



**NOW IS THE TIME TO ENACT A
REAL PROPERTY TAX CAP
IN NEW YORK STATE**



Contents

New Yorkers Need a Property Tax Cap...Now!	1
New York's High Real Property Tax Burden	2
New York's Property Tax Burden Hurts Job Creators	3
The Hidden Effects of New York's Property Tax Burden	4
Governor Cuomo's Real Property Tax Cap Proposal	5
Other Voices in the Tax Cap Debate	5
Property Tax Caps Have Worked in Other States and Can Work in New York	6
Circuit Breaker and STAR Failure	6
Appendix: Myths and Facts About Property Tax Caps	A-1 & 2

New Yorkers Need a Property Tax Cap...Now

The problem is simple: **New Yorkers pay some of the highest property taxes in the nation.** And we cannot afford to pay them any longer.

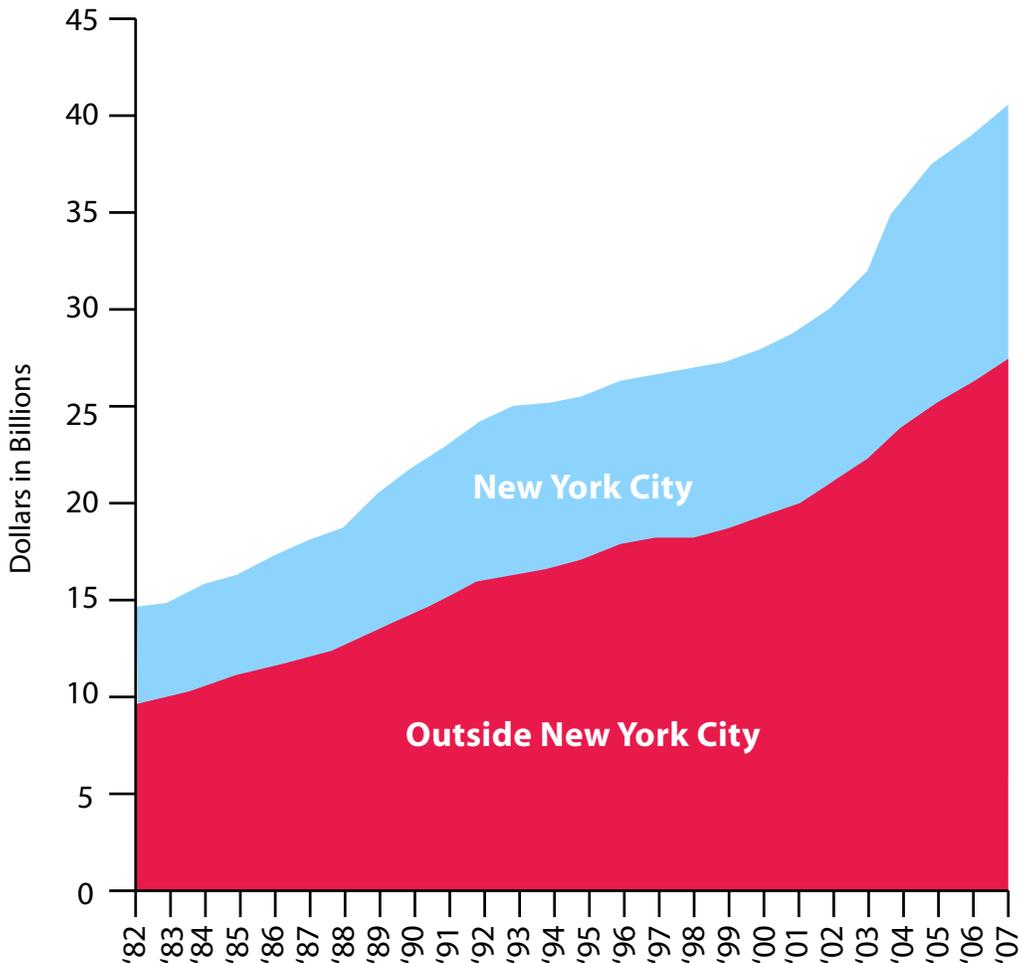
Other northeastern states, such as Massachusetts and New Jersey, have taken steps to rein in their property tax growth. **New York has failed to do so.**

The result is that property taxes have continued to grow far in excess of the rate of inflation, driving many New Yorkers from their homes, and employers from our communities.

