

## Hudson Valley Property Tax Relief and Reform Conference

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Henry A. Wallace Center

at the FDR Presidential Library and Home

*presented by TREND*

*(The Tax Reform Effort of Northern Dutchess)  
and hosted by the Northern Dutchess Alliance*

## Property Tax Caps - What we can learn from other states

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There are essentially four kinds of property tax caps that are being studied:

- Tax Levy Cap - Limits the annual growth rate of the tax levy. The levy is the total amount of property tax that a tax-levying jurisdiction (county, city, town, village, school fire or special District) chooses to collect each year.
- Tax Rate Cap - Limits the tax rate. The rate used to calculate the property tax owed, usually expressed in dollars per \$1000 in Taxable Valuable less exemptions.
- Assessed Value Cap - Limits the annual % growth in the total assessed value
- Expense Cap - Limits the annual growth in spending. A limit on the absolute level of spending in any given year

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The commission has determined that it should study “Peer” states. While acknowledging the difficulty in identifying candidates, they are looking for certain characteristics:

- Size of State Population - 19 million in NY. The commission will look at the 15 most populated states.
- Metropolitan Area - States should at least have one major city as a component of their make-up
- Regional proximity - Priority should be given to neighboring Northeastern states.

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They have narrowed down their list to five peer states for review.

- Massachusetts
- Illinois
- New Jersey
- California
- Michigan

## Massachusetts

	Applies to	Growth	Details
PROP 2 ½ 1980	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		

## Michigan

	Applies to	Growth	Details
PROP A 1994	Municipalities Schools	Inflation	Spending cap – inflation rate; acquisition value
	Replaced Property Taxes with a <u>6% sales tax</u> dedicated to schools		
Exceptions	Overrides, new property growth, debt exclusions		
Impact on taxes	Property taxpayers have seen a reduction of approximately \$2.5 billion each year since 1994.		

## California

	Applies to	Growth	Details
PROP 13	All local taxing jurisdictions	Lesser of 2% or inflation	Assessment cap – growth of individual property owner assessments
		1% of assessed value	Rate cap – cannot exceed 1% of assessed value
Impact on taxes	Property tax revenues immediately dropped by 57 percent across the state. They went from being 51 percent above average (1978) to 22 percent below average (1981).		
	California’s taxing authorities are increasingly dependent on state aid.		

## Illinois

	Applies to	Growth	Details
PTELL	Counties Municipalities Schools	Lesser of 5 % or Inflation	Levy cap
Exceptions	Counties can opt-in or out, overrides, debt exclusions		
Impact on taxes	Taxes were reduced by \$1.36 billion between 1991 and 1997. Levy cap continues to produce slow growth in times of rapid price appreciation.		

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## New Jersey

	Applies to	Growth	Details
2007	School Districts	4%	Levy cap
Exceptions	Overrides, debt, enrollment and certain health care exclusions.		
Impact on taxes	Unknown, too soon to gauge.		

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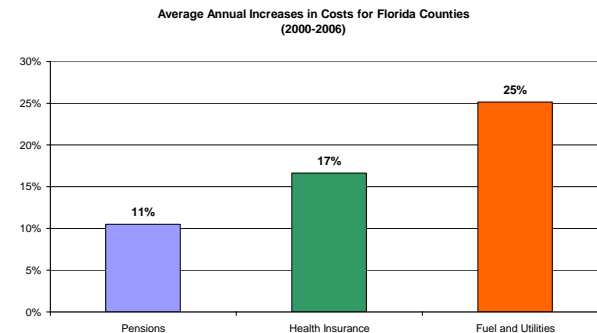
Michigan removed the local contribution to K-12 and intermediate education from property taxes and put to the voters two menu options for replacement. They approved Proposal A plan by a 69 to 31 per cent ratio.

Revenue Source	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>State Education Tax</b>			
Homestead Property	None	6 mills	None
Nonhomestead Property	None	6 mills	12 mills
<b>Local School Operating</b>			
Homestead Property	Statewide	None	12 mills
Nonhomestead Property	Average equals	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)

### Did the caps produce the lower levels of taxation by lowering costs or were other factors at play?

Let's look at some of those "difficult to control at the local level expenses." This could help explain why expenses and the resulting taxes have risen far faster than incomes in the first years of the 21<sup>st</sup> century.



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Would a cap really help control some of these costs?  
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: Remember the two kinds of caps: A levy cap and a ceiling cap
- Municipalities (most of which include the school district) in Massachusetts had to reduce their budgets so that they would not exceed 2.5% of the total assessed value of the community.

