EDUCATION FINANCE AND POLICY

EFP Takeaways

Cap and Gap: The Fiscal Effects of Property Tax Levy Limits in New York

Background

By 2018, most states and D.C. imposed tax and expenditure limits (TELs) on local governments' property tax levy. One of the most recent examples of state-imposed TELs is New York State's 2013 property tax levy limit (the tax limit or tax cap) on all local governments including school districts. The tax limit basically restricts the annual growth of property tax levies to 2 percent or the rate of inflation, whichever is less. Phuong Nguyen-Hoang and Pengju Zhang provide the most comprehensive picture thus far of how constrained (or at-limit) school districts adopt cutback strategies differentially across need-based groups and across operational functions or categories. Their work is published in vol. 17 issue 1 of *EFP*.

The Study

The authors use variation from the degree of fiscal stringency across school districts and over time in its first five years of implementation. The authors estimate the effects of the tax limit on the total and disaggregated school expenditures of at-limit school districts, which are defined as having almost or already exhausted the limit in New York. These at-limit districts increased over time, numbering 284 (42 percent) in 2013 and 445 (67 percent) in 2017.

For more details:

- View the full issue.
- See the full article in *Education Finance and Policy*.
- Sign up here to receive future *EFP Takeaways*.
- Summary of:
  Nguyen-Hoang, P. & Zhang, P. (2022). Cap and Gap: The Fiscal Effects of Property Tax Levy Limits in New York. *Education Finance and Policy, 17 (1): 1-26.*

Findings

Overall, the authors find that the tax limit does put an effective cap on school districts' spending. At-limit school districts, on average, reduce total current expenditures, and the reductions grow in size over the years from 0.6 percent in year 1 to 2.3 percent in year 5.

The tax limit's constraining effects vary across at-limit district groups. Particularly, districts with higher reliance on property taxes are more likely to be constrained by the tax limit. In addition, when the limit negatively affects total current expenditures, cuts are not made equally across functions. The two largest union-protected items (teacher salary and benefits), which account for 53 percent to 58 percent of total current expenditures, appear to remain untouched. Rather, at-limit districts cut expenditures in categories such as other instructional salaries/expenses, central administration, and transportation.

Finally, the authors find that intergovernmental aid provides little help in offsetting expenditure gaps imposed by the tax limit.