With so many New Yorkers struggling with their high tax burden, especially during the current economic climate, state lawmakers must act now. If we want to maintain a thriving middle class, and encourage additional capital investment from job creators, we have to address the property tax problem.

The policy solution to this problem is simple: **state lawmakers must enact a tight and comprehensive law that caps the rate that real property taxes can be increased each year.**

Overall Real Property Tax Levies for Local Fiscal Years Ended in 1982-2007



Note: Based on levies for all purposes after adjustments for sales tax credits to reduce county level and payments to reduce taxes.

New York's High Real Property Tax Burden

New York State has the highest local taxes in America – 79 percent above the national average. High property taxes are one of the primary reasons that suburban and Upstate residents say the state has become unaffordable.

The property tax problem is particularly acute in the Upstate region, where the economy has been stagnant, and suburban Downstate counties where home values are higher than elsewhere.

A few facts will help describe the scope of the problem:

- » The median property tax in the state in 2009 was \$3,755, nearly double the national average;¹
- » Property taxes rose 73 percent from 1998 through 2008, more than twice the rate of inflation;²
- » The suburban communities around New York City pay some of the highest property taxes in the nation when measured in real dollars;
- » Upstate New York communities pay some of the highest property taxes rates in the nation when measured against home values.

Median Real Estate Taxes Paid, Top Ten Counties in the United States, 2009

COUNTY	STATE	MEDIAN REAL ESTATE TAXES PAID
WESTCHESTER	NEW YORK	\$9,044
NASSAU	NEW YORK	\$8,940
BERGEN	NEW JERSEY	\$8,708
HUNTERDON	NEW JERSEY	\$8,671
ROCKLAND	NEW YORK	\$8,542
ESSEX	NEW JERSEY	\$8,245
PASSAIC	NEW JERSEY	\$7,939
MORRIS	NEW JERSEY	\$7,904
UNION	NEW JERSEY	\$7,793
SOMERSET	NEW JERSEY	\$7,720

Source: The Tax Foundation

Median Real Estate Taxes As a Percentage of Median Home Value, Top Ten Counties in the United States, 2009

COUNTY	STATE	MEDIAN REAL ESTATE TAXES AS A % OF MEDIAN HOME VALUE
MONROE	NEW YORK	2.89%
NIAGARA	NEW YORK	2.87%
WAYNE	NEW YORK	2.78%
CHEMUNG	NEW YORK	2.61%
CHAUTAUQUA	NEW YORK	2.61%
ERIE	NEW YORK	2.60%
ONONDAGA	NEW YORK	2.50%
CAMDEN	NEW JERSEY	2.50%
STEBEN	NEW YORK	2.49%
MADISON	NEW YORK	2.43%

Source: The Tax Foundation

1. The Tax Foundation Fiscal Facts #248, September 28, 2010 [<http://taxfoundation.org/news/show/26742.html>]

2. Office of the State Comptroller, State of New York Financial Condition Report for Fiscal Year Ended March 31, 2009, @ 23. [<http://www.osc.state.ny.us/finance/finreports/fcr09.pdf>]

