

**Fiscal Austerity in New York State:
Differential Regional Impacts of the Property Tax Cap**

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Abstract

New York implemented its property tax cap on local governments in 2012. This restrictive property tax cap limits all municipalities (except New York City) to property tax increases of 2% or the CPI, whichever is lower. This uniform cap, which ignores differences in local fiscal capacity and need, is expected to have disproportional impacts on local government revenues. The cap is projected to increase local fiscal stress, lead to more public service cuts, and potentially result in greater regional inequality. Using NYS Comptroller data, we conducted a “what-if” model to project the impact of property tax revenue loss if the current property tax cap had been implemented for the previous decade. We find a dramatic drop in property tax revenues for all government types but the cumulative effects result in a property tax gap that is especially high for towns and villages, whose reliance on property tax revenue is highest. The total property tax loss is higher on Long Island where the property tax burden is highest in the State. Next we use regional economic impact models (IMPLAN) to analyze the economic impacts of the property tax cap on employment, income, output and sectors across regions in New York State. Despite Long Island’s higher tax revenue loss, the negative economic impacts are similar on Long Island and Upstate. Upstate’s economy is weaker than Long Island and it suffers disproportional negative economic impacts of the tax cap. Sectors in higher education, like private colleges and universities, as well as in health, like nursing facilities, are more negatively affected in Upstate. To address this unintended consequence, more spatially targeted state aid and more state centralization of spending responsibility is needed. Such mandate relief is key for the state to avoid undermining local efficiency and economic growth.

Key Words: Property Tax Cap, Local Fiscal Stress, Economic Impacts, Regional Inequality, State Policy

Introduction

New York in 2012 joined other states in implementing tax and expenditure limits (TELs) by imposing a property tax cap on local governments. The property tax cap is designed to limit future growth of property taxes to relieve the high local property tax burden of New York, which was 5th highest of all 50 states in 2010 (Tax Foundation 2013). New York City is exempt from the property tax cap. The law restricts the property tax levy growth for local government to 2% or the inflation rate, whichever is less. The actual allowable property tax growth is more complicated with some limited adjustments and exceptions for torts and pensions. To override the tax cap, municipalities must obtain a 60% supermajority of votes from elected representatives, while school districts can only override with a supermajority of voters. If two attempts at an override fail to pass, the tax cap increase is effectively set at 0% (Sandberg, 2012).

The impetus to begin crafting the current property tax cap law began before Governor Andrew Cuomo was elected in 2010. The plan to implement a tax cap to control the increased property tax burden was among the many promises made in his campaign agenda. In 2008 a legislative commission proposed a three part strategy to address the fiscal stress of New York's municipalities: a cap on local property tax rate increases, property tax relief for middle income families, and relief for municipalities from state mandated expenditures (NYS Commission, 2008). The property tax cap legislation was passed in June 2011, and 2012 was the first year localities were affected by the cap. In 2014, a Tax Freeze was implemented which would reimburse households for part of their property tax but only if their local government or school district put in place an "efficiency plan" to save 1% per year through increased intergovernmental service sharing (New York State Tax Commission, 2013). To date, no effort to address the state mandated expenditure for municipalities has been implemented.

Local governments in New York State, most of which already faced fiscal stress, now have to struggle to remain solvent under this property tax cap. According to a 2013 survey from Cornell University, over 60% of villages/towns, and over 80% of cities/counties report facing increased fiscal stress due to the tax cap (Homsy et al., 2013). In order to balance their budgets, local governments reported increasing service sharing, consolidating departments, cutting services and increasing other revenue sources, such as user fees. As these sources of revenues are dependent on ability to pay, the regional fiscal inequalities are further exacerbated. Also considering disparities of local needs and fiscal capacity, the strategies of local governments to deal with the increased fiscal stress are expected to vary from counties to villages as well as from upstate to downstate. For small local governments with limited resources, the property tax cap makes it more difficult and less flexible to manage local budgets. In fiscally stressed Upstate, due to unfavorable demographic shifts and erosion of the tax base, local

politicians predicted drastic cuts to services, mergers of school districts, and the dissolution of villages under property tax cap (Miller, 2011; O'Toole, 2011).

