

# MAKE THE TAX CAP WORK

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AUGUST 16, 2016 |

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New York residents are discovering that as attractive as a “2 percent tax cap” sounds, it is turning out to be the public policy equivalent of cutting off your nose to spite your face. While the less-than-1 percent tax cap may be another reason for local officials to exercise tax restraint, without changes to its formula, municipal services and infrastructure investments – and the local economies they support – will continue to strain under the weight of revenue starvation. But it would only take a few key actions by the state legislature to improve municipal tax cap compliance in a way that simultaneously strengthens, rather than weakens, those same local economies.

When the tax cap was first imposed in 2012, the New York Conference of Mayors (NYCOM) repeatedly pointed out that there is not a local official in New York that doesn’t want to lower taxes. Cities and villages are the governments closest and most accountable to the people. For municipalities – unlike school districts – property tax self-restraint was already in place when the tax cap came to be. But there is a cost to the prolonged austerity that the tax cap has engendered, particularly with the discrepancies between how the cap applies to different levels of government.

The governor continually tells local governments “to do as I do” and points to the state’s compliance with its self-imposed spending cap of 2 percent. What is rarely acknowledged is that the state’s supposed “2 percent cap” on local property taxes hasn’t been at 2 percent since July of 2013, since it floats with inflation. For all of 2016 the cap has been well below 1 percent, falling as low as 0.12 percent for most villages, large cities and all school districts. For the vast majority of municipal governments in 2017, the tax cap will be 0.68 percent. Municipalities will have no problem performing

as well as the state government when they are held to the same standard. This is why NYCOM is calling for the state legislature and the governor to make the cap a true 2 percent cap, one that doesn't fall with inflation. Just like the state's own spending cap.

If unwilling to make the tax cap a flat 2 percent they should enact NYCOM's proposed Tax Cap Compliance Aid, so residents can get property tax relief without relinquishing high quality municipal services. This aid would make up the lost property tax revenue due to a tax cap that is less than 2 percent, and would only go to those municipalities that comply with the tax cap. If municipal governments – which haven't been given additional state aid in eight years – received annual increases in aid as school districts do, a program like Tax Cap Compliance Aid would not be necessary. Unfortunately, the state continues to maintain a policy of starving municipalities of revenue while demanding improved efficiency and expecting economic renewal. Not surprisingly, this unbalanced approach is failing our local governments and their constituents.

Another inequity in the tax cap construct is the fact that municipal governments are not allowed to exclude infrastructure investments from the calculation of their annual tax cap, even though school districts benefit from such an exclusion and the state doesn't count its capital expenditures under its 2 percent spending cap. Given the public infrastructure crisis we are facing in New York and the universal recognition that economic development is unattainable without sufficient public infrastructure, the tax cap shouldn't punish local governments for making needed capital investments. For the same reasons, the tax cap should also exclude the tax levies downtown retailers impose on themselves via Business Improvement Districts.

Residents and businesses want their state and local governments to do a better job at controlling taxes, but they also want public services and infrastructure for the taxes they do pay. New York's property tax cap addresses the former, but ignores the latter. For the tax cap to truly work it must produce thriving communities, not the austere decline we are witnessing in many parts of this state. The sooner our state leaders implement a true 2 percent tax cap that promotes infrastructure investment, the sooner we can truly call the tax cap a success.

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