New York's Property Tax Burden Hurts Job Creators

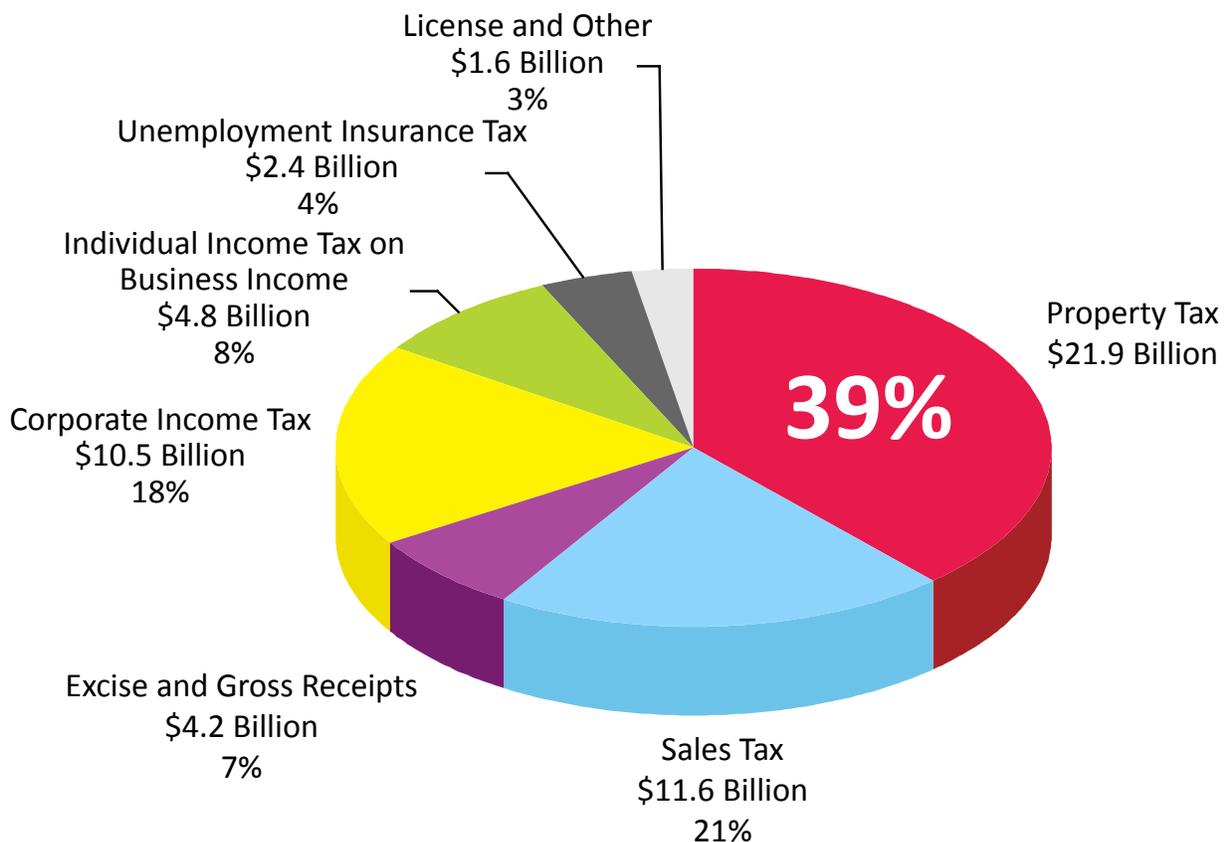
There is little doubt that business taxes affect business decisions, job creation, job retention, and plant location. Most importantly, taxes contribute to the cost of operation at a specific location. Thus, a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.

Property taxes significantly impact a state's competitive edge relative to its immediate neighbors, geographic region and global position. Ultimately, New York's high property tax burden has diminished the state's national standing as a place to live and to do business. Entrepreneurial states have taken advantage of New York State's

significant tax burden to lure businesses out of the state.

Research by Timothy J. Bartik, a senior economist for the Upjohn Institute for Employment Research, on small business start-ups in the United States provides strong evidence that property taxes negatively impact business start-ups. He concludes that property taxes, because they are paid regardless of profit, have the strongest negative effect on business.³ New businesses play an important role in the development of a diverse and vibrant economy and New York, but New York's property tax are ending start-ups before they make a profit.

New York State and Local Business Taxes, by Major Tax Type, 2009



Source: Ernst & Young LLP, "Total state and local business taxes state-by-state estimate for fiscal year, 2009"

Property taxes in fiscal year 2009 were the largest percentage of state and local business taxes. In fiscal year 2009, New York State local and business taxes were projected at \$56.9 billion with \$21.9 billion solely generated from property taxes.

3. Bartik, Timothy J. "Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States," Southern Economic Journal, 55 (1989), pp. 1004-18.