This research studies the property tax cap and its economic impacts within the context of decentralization and fiscal austerity. Particular attention is given to the fiscal stress and fiscal inequality across local governments. We conducted a “what-if” model to project the property tax revenue loss if the current property tax cap had been implemented for the previous decade. Then we analyze the economic impacts of the projected property tax revenue loss by examining employment, labor income and output across different economic sectors and regions of the state. Considering the disparities of local needs, fiscal capacity, and economic structure, we expect the property tax cap to disproportionately impact some localities and regions. We differentiate the potential property tax revenue loss by types of government and the economic impacts by regions to answer who is most affected by tax cap. This study concludes with recommendations for state policy changes that can reduce the negative consequences of the tax cap on localities across New York.

Literature Review

Decentralization, Austerity and Local Fiscal Stress

According to Peterson (1981 and 1995), local government traditionally has been understood as the developmental state to promote economic growth while redistributive responsibility belongs to higher levels of government to adjust for inequality. Decentralization, which transfers expenditure responsibility to lower tiers of local government, is argued to increase local efficiency and responsiveness due to the ability to better match public policies to local needs. However, tax and expenditure limitations restrict the ability of local government to respond to those needs, thereby

undermining the supposed benefits of decentralization. Empirical studies across a range of OECD countries have not found the expected link between decentralization and economic growth or efficiency (Rodriquez-Pose and Bwire, 2004a; Rodriquez-Pose et al, 2009). Other empirical research focusing on US counties has found growing redistributive expenditure responsibility at local level due to decentralization, which is likely crowding out local expenditures for economic development and undermining the promised growth of decentralization (Lobao and Kraybill, 2005; Loba and Adua, 2011). The increased local redistributive burden is higher in times of crisis as the state level of government seeks to shift its spending responsibility to local governments. The state is likely to employ neoliberal governance, through less aid to localities and more mandates, which provide fiscal relief to state budgets but result in more local fiscal stress. As a result of the Great Recession, state and local governments are facing austerity challenges as government tax receipts have dropped or stagnated while service demands have risen, especially for employee pensions and health benefits. At the Federal level, business demands for bailouts have taken up any excess government capital. Focusing on local fiscal stress, Donald et al. (2014) argue that an “austerity machine” has taken over the “growth machine” (Logan and Molotch, 1987) as local government fiscal policy increasingly relies on speculative development (Davidson and Ward, 2013). Others argue that a neoliberal “austerity urbanism” (Peck, 2014; Peck and Tickell, 2014) is resulting in the hollowing out of local government services.

However it is important to put this austerity argument into a multi-level governance framework. State austerity policy has a critical impact on local government. We find local governments have differential responses across space to state austerity policy. Some are able to increase expenditures in times of stress, while others are caught in a vicious cycle of declining aid, declining revenue and declining economic development prospects (Warner and Pratt 2005, Xu and Warner 2015). Loba and Adua (2011) highlight the significance of local capacity building to balance both redistributive and developmental functions. Kim and Warner (2014) find local governments are not “austerity machines,”

but engage in “pragmatic municipalism,” exploring new revenue sources and service delivery strategies to provide basic social, infrastructural and economic development services. Other scholars celebrate the responses of the city region as the leaders in economic innovation and growth in the global economy (Glaeser, 2011; Storper, 2013). Jessop (2002) sees a state rescaling process that privileges the city region as a major player. Others see a more differential urban responses depending on economic base (Katz and Bradley, 2014) or state granted legal authority (Frug and Barron, 2013), or the ability to act as a single urban region across many local jurisdictions.

