

# **NYS Property Tax Cap Impact Analysis: The First Decade<sup>1</sup>**

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**Abstract:** The New York State Property Tax Cap has been in place since 2012. Our analysis uses data from the NYS Comptroller to capture the impact on local revenues and expenditures for cities, counties, towns, and villages. We find the aggregated property tax in real terms across all local governments dropped by \$190 million over the decade, as the cap kept tax growth below the inflation rate. Inflation eroded \$8.19 billion of the aggregated property tax since 2012. If the inflation rate rises, this erosion impact will be aggravated. The increase in sales tax revenues provided a reprieve when online sales were allowed to be taxed after 2019. The TEL-capped revenue growth limited local government spending on public safety, sanitation and transportation. Looking to the future, if fiscal stress deepens, local government capacity will be undermined without tax cap reform, additional state aid and mandate relief.

## **Dynamics of Local Revenue Structure**

Using NYS Comptroller Annual Financial Data for Local Governments from 2000-2021, we present aggregated revenues in constant dollars (2012=100%) for four types of local governments: city, county, town, and village. This analysis includes all local governments, except NYC and its boroughs, as they are exempt from the tax cap. Before the tax cap was put in place, property tax increased from \$9.49 billion in 2000 to \$11.43 billion in 2011 in real terms. Property tax revenues were stagnant after 2012 and dropped by \$483 million from 2019 to 2021. Sales taxes are an important additional revenue source, with growth of \$1.64 billion, mostly since 2019. This helped cushion fiscal stress for local governments. Property taxes remain the primary source of revenue for local governments, accounting for 30% of overall revenues. Reliance on sales and use taxes increased to almost 30%. Charges for services and state aid declined over time but still contribute more than 10% of total revenues. Although federal aid slightly increased after 2019, it remains the smallest proportion (under 10%).

We find significant differences by government type (see Appendices A-D). While all governments are primarily dependent on property tax, counties are more reliant on sales and use tax (more than 35%). Cities have a diverse revenue structure due to revenues from charges for services, state aid and federal aid. Towns and villages are largely dependent on the property tax (around 50%) due to limited alternative revenue sources.

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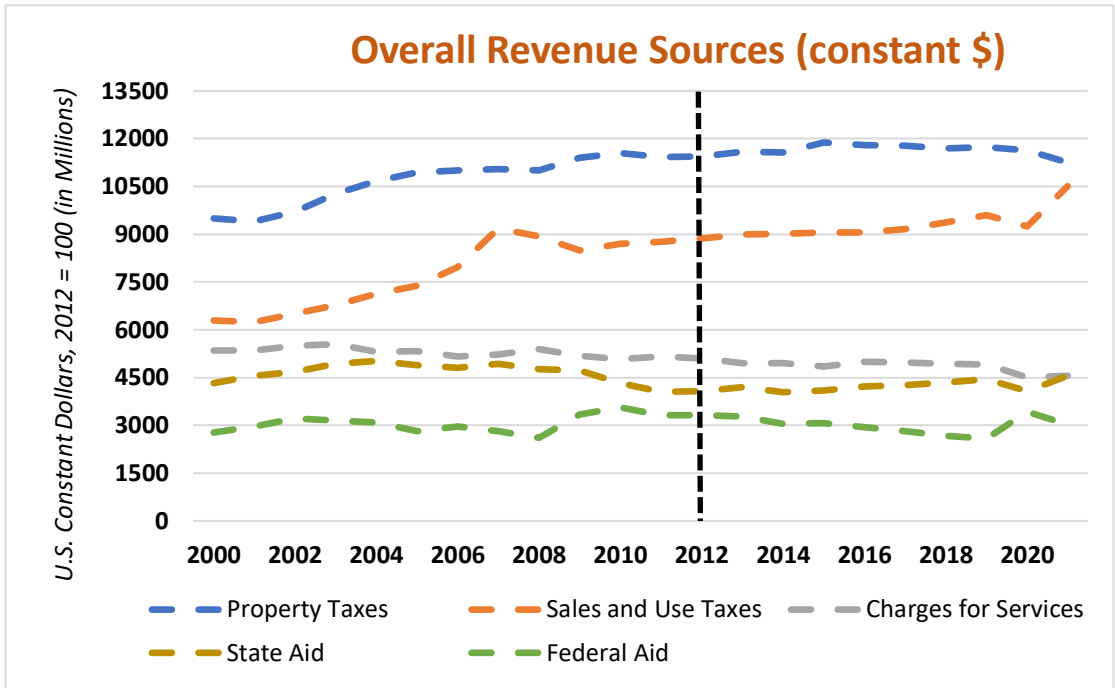