The Hidden Effects of New York's Property Tax Burden

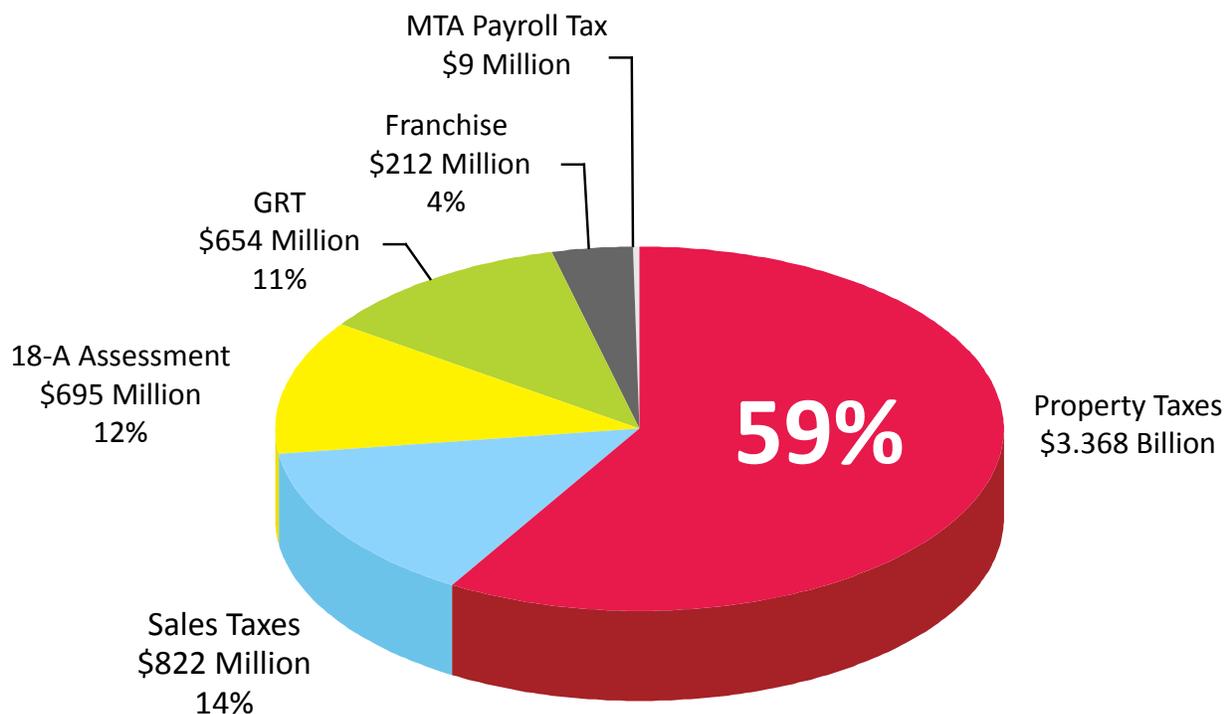
In 2009 the Public Policy Institute of the State of New York (PPINY) issued a report entitled "Short Circuiting New York's Recovery."⁴ The report concluded that overall taxes on energy in the state of New York were the significant driver in the cost of electricity in the state.

The report determined that "New York, Texas and California far and away lead the country in energy tax burdens. New York's tax and fee total of approximately \$5.5B in 2008 compared to roughly \$3B in California and \$2.5B in Texas." PPINY concluded that the big difference between the three states is the property tax burden. In 2008,

Texas and California respectively paid the energy sector paid \$1.018 billion and \$786 million in real property taxes. In New York, the energy sector paid nearly \$3.1 billion or over \$250 million a month in property tax through their electric bill. Ultimately, these tax increases are passed on to consumers.

PPINY determined that "The energy industry alone paid 17 percent of the nearly \$19B in property taxes that New York State businesses paid in 2009."⁵ The second and third largest individual property tax payers in New York in 2009 were power transmission and delivery firms.

Total Energy Taxes Collected in New York State, 2009



Source: The Public Policy Institute of New York State, Inc., "Short-Circuiting New York's Recovery"

New York State Has Exhausted All Solutions

Elected officials decrying the property tax burden faced by New Yorkers is not new. Governor Mario Cuomo regularly acknowledged the high burden and tried to have the state assume a greater share of local Medicaid costs. Governor George Pataki provided some property tax relief through his STAR tax-cut program, but was unable to enact a school tax cap into law.