Considering the disparities in regional economic base, legal authority, local need and fiscal capacity, the landscape of local fiscal conditions is uneven across space. Under decentralization, local governments are engaged in competitive economic development activities with real winners and losers in a process some have termed ‘destructive competition’ or a ‘race to the bottom’ (Warner and Zheng, 2013, Donahue 1997). Such competition encourages more short-term local spending at the expense of long-term public investment and economic sustainability (Katz, 2001; Dewees et al., 2003). This leads to lower quality of services and infrastructure in poor places with higher local need and limited fiscal resources, which may further constrain local economic competitiveness (Warner 2001). This vicious cycle is found by Warner and Pratt (2005) compared to places which enjoy a virtuous cycle with greater public investment leading to more economic development. What Ezcurra and Pascual (2008) have argued about the advance of decentralization in economic development to make up for the weakening of the equalization role of central government is limited by local capacity to capitalize on decentralized opportunities (Rodriquez-Pose and Gill, 2004). In other words, decentralization initiatives carry with them implicit fiscal, political and administrative costs, which fall more heavily on poor places resulting in greater development of initially rich and powerful regions, to the detriment of poorer areas (Rodriquez-Pose and Gill, 2004). Nonmetropolitan and rural places are discovered to have higher local fiscal stress (Xu and Warner 2015, Lobao and Kraybill, 2005; Johnson et al., 1995). Cities with concentrations of the

poor, the elderly and minorities are also facing more fiscal pressures (Kim and Warner, 2015). In general, local fiscal inequality is exacerbated by decentralization.

Tax and Expenditure Limitations

Tax and Expenditure Limitations (TELs) are limitations on revenues collected through taxation and on public expenditure. The most recent and extensive wave of these limitations began with Proposition 13 of California in 1978, followed by notable cases of Proposition 2.5 in Massachusetts in 1980 and TABOR in Colorado in 1990. Today, 46 states operate under some form of constitutional or statutory fiscal limitation for their local governments, and 30 of these have limitations specifically on tax and/or expenditure (Mullins & Wallin, 2004). TELs can be implemented in different ways, through limits on tax rates, total raised tax revenue, assessment increase or some combination of these (Mullins and Joyce, 1996). The most popular example is property tax limitations to appease voters' general discontent with high property taxes and increased assessments (Youngman, 2007).

In general, the goal of TELs is to reduce the taxpayer's burden, adjust state and local fiscal structure, restrict government size, and encourage local efficiency through innovative public finance or shared services (Mullins, 2004). Much research has been done to examine the impacts of TELs on local government fiscal structure and spending levels to evaluate its effectiveness (Mullins & Wallin, 2004). However, it is also worth looking at the side effects and unintended consequences TELs have generated for local governments in terms of local fiscal stress and regional inequality.

First, in contrast with the purpose of fiscally restraining local governments to promote efficiency, empirical studies found that TELs have little effect on overall government size in term of revenue and spending. While Shadbegian (1998) used nationwide aggregated state-level local government finance data from 1972 to 1992 and found a negative correlation between TELs and growth of local governments, Mullins and Joyce (1996) found TELs encourage local governments to shift their revenue

sources to user charges, sales tax and state aid, which may offset losses of revenue from property tax. Galles and Sexton (1998) found the total level of revenue and expenditure was higher than pre-TELs in California and Massachusetts, as local governments make up the revenue loss through alternative sources. However, this shift of local fiscal structure makes the local budget less flexible and revenue sources more regressive.

Second, although TELs are uniform constraining instruments, they are found to have disproportional impacts on different types of local government and places with different needs, which will increase regional fiscal inequality. Mullins (2004) used metropolitan county government fiscal data from 1972 to 1997 in the continental states to discover local governments and school districts with lower income and other disadvantaged populations were constrained more by TELs. Specifically, property tax caps have differential impacts across types of jurisdictions (Dye and McGuire, 1997) and hurt more in smaller and less-densely populated places (Merriman, 1986; Rown, 2000). The capacity to raise revenues, successfully override limitations, and level of dependence on state aid determine local economic sustainability and regional equity, especially in the times of economic downturns (Lyons and Lav, 2007). Therefore, the level and quality of services is hard to maintain when state aid declines, overrides are unsuccessful, and the revenue base is limited by ability to pay (Lyons and Lav, 2007). Local fiscal stress resulting from TELs drives local governments to cut service, increase layoffs, freeze wages, shutdown public amenities, eliminate special programs in schools, and defer infrastructure financing (Bell Policy Center, 2005). An early case study of Proposition 13 in California for local fiscal stress under TELs and a consequent rise in contracting out and privatization of services (Cowden, 1982).

