplus funds. MA districts engaged in significant draw-downs to reduce budget gaps.
- Transfer of residential burden to commercial and other properties. By 1987:
- 85 of MA's 351 municipalities, including some of the largest communities, passed amendments that changed property taxes by class. This resulted in an 8 percent decrease in the residential contribution; which in turn was transferred to commercial and industrial.

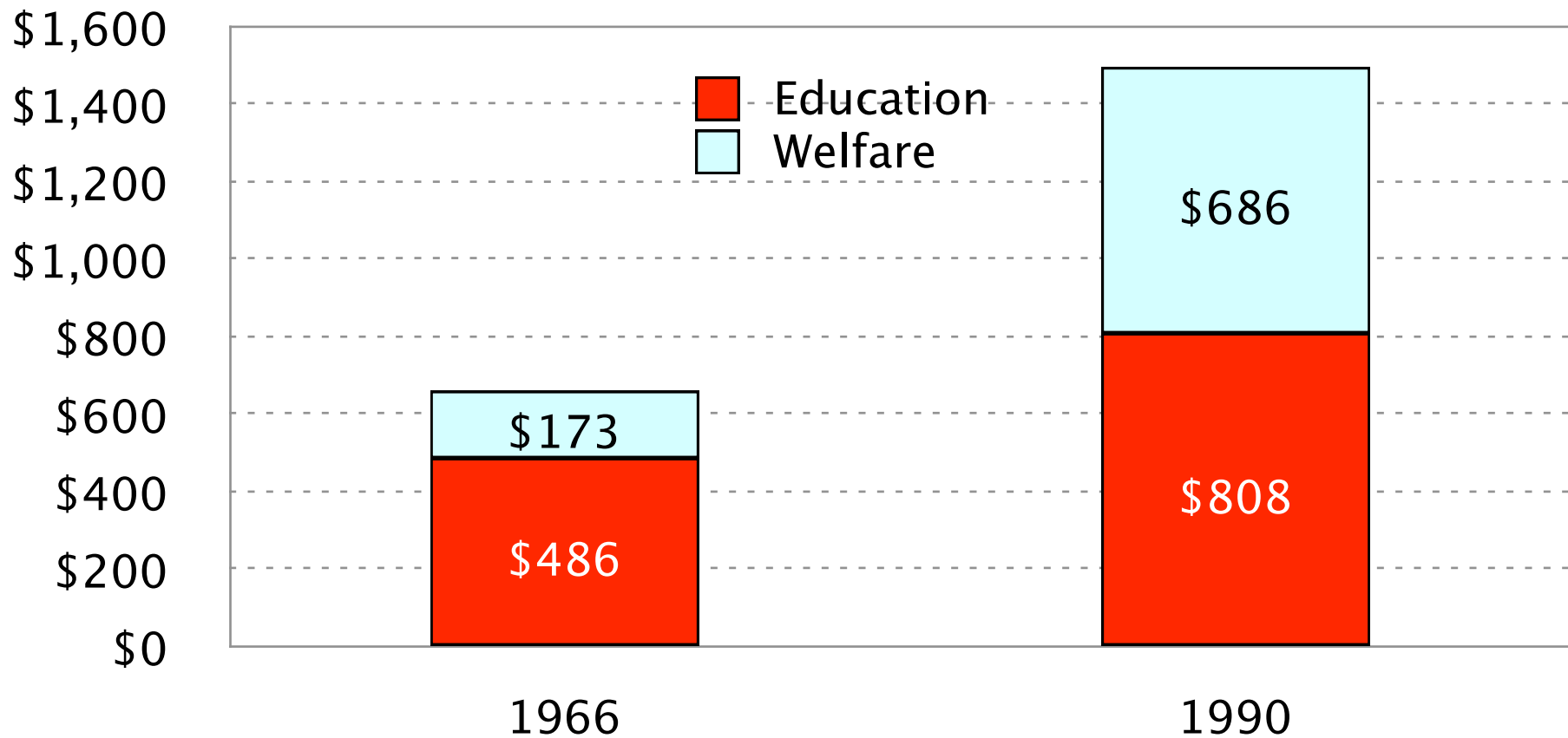
By 1990, in Massachusetts, per capita fees were higher than per capita property taxes.



Adjusted for inflation



And spending per capita continued to grow, despite the cap.