More recently, Governor Eliot Spitzer appointed a property tax commission but did not follow through on its recommendations. Governor David Paterson pushed a watered-down property tax cap bill, which the Senate approved in a bipartisan vote, but the Assembly did not act on the proposal.

4. <http://www.ppinys.org/reports/2010/ShortCircuitingNewYorksRecovery.pdf>
5. <http://www.ppinys.org/reports/2010/ShortCircuitingNewYorksRecovery.pdf>

Governor Cuomo's Real Property Tax Cap Proposal

In January 2011, Governor Cuomo submitted his initial program bill to the Legislature that would cap real property taxes in late January.

The Governor's bill, which would apply to all taxing districts in the state, including school districts, municipalities (county/town/city/village) and special districts (fire/sewer), proposes to:

- » Limit the increase in property tax levies to 2 percent or the rate of inflation (whichever is less);
- » Provide some limited exemptions from the property tax cap (extraordinary one-time expenditures, including some legal settlements and building projects, and for counties, it would exempt some state-mandated social service programs);
- » Allow school district voters to override the cap with a 60 percent super-majority vote; and
- » Allow other taxing districts to override the cap with 2/3 vote of their governing body.

If enacted, New York would become the 44th state to cap local property taxes.

The Senate approved the Governor's bill (S.2706/A.3982) on January 31st by a 45-17 vote with bi-partisan support. The bill has been referred to the Assembly's Ways & Means Committee.



Leaders from numerous pro-taxpayer and -business groups discuss their support for a 2-percent tax cap at a recent news conference in Albany.

Other Voices in the Tax Cap Debate

The debate over enacting a property tax cap is likely to include a number of other issues. While

some will argue that a property tax cap is too blunt an instrument of public policy, others will try to tailor the cap so that it is more to their liking.

Local Governments

Municipal leaders are urging the Governor to achieve mandate relief (to address the main property tax cost-drivers) before enacting a property tax cap; they are also seeking broader property tax cap exemptions (including employee pensions, health insurance, and police and firefighter disability benefits), arguing that the state cannot cap what localities cannot control.⁶

Governor Cuomo has promised to review all current state mandates and to propose a "sunset" bill requiring that "all unnecessary unfunded mandates" be re-evaluated and eliminated unless affirmatively renewed.

School Boards and Teachers

In December, the NYS School Boards Association (NYSSBA) issued a report arguing that school districts across the state will face a potential shortfall of \$815 million per year over the next four years in personnel costs alone under a property tax cap:

"While a property tax cap appears to be a popular quick fix to the state's heavy burden, the financial and educational impact of a cap on schools in New York has never been fully assessed – and likely will be devastating."

NYSSBA suggests "seven cost-saving alternatives to a property tax cap that could generate an equivalent cost savings for taxpayers," including establishing a mandatory minimum employee health insurance contribution, creating a defined contribution pension plan for school district employees, amending the Triborough Amendment of the Taylor Law, authorizing regional collective bargaining, and implementing a temporary freeze on public employee salaries.⁷

Unshackle Upstate is sensitive to the concerns raised by these entities, and asks policymakers to address mandate relief and other issues that have been driving local property taxes higher for decades.

6. New York Conference of Mayors, You Can't Cap What You Can't Control: Recommendations of the Mayoral Task Force on Mandate and Property Tax Relief, December 2010

7. NYS School Boards Association, Property Tax Cap: Pass or Fail for School Districts, December 2010.

Property Tax Caps Have Worked in Other States and Can Work in New York

Concerns over rising property tax bills has led a number of states to impose some limit on the amount of property tax revenue that counties, municipalities, or school districts can collect.

New Jersey had a real property tax cap in law prior to 2010, but that law permitted tax increases of up to 4 percent annually and included numerous exemptions to the cap. Last July, New Jersey Governor Chris Christie signed into law a bill reducing that state's property tax cap to 2 percent, but the law exempts pension and health-care costs from the property tax cap. While it is too soon to see whether New Jersey's new law will work, its former law clearly did not.