Figure 1 Aggregated Revenues for NYS Local Governments, 2000-2021  
 All cities, counties, towns and villages (except NYC), N=1611  
 Source: Local Government Financial Data, NYS Comptroller

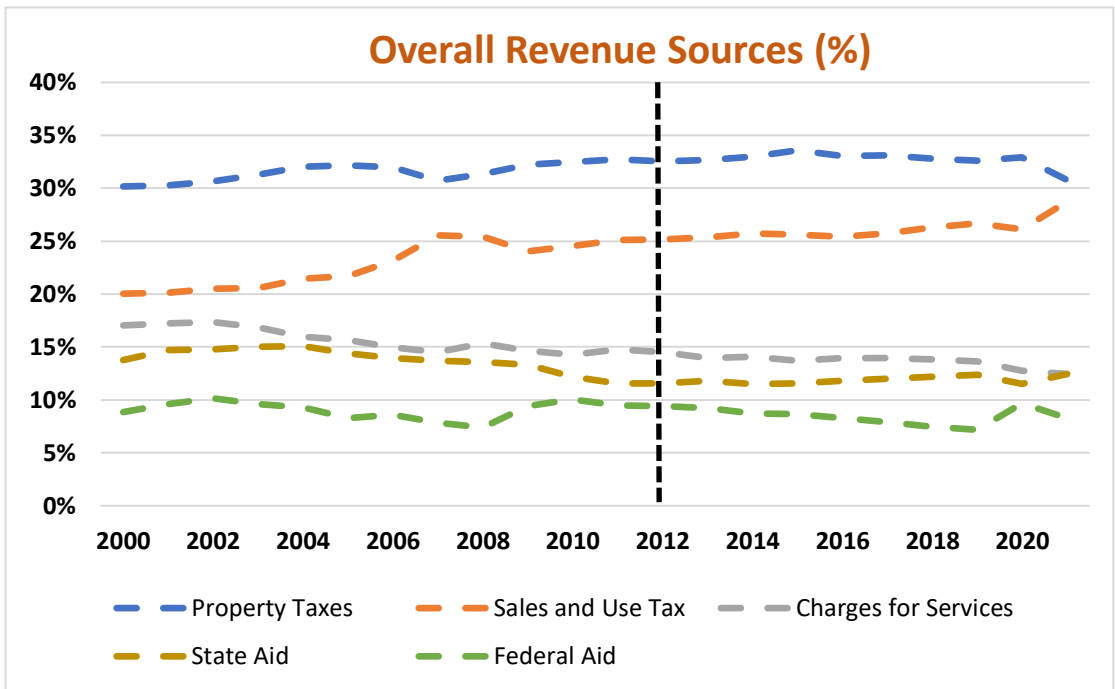


Figure 2 Aggregated Revenues for NYS Local Governments (%), 2000-2021  
 All cities, counties, towns and villages (except NYC), N=1611  
 Source: Local Government Financial Data, NYS Comptroller

## Property Tax Shortfall: Interplay between Tax Cap and Inflation

The NYS Property Tax Cap sets a tax levy limit (with several exclusions<sup>2</sup>) to constrain the annual growth of property taxes levied by local governments by two percent or the rate of inflation, whichever is less. Figure 3 compares the prior year inflation rate based on the Consumer Price Index (CPI) with the 2% cap. While inflation was generally higher than 2% before the tax cap was imposed, it was generally lower than 2% since 2012. This cushioned the impact of the tax cap. Only 4 out of 10 years between 2012 and 2021, namely 2012, 2017, 2018, and 2021, had a CPI higher than 2%. However, since 2020, inflation has risen and stayed higher than 2%. This will result in a significant decline in local government revenues in real terms.