# How do the demographics of New York and Massachusetts compare?

	<b>NY</b>	<b>MA</b>
Population	19.3 M	6.4M
White	60.9%	80.3%
Blacks	17.4	6.9
Asian	6.7	4.7
Hispanic	16.1	7.9
Other	.9	2.0
Foreign-Born	20.4	12.2
Density ( /sq mile)	401.9	809.8
Population Growth 2000-2006	1.7	1.4
Unemployment	4.5	5.0
Median Household Inc.	39.9K	43.5

And were the circumstances similar?

**During 1980 to 1982 MA school population dropped significantly:**

- 12 percent of districts reported rising enrollment
- one-third of all districts reported a decrease of over six percent
- 38 percent dropped between three and six percent

• For example: Newton(suburb of Boston)

1973-4      18, 097

1980-1      12, 426

## New York's economy is more reliant on education and health services than the national economy overall.

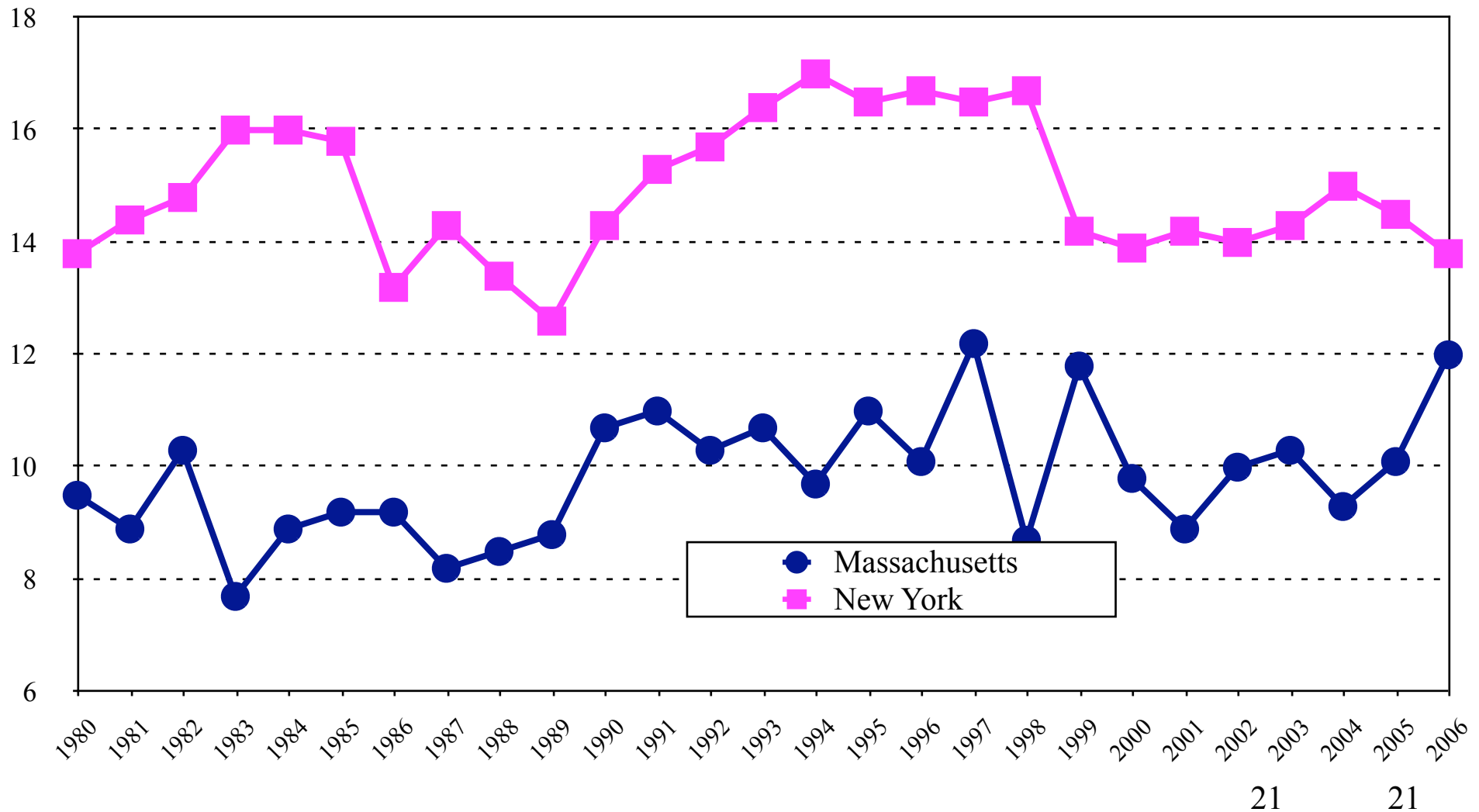
<u>Supersector</u>	<u>New York</u>		<u>United States</u>	
Construction and Mining	343	4%	8,373	6%
Manufacturing	568	7%	14,197	10%
Wholesale Trade	354	4%	5,898	4%
Retail Trade	881	10%	15,319	11%
Transportation and Utilities	271	3%	5,014	4%
Information	270	3%	3,055	2%
Financial Activities	726	8%	8,363	6%
Professional and Business Services	1,109	13%	17,552	13%
Education and Health Services	1,570	18%	17,838	13%
Leisure and Hospitality	678	8%	13,143	10%
Other Services	357	4%	5,432	4%
Government	1,487	17%	21,990	16%
<b>Total</b>	<b>8,612</b>	<b>100%</b>	<b>136,174</b>	<b>100%</b>

