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It's Elementary

A Monthly Column by EFAP Director John Yinger
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Why a Property Tax Cap Is a Bad Idea for New York

The main recommendation of the New York State Commission on Property Tax Relief is a property tax cap.¹ More specifically, the Commission proposes to limit growth in a school district's property tax levy to 120 percent of the growth in the Consumer Price Index (CPI) or 4 percent, whichever is lower. So as not to penalize school districts that are growing or that attract business, this limit would be adjusted for new construction. In addition, the Commission's proposal calls for eliminating all votes on school budgets except those involving an override of the limit.

Proponents claim that a property tax cap will force schools to become more efficient. The available evidence does not support such a claim. A tax cap does not give school officials any new curricular or management skills. A tax cap does not facilitate the hiring of better personnel. A tax cap does not give school official an incentive to work harder or be more innovative.

Proponents claim that a property tax cap will force state officials to come up with the money school districts are going to lose, either by providing more state aid (based on higher state taxes) or by allowing school districts to use some other revenue source. There is also no evidence to support this argument. A property tax cap would not put pressure on state officials to do anything. Instead, it would get them off the hook by allowing them to say that they had provided property tax relief.

The experiences with property tax caps in other states are not encouraging.

¹ New York State Commission on Property Tax Relief, *A Preliminary Report of Findings and Recommendations to Governor David A. Patterson*, Albany, N.Y., June 3, 1008. Available at: http://www.cptr.state.ny.us/reports/CPTRPreliminaryReport_20080603.pdf

In California, as recognized by the New York State Property Tax Commission, a severe property tax cap, Proposition 13, which limited the property tax rate to 1 percent of market value, has devastated the state's school system. State officials increased state aid, but not nearly enough to offset the loss of property tax revenue, particularly given the rapid increase in the state's student population. Thus, students in California now perform poorly on national tests and school districts throughout the state have cut all non-essential programs. Moreover, many districts now rely on inequitable sources of funding, because these are the only supplementary sources available to them.

In Massachusetts, a somewhat less stringent property tax cap lowered the burden of property taxes without appearing to undermine the test scores for the state's students on national tests in math and English. The New York State Property Tax Commission report highlights the Massachusetts case. A deeper look at the Massachusetts experience suggests, however, that the Proposition 2 ½ has not been as beneficial as it might at first appear. Wealthy districts in the state, many of which have passed overrides, have maintained or increased their performance and, on average, Massachusetts continues to perform well on national tests in math and English. One study found, however, that student performance has declined in the districts that were the most constrained by this proposition, including many low-income districts.²

Moreover, the performance of the state's students on national math and English tests hides the fact that many school districts in Massachusetts have been forced to make severe cuts in their art, music, and athletic programs. In addition, scholars have found that Proposition 2 ½ induced many households to move out of school districts with poor funding into school districts that either managed to pass an override or that were wealthy enough to have adequate funding even with the rate limitation.³

² Ronald J. Shadbegian and Robert T. Jones, "Did Proposition 2 ½ Affect Local Public Education in Massachusetts?" *Global Business and Economics Review*, November 2005, pp. 363-380.

³ Katharine L. Bradbury, Karl E. Case, and Christopher J. Mayer, "School Quality and Massachusetts Enrollment Shifts in the Context of Tax Limitations," *New England Economic Review*, July-August 1998.

The most likely outcome of a tax cap in New York State would be a significant decline in the breadth of services provided by schools in the state. Student performance on math and English tests might not decline at first, but even if it does not, schools would provide lower-quality services on many other dimensions. More importantly, math and English performance would certainly be threatened in the state's poorer districts. Increases in state aid might hold off these changes for a while. School expenses are almost certain to grow faster than 4 percent per year, however, so the proposed 4 percent cap on property tax revenue growth would eventually result in a large and continually growing gap between school expenses and property tax revenue—a gap that is likely to be larger in poorer districts and unlikely to be covered by state aid increases.

The provision allowing override votes would mitigate these problems. Shifting the focus to an “override,” however, diverts voters’ attention from the main issue, which is the trade-off between lower taxes and better school services. More importantly, the experience in Massachusetts shows that override votes can themselves become a source of inequity.

One advantage of a tax cap is that it would prevent voters from responding to the perverse incentives created by STAR (or by a standard circuit-breaker)—incentives discussed at length in previous columns. A tax cap is a very blunt instrument for addressing this problem, however, as it restricts property tax increases regardless of whether they are driven by STAR’s incentives, by a cut in state aid, by an increase in the costs of providing education, or by a desire of voters to improve the quality of their school services. A much better approach would be to set a maximum tax rate for calculating STAR exemptions (or circuit-breaker rebates).

I find it strange that so many people in our democracy believe that the best way to serve voters’ interests is to tie their hands. In my view, we should not restrict voters’ options but should instead find ways to empower them, by giving them better information and more voting options, so they can make a well-informed choice between lower property taxes and better school quality.