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**NYFF Responds to Property Tax Commission Report:
Massachusetts Tax Cap Model Wrong Move for New York State
NYS Should Implement a Circuit Breaker Model**

(Albany, New York) The advance report leaked today by the Governor's Property Tax Commission (which is also being released tomorrow?) misses the mark when it comes to some of the recommendations they advance. The report does not adequately examine the link between all taxes (Income, Property, and Sales) and mistakenly only look at School taxes.

“For too long many lower and middle income families have been shouldering the burden of New York's tax system while the wealthiest 1 percent have been paying half the taxes as a percentage of their income as do the bottom 80 percent” stated Ron Deutsch, Executive Director of New Yorkers for Fiscal Fairness. “If we want to create a fair system of taxation and provide a top notch education for our young residents we must have the state pick up a larger percentage of overall school aid and raise some of that money through a more progressive income tax system. We can no longer place the burden on our localities without giving them the resources they need (and are entitled to) to provide services at the local level.”

Deutsch agreed with the fact that there should be an enhanced Circuit Breaker to deliver real property tax relief. “NYS should deliver real relief immediately to those truly overburdened by property taxes by implementing a Circuit Breaker that would prevent a resident's property taxes from exceeding a certain percentage of their income. This is the only way to deal with the problem of literally taxing people out of their homes.”

Deutsch also pointed out that the report did not do enough to acknowledge some key facts contributing to high property taxes that need to be addressed:

- State Aid is only 43% of overall education aid – which ranks us 31 out of 50 nationally
- For many upstate counties school taxes represent less than half of overall property taxes

- NYS is only one of a few states that require counties to pay a local share for Medicaid costs
- NYS does not provide “revenue sharing” with municipalities at statutory levels

Having the State fund a higher overall percentage of education aid, picking up the local share of Medicaid, and meeting our statutory revenue sharing obligations would go a long way to relieve the pressure on the property tax statewide.

The report also uses the Massachusetts Tax Cap Model as the basis for what the Commission wants NYS to adopt. They fail to acknowledge the many issues surrounding that model as evidenced by the Center on Budget and Policy Priorities report, **HIDDEN CONSEQUENCES: LESSONS FROM MASSACHUSETTS FOR STATES CONSIDERING A PROPERTY TAX CAP** (<http://www.cbpp.org/5-21-08sfp.htm>). The report shows that there is a wide range of differences between NYS and Massachusetts and the way they distribute school funding that would make it difficult for NYS to implement the same model.

The report explains that the Massachusetts experience can provide lessons about the potential effects of a property tax cap for other states that are considering similar measures. The Center’s report looks at the Massachusetts experience and gleans the following lessons.

- **A tax cap won’t make government services cost less.** A cap does not prevent employee health insurance costs, special education costs, or other costs beyond localities’ control from rising much faster than the cap allows. Nor does it hold down the cost of heating buildings, buying gas for police and fire vehicles, and operating schools buses when the world price of oil is skyrocketing. When these things occur, as they have in Massachusetts, other services have to be cut to fit total expenditures under the cap.
- **Claims that caps will produce large savings through “efficiencies” are overblown.** There are fewer efficiencies to realize from squeezing down revenues than cap proponents generally suggest. One person’s “efficiency savings,” such as the elimination of a police or fire station, may represent the loss of a critical service for another person. Ultimately, a property tax cap is highly likely to lead to reductions in basic community services and a deterioration in the quality of life in many communities — particularly in communities that cannot routinely override it.
- **Tax caps can be particularly harmful if adopted during a weak economy.** Proposition 2 ½ took effect during a period of extraordinary economic growth — the “Massachusetts Miracle.” State revenues were rising, which allowed the state to boost aid to compensate for constrained property taxes, and construction was expanding, which allowed communities to raise their property tax revenue by more than 2.5 percent per year.

If a state were to adopt a property tax cap during an economic slowdown or a period of weak state revenue growth, a major sustained infusion of state aid would not be possible and property tax revenue growth would be more constrained. As a result, schools and other services dependent on the property tax would have to be cut much more severely than in Massachusetts.

- **State aid can't be relied upon to fill the gap.** Even when state policymakers fully intend to expand state aid to fill local funding gaps created by a cap, a recession or fiscal crisis will usually derail this plan. State aid to localities in Massachusetts has fluctuated greatly with the business cycle and with state policy decisions. In any other state that might implement a cap, local government and school budgets are likely to become more volatile.
- **Changes in school enrollment can have a big impact.** The adoption of Proposition 2 ½ coincided with a decline in Massachusetts' K-12 enrollment, allowing schools to operate with less revenue.

If another state adopted a property tax cap during a period of steady or rising enrollment, it would be forced to impose much more extensive cutbacks in teachers, classes, and programs than those seen in Massachusetts.

- **Without effectively targeted state aid, low-income communities will fall even further behind.** Massachusetts has a highly targeted system of aiding local governments. The influx of state aid seems to have shielded low-income communities somewhat from Proposition 2 ½'s tendency to exacerbate differences in services between high- and low-income communities. But when state aid has receded as a result of economic downturns or state policy decisions, the poorest communities have had to make the largest budget cuts.

In states that do not have a system of school aid that is targeted as effectively as Massachusetts', students in low-income communities are likely to fall increasingly behind students in schools that have greater resources.

- **Wealthier communities will override a tax cap more frequently than poorer ones.** This has contributed to a growing spending gap between local governments in high-income communities and all other communities, despite Massachusetts' progressive system of state aid. This is likely to occur in other states that implement a cap.

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