**Figure 1.7**

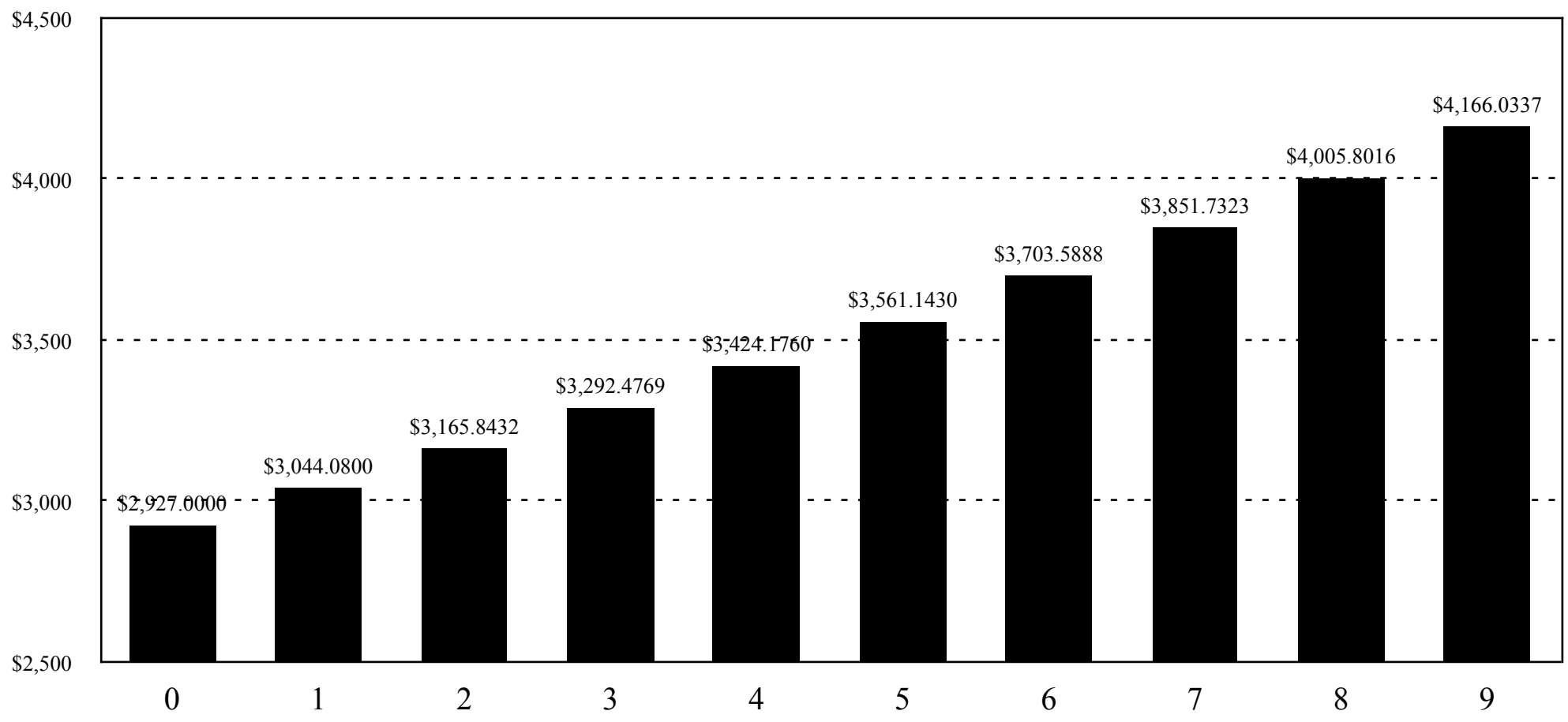
Note: Employment in thousands.