The trend in the CPI shows large variations over time. The State uses the previous year's inflation rate based on CPI to determine the cap in a given year. However, the prior year's inflation rate might not be a good predictor for the current year's inflation rate. Figure 2 shows the CPI goes up-and-down across the 2% line (see Figure 3). If the inflation rate is below 2% in the previous year, but the current year has a higher inflation rate over 2% in actual terms, the cap will still be applied at the prior year rate. This policy lag effect aggravates the loss of property tax in real terms. A better indicator would be the GDP Implicit Price Deflator for state and local government services. It is based on goods and services local governments actually purchase (rather than the consumer market basket on which the CPI is based).

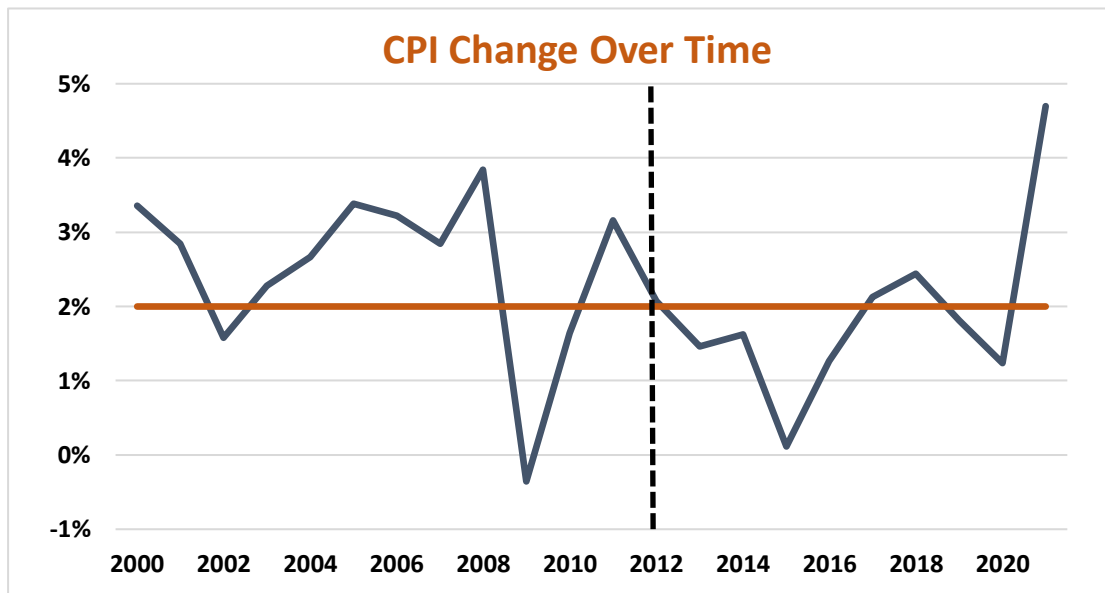


Figure 3 CPI Change, 2000-2021

Source: US Dept. of Labor, Bureau of Labor Statistics

<sup>2</sup> Exclusions include the following: capital tax levy, tax levy necessary to pay for increases of pension funds over 2 percent, and tax levy necessary for expenditures resulting from court orders/judgments arising out of tort actions for any amount more than 5% of the total taxes levied in the prior fiscal year.

To capture the revenue loss under the tax cap, we portray three trends in Figure 4. The top red line shows the aggregated property tax trend in current dollars. The second black line presents the trend in constant dollars deflated by the CPI. Our analysis shows that property tax only increased 1.67% on average each year, but in real terms the annual change was actually negative in six of the ten years. The annual average shows a decline of 0.17% when inflation is considered. The top (red) line shows an increase of \$1.84 billion in current dollars, the second (black) line shows a decline of \$190 million in real terms (constant dollars) over the decade. The total revenue gap displayed by the red area between the current and constant property tax lines, is \$8.19 billion for the decade. Inflation profoundly eroded property tax revenue in real terms.

The bottom blue line is a projection. If we had had a 4% annual inflation rate in the past decade, what would the impact of the 2% tax cap have been? The property tax would have declined in every year, at a yearly rate of 2.24% on average. The difference between projected property tax in 2012 and property tax in 2021 is \$2.1 billion. The total revenue loss would have been \$11.98 billion in real terms. Between the top red line and the bottom blue line, the total revenue shortfall in real terms would be \$20.18 billion (including both the red and grey areas in Figure 4). This shows if the inflation rate keeps rising, property tax will be further depreciated.