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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.
- Despite emergency state formulas, many localities found themselves well above the ceiling.
- The law required annual 15% 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.

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Recall that the majority of a taxing district's expenses are related to staffing.

Where to look for the roots?

Salaries and benefits as a share of operating expenses\*

– School districts	75%
– Cities	71%
– Towns	55%
– Counties	39%

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

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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

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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%)
- Cambridge raised fees by \$5 million.

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



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**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

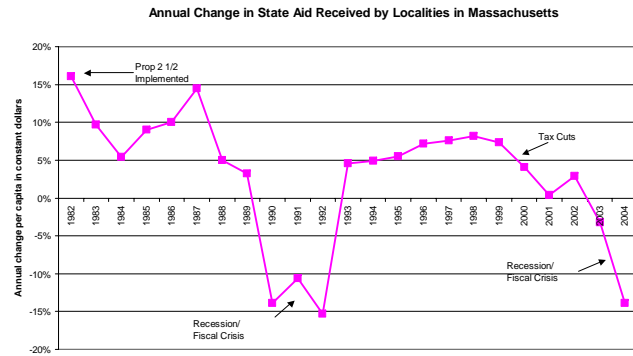
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## Looming Crisis Necessitates Last Minute Bailout by State

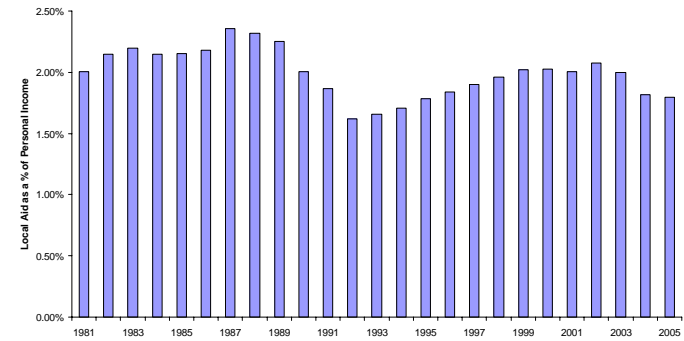
- The Massachusetts state government eventually stepped in and raised state aid by \$265 million to help offset more than \$456 million in local revenue.
- There was, however, no relationship between lost local revenue and state increases in their determinations, forcing many communities to enact severe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

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



**MA: Local Aid Cut During Downturn and When State Cut Taxes**

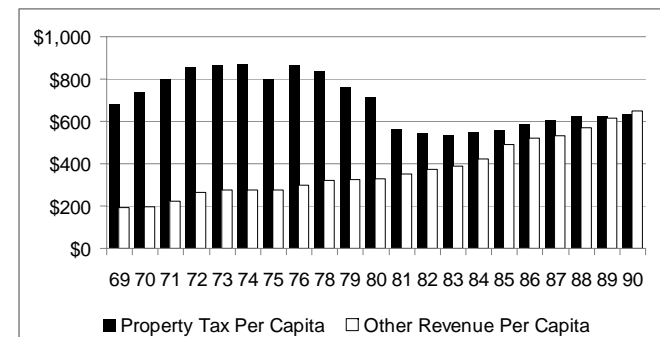


But average annual increases in the 1990's were 11% in Massachusetts, more than in New York.

Other offsetting measures that were taken:

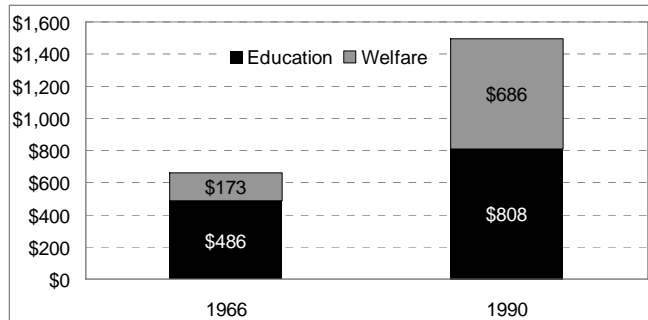
- Raid surplus funds. MA districts engaged in significant draw-downs to reduce budget gaps.
- Transfer of Residential Burden to Commercial and other Properties- By 1987,
- 85 of MA's 351 municipalities, including some of the largest communities, passed amendments that changed property taxes by class. This resulted in an 8% decrease in the residential contribution; which in turn was transferred to commercial and industrial.
- ...And those fees: In the period following Prop 2 1/2 fee revenue grew dramatically in response to poor service delivery: By 1990 fees increased by 73.7% and overtook property taxes in per capita burden.