Source: Bureau of Labor Statistics.

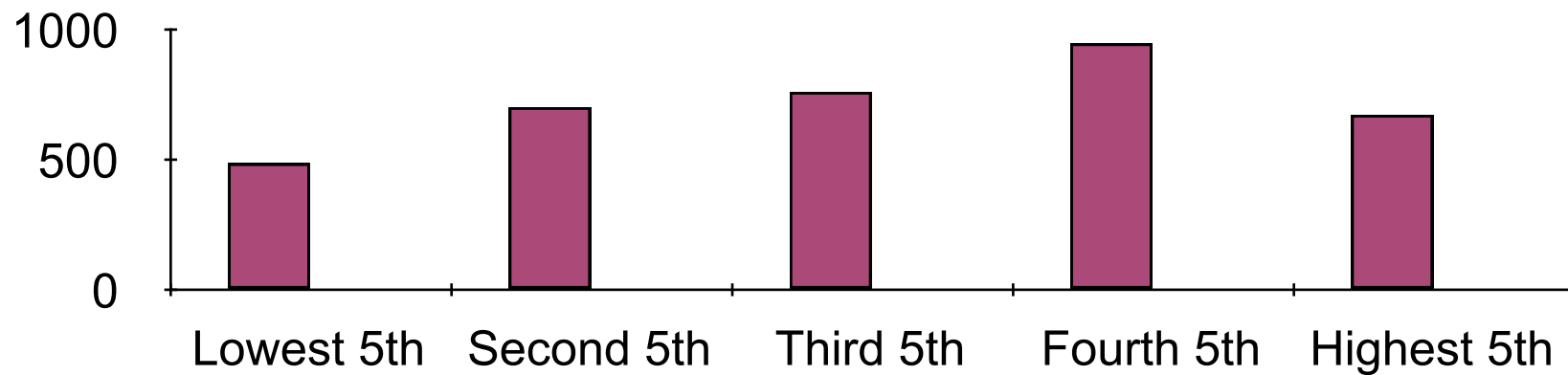
Poverty levels in Massachusetts have risen over the last several years and have dropped slightly in New York, despite stronger than average income growth in Massachusetts.



A cap would in New York would likely exacerbate the spending gap between the “wealthy” districts and poorer districts.



In Massachusetts, more overrides are being proposed and passed in the wealthier districts.



Voter approval rates for school budgets indicate that New York may respond similarly. Passage of budgets in “poorer” districts are more infrequent in both high state-aid years and low state-aid years.

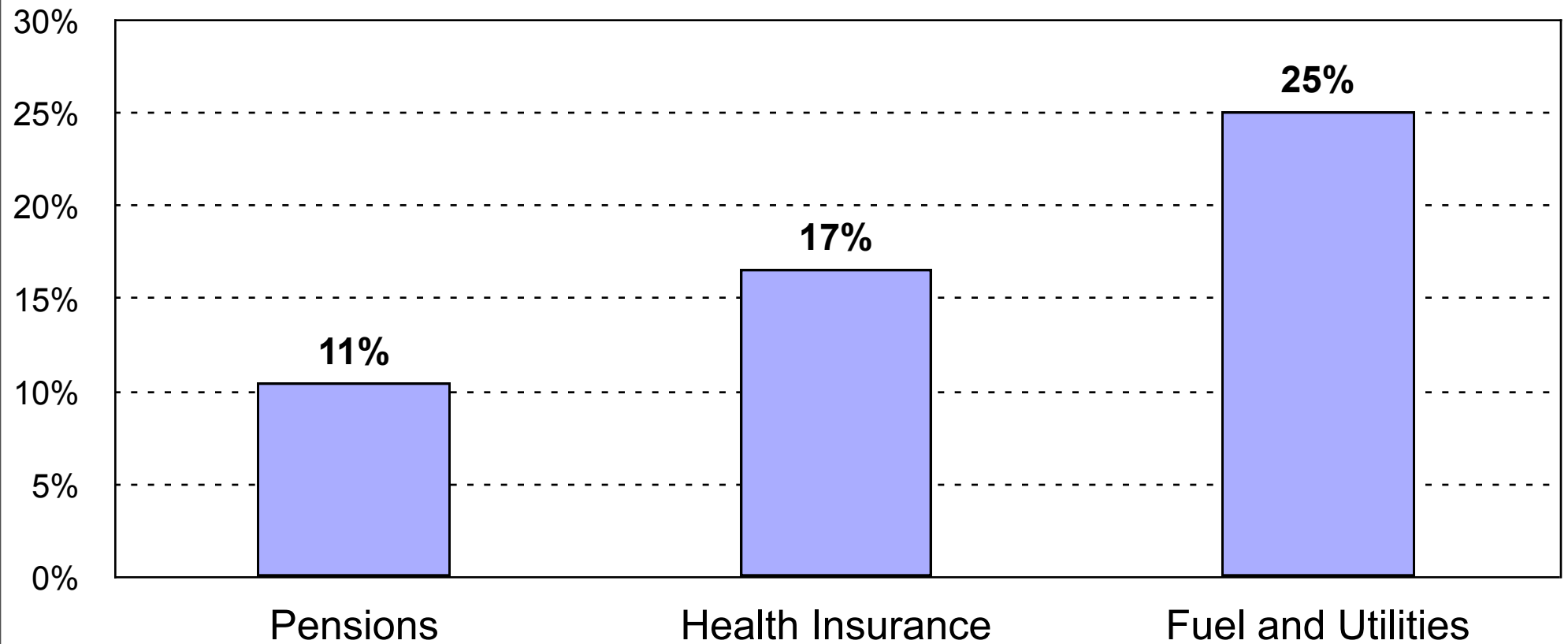
**On Long Island, budget defeats are much more likely in High Need (Low Wealth) Districts than Low Need (High Wealth) Districts**

