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NEW YORK SHOULDN'T LOOK TO MASSACHUSETTS AS A MODEL FOR PROPERTY TAX REFORM, REPORT SHOWS

With New York's Commission on Property Tax Relief planning to recommend that the state impose a rigid cap on property taxes for education based on Massachusetts' Proposition 2 ½, a new report from the Washington, D.C.-based Center on Budget and Policy Priorities describes the problems the law has created in Massachusetts.

"Across Massachusetts, a number of communities have been forced to lay off teachers, police officers, firefighters, and other public employees; close fire stations; shut libraries, senior centers, and recreation centers or sharply reduce their hours; and scale back public school programs. One town even turned off its street lights to save money," said Iris Lav, the Center's deputy director and co-author of the report.

According to the report, Proposition 2 ½, which limits the growth in communities' property tax revenue for all services including education to 2.5 percent a year, has:

- **Arbitrarily constrained local revenues without considering the actual cost of providing services.** "The fundamental problem with property tax caps is that they don't make public services any less expensive," said Lav. "Costs like employee health insurance and special education are largely beyond localities' control, and they're rising much faster than the cap allows. Nor does the cap hold down the cost of heating buildings and operating school buses when oil prices are skyrocketing." When these things occur, as they have in Massachusetts, other services have to be cut to fit total expenditures under the cap.
- **Made local governments heavily dependent on state aid.** In the early years after Proposition 2 ½'s adoption in 1980, large infusions of state aid prevented major loss of local services. But state aid dropped dramatically in the recessions and state fiscal crises of the early 1990s and the early 2000s. (Aid plunged by 33 percent after adjustment for inflation between 1989 and 1992, for example.) This forced budget cuts in localities throughout the state — especially in low- and moderate income communities, which are the most dependent on state aid.
- **Exacerbated disparities between wealthier communities and poorer ones in access to quality local services.** To maintain valued services, voters in higher-income communities have approved more overrides of Proposition 2 ½'s revenue growth limit than poorer communities have, and the overrides have been for larger amounts. This increases the likelihood that an individual's access to public services such as a decent education would be determined by her wealth and the community she lives in.

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- **Resulted in cuts to valued services rather than simply calling forth greater efficiency from local governments.** Proponents argued that Proposition 2 ½ would make government more efficient and would not entail major service cuts. But the evidence suggests that the “savings” achieved under the law have come primarily through a decline in key local services, not through sweeping new efficiencies. (See table at right.)

Examples of Service Cuts Under Proposition 2 ½
Randolph eliminated two elementary schools, nearly all busing, over 60 classroom teachers, and almost all freshman and junior varsity sports.
Hampden closed its library, senior center, and recreation department.
Gloucester shut two fire stations.
Lexington eliminated 31 teaching positions.
Ashland approved a plan to fill teaching vacancies with inexperienced teachers to save money.
Northbridge laid off six of its nine library employees and scaled back the library’s hours of operation to 12 hours a week.

“Having led a municipality for eight years under Proposition 2 ½, I have seen first-hand that the law does not permit adequate funding of core local responsibilities such as public safety and education.” said Northampton, Massachusetts Mayor Mary Clare Higgins.

Impact in New York Could Be Even More Severe

“Massachusetts had many advantages in the 1980s that helped blunt the impact of Proposition 2 ½ on localities, at least temporarily. New York doesn’t have those advantages today,” Frank Mauro, executive director of the Fiscal Policy Institute, explained. Thus, if New York were to adopt a property tax cap, the results could be more troubling than they are in Massachusetts.

For example, Massachusetts enjoyed unusually strong economic growth during the 1980s — the so-called “Massachusetts Miracle.” This enabled the state to replace some of localities’ foregone property tax revenues with state funds.

Also, Massachusetts’ K-12 enrollment dropped by a fifth during the 1980s, which helped reduce education expenses. And the state has an effective system of local aid that targets aid where it is most needed, among lower-income communities.

“In New York, adopting a cap could have highly negative consequences for education. And that, in turn, could make the state a less desirable place to live, which would harm economic development,” said Mauro.

The Center’s report, “Hidden Consequences: Lessons from Massachusetts for States Considering a Property Tax Cap,” is available at <http://www.cbpp.org/5-21-08sfp.htm>.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