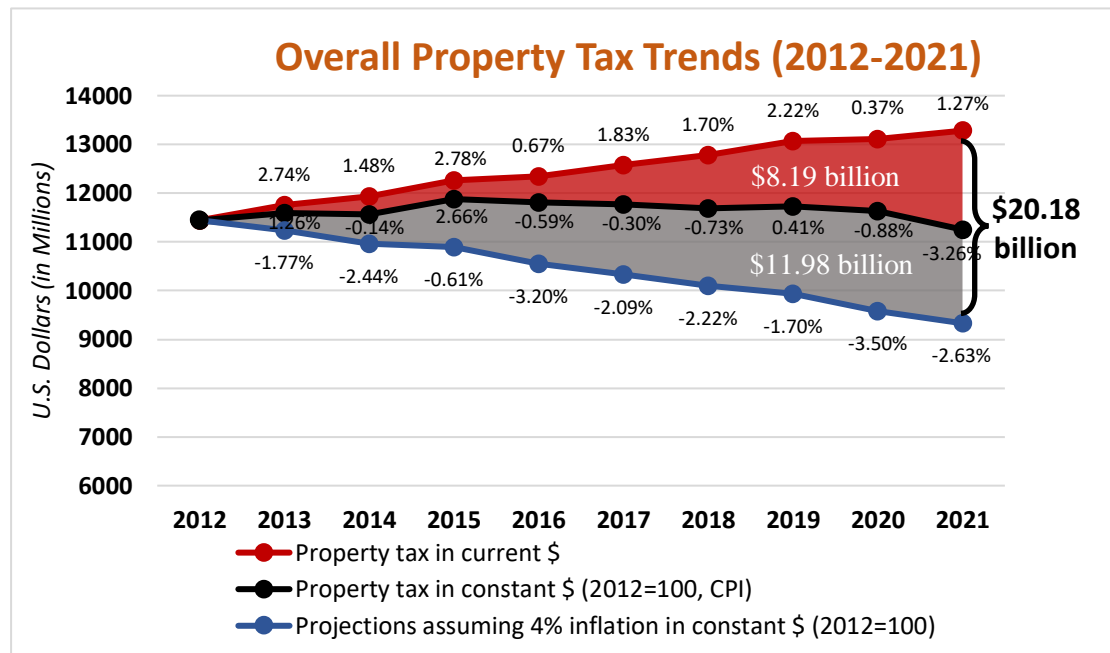


Figure 4 Tax Cap Impact, 2012-2021

All cities, counties, towns and villages (except NYC), N=1611

Source: Author Analysis of Local Government Data 2012-2021, NYS Comptroller

Table 1 reports the total revenue shortfall between property tax lines in current dollars and constant dollars, as well as the gap between the current property tax line and projections, assuming 4 % inflation rate by government type over 2012-21. The total

disparity, between the current and constant property tax lines (red area in Figure 4), is \$831 million for cities, \$3.7 billion for counties, \$928 million for villages, and \$2.73 billion for towns. This gap was approximately 6.6% of the aggregated property tax revenue across all local government types. This gap captures the erosion impact of inflation on property tax over the decade.

If the annual inflation rate had been 4% over the past decade, the cumulative shortfall over the period (red + grey area) would exceed \$2 billion each for both cities and villages, \$9 billion for counties and almost \$7 billion for towns, resulting in a total loss of \$20.2 billion. This represents more than 16% of the total property tax revenues for each government type. All localities will suffer from the depreciation of revenues if inflation keeps rising. Appendices A-D display the total revenue gap by local government type.