Massachusetts enacted "Proposition 2½" in 1980 in response to their high level of property taxation, which was then among the highest in the nation. Proposition 2½ is both a levy cap and a rate cap – the property tax levy cannot increase by more than 2.5 percent

annually, plus additions to the tax roll from new construction. Amounts less than the levy limit may be reserved and used in a subsequent year. Under Proposition 2½, a community may increase its levy limit through the public override vote and reduce its levy by way of a voter override.

Proposition 2½ has stopped the out-of-control property tax growth in Massachusetts. In the first 20 years following the passage of Proposition 2½, the per capita residential property tax levy dropped 1.6 percent, after adjusting for inflation. Since the enactment of Proposition 2½, Massachusetts dropped from 3rd nationally to 33rd on the measure of state and local tax burden.

It is also important to note that Massachusetts' property tax cap has not undermined the state's public schools. Massachusetts's experience suggests that New York, by adopting similar reforms, could significantly restrain tax growth without hurting educational outcomes.

Circuit Breaker and STAR Failure

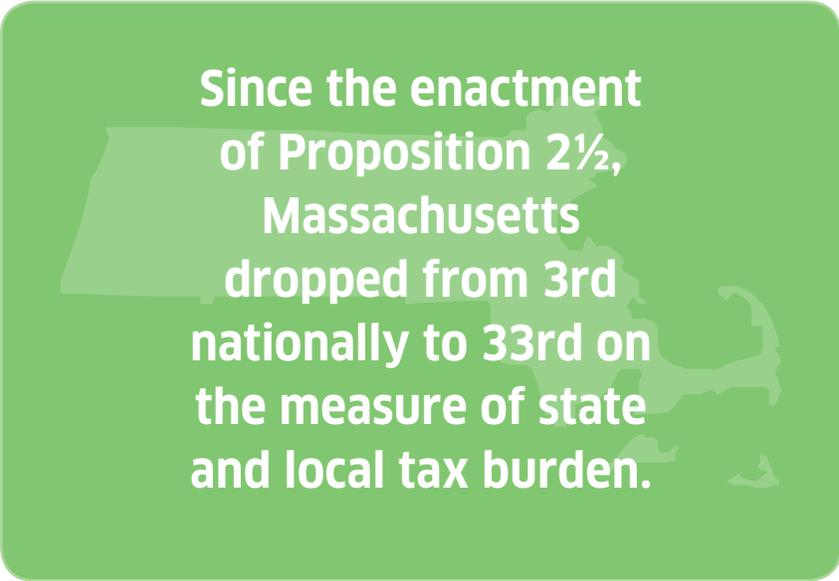
Some opponents of a property tax cap argue that a so-called circuit breaker or similar program is preferable. Circuit-breakers are refunds provided by the state government to those whose property tax payments are deemed too great, usually measured as a percentage of their income.

New York currently has a modest circuit breaker on the books. Eligible taxpayers, those with incomes below \$18,000 per year, receive the property tax circuit breaker through a direct credit on their state personal income tax return.

The major shortcoming of property tax circuit breaker programs is that the state bears the cost of paying for the program. There is no disincentive for

local governments or school districts to hold the line on spending or to reduce costs, because even if their citizens cannot afford it, the state makes up the difference. Circuit breakers actually encourage higher spending.

New Yorkers do not need a shift in who is paying for excess government spending, they need their elected officials to ensure that the excess spending will stop. A circuit breaker is not the answer to the problem of over-spending. A property tax cap will force elected officials and school districts to make difficult spending decisions, and to live within the ability of taxpayers to pay.



Since the enactment of Proposition 2½, Massachusetts dropped from 3rd nationally to 33rd on the measure of state and local tax burden.

Appendix: Myths and Facts About Property Tax Caps

Myth: Enacting a 2-percent property tax cap doesn't make sense, since it will ensure a 2-percent property tax increase every year.

Fact: It is accurate to say that a property tax cap alone will not reduce the tax burden. But property taxes do not have to increase every year. Voters are ultimately responsible for electing the people who create budgets, and they can vote out those who do not get the "less spending" message.

Enacting a property tax cap can be the first step toward forcing fiscal responsibility on local governments and school districts.

Myth: A property tax cap won't stop local tax increases, because the local assessor can just double (or even triple) my assessment to get around the cap.