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.



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Are New York and Massachusetts characteristically similar?

	NY	MA
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

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And were the circumstances similar?

Declining enrollment

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

Only 12 % of districts reported rising enrollment, while  
 One-third of all districts reported a decrease over 6%  
 38% dropped between 3-6%

Ex. Newton - (suburb of Boston)  
 1973-4 18,097  
 1980-1 12,426

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

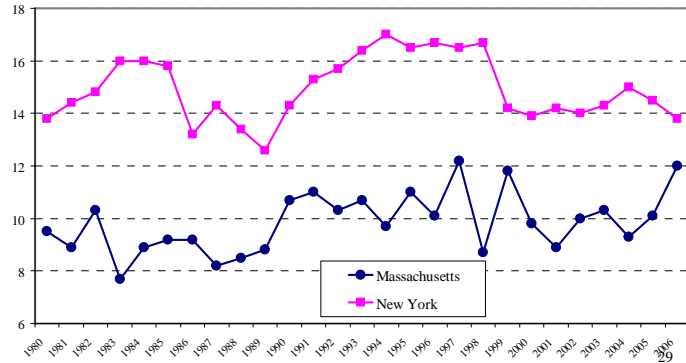
Supersector	New York		United States	
Construction and Mining	343	4%	8,373	6%
Manufacturing	568	7%	14,197	10%
Wholesale Trade	354	4%	5,898	4%
Retail Trade	881	10%	15,319	11%
Transportation and Utilities	271	3%	5,014	4%
Information	270	3%	3,055	2%
Financial Activities	726	8%	8,363	6%
Professional and Business 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

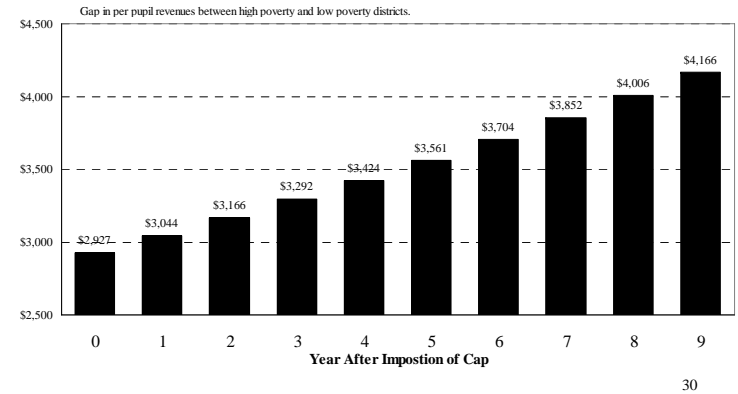
Note: Employment in thousands.  
 Source: Bureau of Labor Statistics.

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

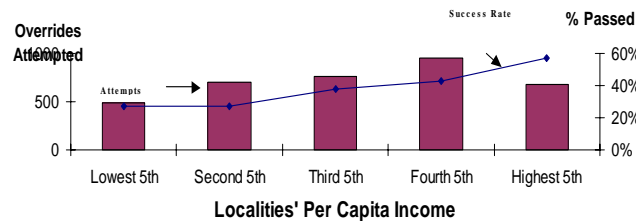


A cap would likely exacerbate the spending gap between the “wealthy” districts and poorer districts?



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

**MA: Higher Income Localities Attempted More Overrides, Had Greater Success Rate**



Voter approval rates for school budgets indicate that NY 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	
			Number	Percent
2005	High Need (Low Wealth)	10	8	80%
	Average Need (Average Wealth)	41	18	44%
	Low Need (High Wealth)	70	19	27%
		121	45	37%
2007	High Need (Low Wealth)	10	4	40%
	Average Need (Average Wealth)	41	2	5%
	Low Need (High Wealth)	70	1	1%
		121	7	6%

Source: New York State School Boards Association



### 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 levy that produced immediate and dramatic reductions in staffing. This, and not the levy cap, 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**; now more frequently proposed and approved in wealthier districts, further adding to inequities and reducing future savings or effectiveness of caps.

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### 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%)

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

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

NY - 3.9%

MA -3.5%

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

NY ranks 4<sup>th</sup> in amount of local contribution towards education. MA ranks 5<sup>th</sup>.

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### 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

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