LOCAL FISCAL STRESS

State Austerity Policy & Creative Local Response

Fix the Cap

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Impacts of the Tax Cap on Local Governments

The Property Tax Cap has increased local government fiscal stress in New York State. Two recent surveys of NYS local governments (2013 and 2017), illustrate a significant increase in fiscal stress caused by the cap.

NYS Tax Cap's Contribution to Local Fiscal Stress

Cornell University, NYS Local Government Survey 2013, and 2017.

Since the imposition of the tax cap, local government revenue sources have been flat or declining in real terms.

Stagnant Own-Source Revenues for NYS Localities

Office of NYS Comptroller. Includes cities, counties, towns, and villages.

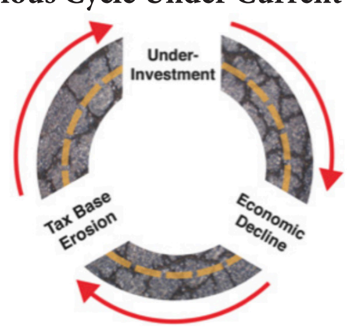
In response to the tax cap, local governments report cutting infrastructure investments and long-term planning. This creates a vicious cycle: fiscal stress leads to underinvestment in planning and infrastructure, which in turn leads to economic decline and a further weakening of the tax base. This is not sustainable.

Local Cuts Due to Tax Cap

Local Cuts Due to Tax Cap	% Reporting
Infrastructure Investments	86%
Long-term Planning	63%

Cornell University, NYS Local Government Survey, 2017, N= 766.

Vicious Cycle Under Current Cap



Needed Reforms

If the tax cap is to be made permanent, New York legislators should learn from best practices in other states. States with longer experience with tax caps, such as MA, CO, CA, OR, NJ and IL, have made exemptions for special districts, infrastructure investments, and bonded debt. CA, MA, and CO dramatically increased state aid to localities and assumed fiscal responsibility for welfare and healthcare after the implementation of their caps. In these states the caps are all set at an exact limit that does not change from year-to-year.

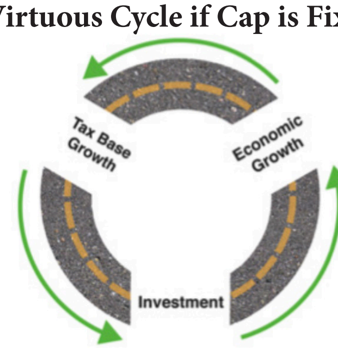
Desired Reforms to Tax Cap by NYS Local Governments

	% Reporting
Exempt Capital Expenditures	67%
Set Growth Factor to 2%, Regardless of Inflation	63%
Exempt Emergency / Natural Disaster Expenditures	55%
Exempt Pension Payments	55%
Exempt Special Districts	35%
Include PILOTs in Growth Factor	32%
Include Tax-exempt Land in Growth Factor	29%

Cornell University, NYS Local Government Survey, 2017, N= 889.

Policy makers in other states and local government leaders in NYS are in agreement about how to fix the cap. Reforms to the cap should include exemptions for capital expenditures and special districts. This will prevent the vicious cycle of underfunding of infrastructure and eroding economic development. The cap should be set to 2% and not change every year, and should exempt emergency expenditures and pension payments. Lastly, PILOTs and developments on tax exempt properties should be included in the growth factor.

Virtuous Cycle if Cap is Fixed



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