Fact: The tax cap proposed by Governor Cuomo is a cap on the overall tax levy of a local government or school district. Since the overall amount that they can raise would be capped by law, raising any individual's assessment will have no impact on their overall tax rates. So there is no incentive for the local government to raise assessments in this manner.

Myth: A circuit breaker is a much fairer way of protecting the public against high property taxes than a tax cap, since it is based on the taxpayer's income.

Fact: Expanding New York's current property tax circuit breakers would simply shift the tax burden from local governments to the state government. With the state government facing an estimated \$9 billion budget deficit for the 2011-12 fiscal year (and even larger deficits in future fiscal years), circuit breakers are not an affordable option for taxpayers.

Myth: Enacting a property tax cap into law will erode the state's capacity to educate the next generations of workers, reducing our potential for economic prosperity.

Fact: Across the country, student performance is measured using 4th and 8th grade math and reading test scores. According to the United States Department of Education, in 2007 Massachusetts ranked first in the country in 4th grade mathematics, first in 4th grade reading, first in 8th grade mathematics, first in 8th grade reading. New York ranges between 17th and 34th on the same test scores.

Massachusetts' tax cap has captured efficiencies without harming schools. In fact, during the last five years, the student/teacher ratio in Massachusetts has remained unchanged at 13.6 to 1. During this time, the percentage of core academic classes which were taught by teachers considered "highly qualified" increased from 93.9 to 95.7.

Massachusetts' tax cap has been successful at lowering property taxes. Since enactment of Proposition 2 ½, Massachusetts has dropped from 3rd to 33rd in state and local tax burden. The AQE study says that non-tax fees in Massachusetts made up for the moderated growth in property tax revenue and that total taxation increased from \$1,162 per person when Proposition 2 ½ was created in 1982 to \$1,281 per person in 1990. This 10 percent increase over eight years in Massachusetts can be compared to the 56 percent increase in local revenue for schools that New York property owners have paid over the last eight years.

Myth: A property tax cap will hurt poorer school districts.

Fact: Raising property taxes to cover a potential shortfall in state funding is not a realistic option for most low-wealth school districts with a limited tax base, and recent historic increases in state aid have been targeted to these districts. Moreover, history tells us that the poorest districts on the average increase local revenues by 1 percent a year. Thus, for these districts a cap set around 2 percent would, typically, have no impact.

Districts vary dramatically in their wealth per pupil. The average property wealth per pupil in the lowest wealth districts is \$145,030, less than one-seventeenth of the actual valuation per pupil in the highest wealth districts (\$2,546,090).

For this reason, state aid (state revenue other than STAR) is wealth equalizing. Low-wealth districts receive more than five times more aid per pupil than the highest wealth districts (\$9,753 versus \$1,797). In spite of this, the spending per pupil in low-wealth districts is about two-thirds of the spending per pupil in the highest wealth districts (\$13,811 versus \$22,674).

This is due, in large part, to the fact that the lowest wealth districts raise about one-tenth of the local revenue per pupil that the highest wealth districts do (\$1,892 versus \$18,124).

As a result of these major differences in local wealth, the highest wealth districts tax themselves far less heavily to raise these much greater revenues. While the lowest wealth districts tax at a rate of \$13.05 per \$1,000 of full value to generate \$1,892 per pupil, the highest wealth districts tax at

a rate of only \$7.15 per \$1,000 to generate \$18,124 per pupil.

Myth: The Governor's proposed property tax cap includes several exemptions that local governments will use to get around the limit.

Fact: As proposed, the cap include some limited exemptions that are designed to enable a local government or school district to deal with rare, special circumstances. The cap would not cover extraordinarily large one-time expenditures, including some legal settlements and building projects. For counties, there would be some exceptions for state-mandated social service programs.

Myth: A property tax cap is designed to defund our schools and harm teachers.

Fact: A property tax cap is about making our communities affordable for taxpayers. The proposal is not rooted in animosity toward any group of people. It is designed to force local governments and school districts to hold the line on spending.

WE ♥ 2% TAX CAP

**NEW YORK'S JOB CREATORS AND TAXPAYERS
SUPPORT THE TAX CAP BILL**

Join us in the fight for a 2 percent property tax cap.
Visit www.unshackleupstate.com today!