As published by CityLand, February 16, 2016

A Property Tax Cap – What It Would Do and What It Would Not Do

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Last month, at a State Legislature hearing in Albany on the Governor's proposed budget, Mayor de Blasio faced repeated questions about why New York City is exempt from the cap on property tax increases that applies elsewhere in the state. The legislators cited a variety of reasons why the city should accept a cap, although few hold up to scrutiny – most notably the assertion that a cap was a "fix" for the city's broken property tax system.

Some Senators have sought to link the need for a tax cap with the Governor's proposal to have the city—alone out of all the municipalities in the state—begin paying a greater share of the cost of Medicaid, suggesting that the Governor's proposal wouldn't be needed if the Mayor accepted a property tax cap. But the link with Medicaid is specious.

In 2005, then-Governor Pataki moved to begin shifting more of the burden of Medicaid to the state, thereby bringing New York into line with the other 49 states that use state revenue to pay most, if not all, of the portion of Medicaid not covered by the federal government. By limiting growth in the amount borne by local governments, Albany was picking up a larger share of Medicaid. Given that Medicaid benefits and eligibility are determined by the state, it makes sense to have more of the fiscal burden of Albany's decisions fall on the level of government setting the policy.

The property tax cap for the rest of the state, which limits levy increases to the lesser of 2 percent or the rate of inflation, was not enacted until 2011 and was motivated by concerns about rapid growth in labor costs, particularly by school districts, and the inefficiency resulting from the state's myriad levels of local government. At the time, nobody linked the property tax cap to the shift in Medicaid burdens to the state that was already underway.

New York City delivers a much broader array of services than is provided by other local governments in the state, many of which are single purpose. Public education, public hospitals, community colleges at CUNY, and more are added to the more typical municipal services, not to mention the obligations resulting from the unusual requirement that localities bear significant Medicaid and public assistance costs. With these myriad responsibilities, the city's budget is roughly half the size of the state's. Yet other than the property tax rate, the city has almost no autonomy when it comes to taxes. A property tax cap would limit the one revenue lever the city controls. When downturns occur the city has relied on rate increases to minimize revenue shortfalls and protect core services.

Extending the existing 2 percent cap in place in the rest of the state would lower next year's revenues by about $1 billion from what the city has planned on for fiscal year 2017, with the impact growing over time. The cap bill that actually passed the Senate last month differs from the cap law that applies elsewhere in the state and would lower city revenues next year by more than $3 billion for next year, although it is not clear if the drafters intended it to have such a large effect.

There is much a cap wouldn't do. Some research suggests that any slowdown in spending following imposition of a cap wears off after a few years as governments find alternative ways to pay for services, often in ways that are less transparent and more inefficient than the property tax.

In the case of New York City, a cap would do nothing to address the inequities and inefficiencies in our property tax (Described in testimony for another legislative hearing last month on the city's property tax that is available on our website.) A cap would reduce the size of the disparities in dollar terms, but would do nothing to address the fact some neighborhoods and some types of property shoulder tax burdens that are far higher than others. At the budget hearing with the Mayor last month, cap proponents spoke of the need to protect homeowners, although overall, homeowners have the lowest tax burden in the system today ($0.77 per $100 of market value). Owners of rental properties—and to some extent their tenants—bear the highest burden ($3.75 per $100), nearly five times higher than for homeowners.

Slapping a limit on the growth of the city property tax levy would not fix these disparities while limiting the city's flexibility in managing its budget.