**Table 1 Total Revenue Gap Between Three Property Tax Trends (2012-2021)**

	Total Revenue Gap (in million)		Total Revenue Gap (%)	
	Constant \$ Actual (Red Area)	4% Inflation Projection (Red and Grey Areas)	Constant \$ Actual (Red Area)	4% Inflation Projection (Red and Grey Areas)
<b>Cities</b>	831.89	2,040.03	-6.55%	-16.06%
<b>Counties</b>	3,696.59	9,058.41	-6.55%	-16.05%
<b>Towns</b>	2,727.67	6,798.59	-6.62%	-16.49%
<b>Villages</b>	928.13	2,278.64	-6.55%	-16.08%
<b>Overall</b>	8,190.74	20,175.57	-6.58%	-16.20%

All cities, counties, towns and villages (except NYC), N=1611

Source: Author Analysis of Local Government Data 2012-2021, NYS Comptroller

### **Dynamics of Local Expenditure Structure**

We analyze aggregated expenditures across all local governments between 2000-2021. While expenditures were increasing in real terms from 2000-2011, after the cap was imposed in 2012, we see a flattening of all expenditure categories. This was one of the goals of the tax cap.

General government (administration, planning and operations) and employee benefits were increasing rapidly prior to 2012. Since 2012, the growth in general government expenditure and employee benefits has slowed, and all other expenditure categories have remained stagnant in real terms. Public safety expenses have fallen by 3.45% or \$197 million in real terms over the past decade. Expenditures for sanitation and transportation have flattened, with an average annual growth rate of only 0.3% and 0.6%. Public safety and infrastructure expenditures are critical for New York's communities.

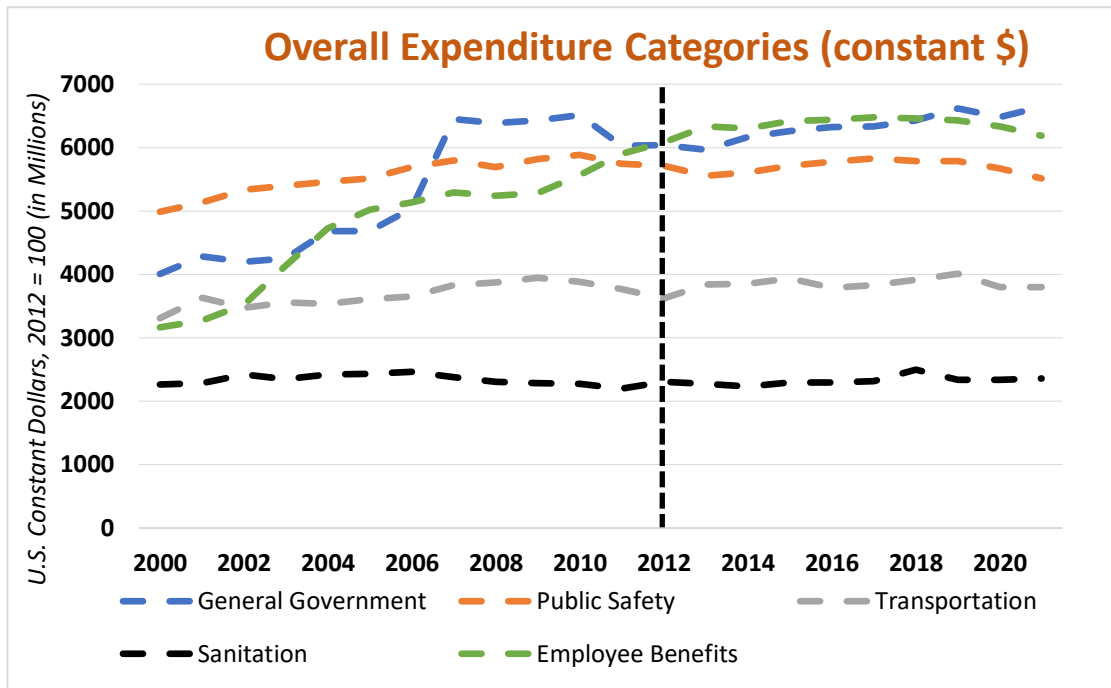


Figure 5 Aggregated Expenditures for NYS Local Governments, 2000-2021  
All cities, counties, towns and villages (except NYC), N=1611

Source: Author Analysis of Local Government Data 2012-2021, NYS Comptroller

### Overriding the Tax Cap

The cap can be overridden if 60 percent of the governing body approves such action. Figure 6 shows the percentage of local governments that planned to override their tax levy limit from 2012-2021. Early on, more local governments planned to override, in part due to uncertainty about what their actual cap might be.<sup>3</sup> Planned overrides dropped for all government types in 2015 but increased again in 2016, dropped after 2018 but rose again in 2021. These trends roughly mirror the trends in the CPI (Figure 3), with overrides increasing when inflation is higher.

