

**Testimony of Edmund J. McMahon**  
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Before the New York State Assembly  
March 1, 2011

Good morning, and thank you for this opportunity to testify on Governor Cuomo's proposed local property tax cap.

The Empire Center's analysis of the tax cap is presented in the report submitted to you as an attachment to our testimony today. Our findings can be summarized as follows:

1. New York's local property tax levels are exceptionally high by national standards and have grown by more than double the inflation rate over the past decade, justifying the governor's push to limit future growth.
2. The most significant previous attempt to limit property taxes in New York, the state-subsidized School Tax Relief (STAR) program, acknowledged the problem but did not fix it. The STAR experience indicates that attempts to shift the tax burden from homeowners to the statewide tax base will only encourage more of the spending that only drives up taxes in the long run. Proposed alternatives to a property tax cap would share this shortcoming, while also necessitating increases in state taxes.
3. Governor Cuomo's proposed cap is modeled after the most successful tax limitation approach tried in other states – Proposition 2½ in Massachusetts. Proposition 2½, which allows for voter overrides, has restrained the growth of the tax burden without compromising essential public services. Despite the tax limitation, Massachusetts' schools rank among the best in the nation.
4. A cap's effectiveness in New York will be compromised if it is amended to allow automatic tax increases for fast-rising employee compensation costs, especially pensions.
5. The enactment of Cuomo's cap in New York will further highlight the need for significant mandate relief that gives local governments and school districts the flexibility they need to restructure their budgets, especially rising employee compensation costs. Without mandate relief, some localities and school districts will find it harder to live within the cap without reducing the quality of services.

The need to limit property taxes in New York is clear. Our property tax bills have been among the highest in the country for decades, by any measure. Between 1999 and 2009, total local property tax levies in jurisdictions outside New York City increased by 5.4 percent a year, more than double the average inflation rate of 2.6 percent. School taxes rose the fastest – an average of 6.3 percent a year. Property taxes in New York continued going *up* even as property values, personal incomes and consumer prices were going *down* during the severe recession of 2007-09.

The STAR program has been a costly lesson in the kind of “tax relief” that *doesn't* work. Homeowners – and *only* homeowners – enjoyed a temporary respite from steadily mounting tax bills, while school spending actually accelerated during the STAR phase-in period. The program is now effectively *subsidizing* property taxes for most homeowners without *reducing* them for property owners in general.

Governor Cuomo’s proposal to uniformly cap growth in property tax levies has the following advantages:

- It is *fair*, treating all taxpayers alike, extending the same protection to every class of property based on assessed market values.
- It is *simple* to understand, administer and enforce.
- It is *democratic*, strengthening the accountability of county and municipal officials while giving voters direct control over school property taxes.

We have heard it argued that the cap will somehow “erode” democracy and local control in our communities. However, when it comes to school districts in particular, it would be more accurate to say that the cap will *strengthen* democracy and local control. Current law allows school districts to impose whatever tax increase is required by a state mandated “contingency” budget. The governor’s proposal would shift the focus from spending to taxes, forcing school officials to budget on the assumption that there can be *no* increase in the district tax levy without voter approval.

Opponents of the governor’s proposal also frequently lump all types of property tax cap together – implying, for example, that Massachusetts Proposition 2½ is the same as California Proposition 13. In fact, the Massachusetts and California laws differ significantly. Although there is scant evidence that services in Massachusetts have suffered from Proposition 2 ½, and although Massachusetts is a national leader in educational outcomes, tax cap opponents also argue that a cap will have “devastating” impact and will “starve” schools in the wake of state aid cuts. But these opponents offer no alternatives to a cap, other than policies that would drive taxes even higher on both the state and local level.

County, municipal and school officials are understandably worried that a property tax cap will make their jobs much tougher--but this should not serve as an excuse for further delaying the cap’s passage. The cap should come first, closely followed by the kind of sweeping mandate relief supported – on a broad, bi-partisan basis -- by groups representing municipal, county and school district officials.

To the extent that you consider possible changes to the bill, I would urge you to avoid repeating the flawed compromise approved last year by the state of New Jersey, which now has a 2 percent property tax cap – *excluding* costs related to employee pensions and health insurance. A New York cap with similar exclusions will essentially be tantamount to no cap at all. One of the key benefits of a cap is to increase pressure for meaningful mandate relief – especially changes to laws that effectively lock in current employee compensation costs.

In sum, the proposed tax cap will empower New York taxpayers to directly control school taxes, make it more difficult for local governments to raise taxes, promote a gradual reduction in property taxes as a share of personal income, and intensify the pressure for reform of costly state mandates. These are all highly desirable outcomes.

Thank you again for this opportunity to testify. I would be happy to take questions.

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