Year	Need Resource Category	Number of Districts	Budgets Defeated	
			<u>Number</u>	<u>Percent</u>
<b>2005</b>				
	High Need (Low Wealth)	10	8	80%
	Average Need (Average Wealth)	41	18	44%
	Low Need (High Wealth)	<u>70</u>	<u>19</u>	<u>27%</u>
		121	45	37%
<b>2007</b>				
	High Need (Low Wealth)	10	4	40%
	Average Need (Average Wealth)	41	2	5%
	Low Need (High Wealth)	<u>70</u>	<u>1</u>	<u>1%</u>
		121	7	6%

Source: New York State School Boards Association



# How effective would a cap be in controlling some of these rapidly increasing costs?



# Conclusions

MA Prop 2 ½ “succeeded” in reducing the overall property tax burden—not by controlling root causes, but by forcing job cuts, reducing services (especially in less affluent communities) and using alternate revenue sources unevenly. This was accomplished through a series of actions:

1. A ceiling cap that produced immediate and dramatic reductions in staffing. This, and not the cap on growth, may have been responsible for most of the drop in MA’s property tax burden rankings.
2. Increased state aid, shifting local burden to other property classes and imposition of replacement fees (likely to be more regressive).
3. Overrides—more frequently proposed and approved in wealthier districts, further adding to inequities and reducing future savings or effectiveness of caps.

# Are voters losing their appetite for their caps?

## Colorado Local Government Overrides (1993-2005)

	Municipalities	Counties
Number of Localities	271	64
# that passed overrides	238 (88%)	60 (94%)
# that have permanently rejected TABOR limits	83 (31%)	44 (69%)

And in the final analysis, was the property tax burden “effectively reduced”?

**Property Tax (as a percent of income) *US Census - 2002***

NY - 3.9%

MA - 3.5%

**Fact: US Census Bureau 2004-5 Statistics -**

New York ranks 4th in amount of local contribution towards education. Massachusetts ranks 5th.

# Lessons learned from Massachusetts and elsewhere

- **Caps fail to provide adequate relief to individual taxpayers and do little in the way of reform.** They “cap” a taxing district. *An individual’s tax bill* often can go up much faster than the cap.
- **At best caps *can hope to limit future increases***, but they can do nothing to affect current taxes and therefore provide no current relief (unless a ceiling below current levels is enacted and enforced).
- **Caps *can force municipalities to make cuts*** (primarily job cuts) to limit services or the portion of services funded by the property tax.
- **Caps *can not address underlying root causes*** (ex. unfunded mandates) and provide little ability to budget or plan properly since local districts do not control important expense items (fuel, health care, pensions). States can attempt to address these root causes without the implementation of caps.
- **Caps *can not correct inequities*** in funding and distribution of revenue.
- **Caps *have not been studied*** on their impact to local economies