### Conclusion

Enacting a property tax cap below the inflation rate means loss of local revenues and expenditures in real terms. The increase in sales taxes saved local governments from fiscal distress in the final years of the first decade of the property tax cap. But what about the next decade?

<sup>3</sup> See Austin, A., Warner, M. and Kim, Y. 2018. Leviathan or Public Steward? Evidence on Local Government Taxing Behavior from New York State, *Publius*, 49(4): 671-693. DOI: 10.1093/Publius/pjy035

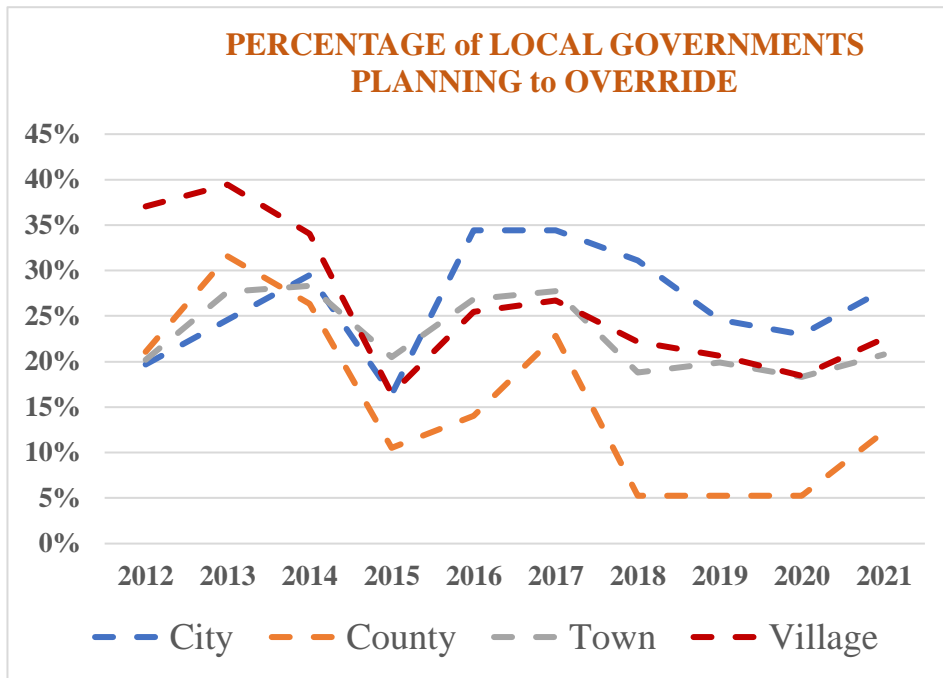


Figure 6 Percentage of NYS Local Governments Planning to Override the Tax Cap, 2012-2021

All cities, counties, towns and villages (except NYC), N=1611

Source: Author Analysis of Local Government Data 2012-2021, NYS Comptroller

Based on experience in other states,<sup>4</sup> we recommend the state government reform the tax cap. The cap should be pegged to inflation and not limited at 2%. It should also exempt public capital investment in infrastructure, as that is key for economic growth. The State might consider using the GDP implicit price deflator instead of the CPI to calculate inflation rates.

Beyond tax cap reform, the State should assume more fiscal responsibilities, increase state aid and provide mandate relief to local governments. This will shield local governments from fiscal pressure and enhance their financial sustainability. State aid through the Consolidated Local Street and Highway Improvement Program (CHIPS) is especially important to facilitate local infrastructure investment. These reforms will ensure that the New York Property Tax Cap does not undermine local government capacity for infrastructure development, public service delivery and the economic growth and prosperity of NYS communities.

<sup>4</sup> See Chang and Wen (2014) “Tax Caps in Other States: Lessons for New York.” <http://mildredwarner.org/s3.amazonaws.com/mildredwarner.org/attachments/000/000/481/original/7d5a3bb2a0fcb94c34b2c18ebdbfa6b4.pdf> Additional resources at <http://mildredwarner.org/www.mildredwarner.org/restructuring/fiscal-stress.html>