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Fix the Cap Before You Keep the Cap

Statewide Associations Representing Municipal Government Call for Reforms to the Tax Cap

In a joint letter to the Governor and all members of the Senate and Assembly, New York's statewide associations representing municipal government are urging state leaders to evaluate and reform the shortcomings in the property tax cap law before acting to extend its provisions. A copy of the letter is attached.

While the tax cap has slowed the growth in property tax levies, municipal officials have identified significant unintended consequences that have developed during the local implementation of the cap. The joint letter requests that any continuation of the tax cap must:

- be done on a temporary basis;
- make the tax cap a true 2% cap (as is the case with the state's self-imposed 2% cap on state spending), not one tied to inflation;
- provide an exclusion from the cap for municipal expenditures on public infrastructure, just as schools and the state have from their respective caps; and
- include payment-in-lieu-of-taxes (PILOTs) in the calculation of the cap's tax base growth factor.

After three and one-half years of implementing one of the most significant municipal finance statutes in the history of New York, it is to be expected that the law would need intelligent refinements that will make the cap work better. These reforms will help local government leaders ensure the quality-of-life in their communities as they continue to control the tax burden for homeowners and businesses.

As documented in a recent Siena Research Institute poll on the tax cap, 41% of voters feel the cap is having a negative impact on local programs and services, and 36% want the cap continued only if local governments are provided with greater flexibility in complying with the cap (compared to 43% wanting the cap continued as is). These proposed modifications will help to address the public's misgivings with the tax cap's current construct.

The letter concludes by pointing out that the mere continuance of the tax cap – even with the reforms recommended by the municipal associations – will do nothing to address the causes of New York's high property taxes and fails to facilitate reductions in property taxes. "With the imposition of the tax cap, you have asked more of local officials, and municipal leaders have answered the call as best they can with the limited tools you have provided," concludes the letter. "Yet the tax cap is reaching a point of diminishing returns and local decline will continue unless you provide increased municipal aid and meaningful mandate relief. Now is the time to help local governments help themselves."

June 5, 2015

Hon. John Flanagan
Majority Leader
NYS Senate
NYS Capitol - Room 330
Albany, NY 12247

Dear Majority Leader Flanagan:

As you evaluate the existing design of the property tax cap and how to improve its implementation, our three statewide associations – representing New York's 1,600 counties, cities, towns and villages – strongly believe that any continuance of the property tax cap must: (1) be done on a temporary basis; (2) make the tax cap a true 2% cap (as is the case with the state's self-imposed 2% cap on spending), not one tied to inflation; (3) provide an exclusion from the cap for municipal expenditures on public infrastructure, just as schools and the state have from their respective caps; and (4) include the assessed value of real property improvements associated with PILOT agreements in the calculation of the cap's tax base growth factor.

Local officials are using all available means of budget-balancing, including austerity spending, drawing down of fund balances, cuts in the size of the municipal workforce, maximization of shared services between local governments, and postponed investments in key public infrastructure. Meanwhile, many of their largest cost-drivers have risen dramatically (e.g., pension contribution rates are 69% higher today than they were in 2008). But this combination of local austerity, minimal mandate relief, and lack of robust state aid has a price. The quality-of-life in our communities is suffering and local infrastructure – roads and bridges, water and sewer systems – is in arguably its worst condition in a generation.

These fiscal realities demand a proactive response by the state. Mere continuance of the tax cap – even with the necessary reforms outlined above – does nothing to address the causes of New York's high property taxes and fails to facilitate property tax reductions. With the imposition of the tax cap, you have asked more of local officials, and municipal leaders have answered the call as best they can with the limited tools you have provided. Yet the tax cap is reaching a point of diminishing returns and local decline will continue unless you provide increased municipal aid and meaningful mandate relief. Now is the time to help local governments help themselves.

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