While there are a number of empirical studies done on the fiscal effects of TELs on local government, the impacts of TELs on economic growth need more examination (Deller and Stallman, 2006). McGuire and Rueben (2006) studied the impact of TABOR on the economy of Colorado and found little effect on job and income growth beyond the first five years. Poterba and Rueben (1995) focused on

the public sector and found states with more restrictive TELs tend to have a lower public wage and lower employment growth in public sector. While through a survey of the literature, Bartik (1991) and Wasylenko (1997) found statistically significant small negative impacts of taxes on business location decision and economic growth, Helms (1985) found that how tax revenues are spent matters as well for economic growth. As public investment is vital for the functioning of the local economy, McGuire and Rueben (2006) argued the condition for TELs to promote growth is that reduced tax burdens do not harm spending on public services and infrastructure to benefit business and the economy. For example, the consequent service cut in education or infrastructure due to reduced tax revenues can have a negative effect on economic growth. Indeed Reese (2012) has found that places that invest in infrastructure and services (especially those that benefit families with children) experience higher growth. This highlights the importance of mandate relief from the State level to accompany any TEL, especially for poor places under severe fiscal stress that have struggled to meet mandates at the expense of economic development and future prospects (Xu and Warner 2015, Warner and Pratt 2005).

The Importance of State Policy

With flat federal aid and increased local redistributive fiscal responsibility under decentralization, state policy is becoming a more significant arena to relieve local fiscal stress, especially as state and federal levels of government increasingly rely on local government for redistributive expenditure responsibility. In other words, local capacity to deliver greater economic efficiency and promote more growth to ride the wave of decentralization is associated with the intergovernmental relationship between central and subnational governments (Rodriquez-Pose et al., 2009). State fiscal policy is key to reduce regional fiscal inequality. On the one hand, the state can increase state aid to poor places with high need and limited resources is a key source to help them relieve local fiscal stress (Cigler, 1993). On the other hand, state centralization of local spending responsibility was found to have greater impacts on local fiscal burden relief by Johnson et al. (1995) through a study on nonmetropolitan areas from

1977 to 1987, and Warner and Pratt (2005) through a study on Mid-Atlantic and East North Central region in 1987 and by Xu and Warner (2015) in a study of all US county areas for 2002 and 2007.

TELs must be accompanied by state policy regarding mandate relief (state centralization) in order to achieve local efficiency, economic growth and regional equity. In California, the negative effects of the tax cap were offset with substantial increase in state aid to schools and state centralization of welfare and health programs (Chapman, 1998) by implementing a \$4.85 billion relief plan (Weber, 1982). More exceptions were also added by state legislature and public referenda, such as a new type of local improvement district created by the State, which was exempt from Proposition 13 (Chapman, 1998). State aid was also increased by \$265 million in the first fiscal year after Proposition 2 ½ in Massachusetts even though Proposition 2 ½ did not specifically require this offset of local tax losses from the state (Bradbury and Ladd, 1982). Oliff and Lav (2010) argued that Proposition 2 ½ is arbitrary, static, and insensitive to changing local needs, and fails to reflect the true costs of services. Increasing local needs of health and education are beyond the control of local governments and school districts. Thus, overrides, especially in rich and educated communities, were approved, allowing more local taxation to maintain and improve local services (Wallin and Zabel, 2011; Roscoe, 2014; Oliff and Lav, 2010). Compared with TELs in other states, New York's property tax cap is very restrictive with little mandate relief, and limited exemptions, adjustments and overrides, which will likely result in more local fiscal stress and public services cuts. The shifts to user fees and rising local spending on state mandates may worsen existing inequality. While an increase in state aid, state centralization of fiscal responsibility for local programs or services, and a change in the structure of exemptions, would help reduce the negative impacts, New York has not followed this path.

Due to spatial disparities in local fiscal conditions and economic structure, similar state policies should not be expected to have similar effects on different localities. The uniform state policy could have disproportional or even opposite impacts on local governments and exacerbate regional inequality.

Warner and Pratt (2005) utilized a neural network approach to find both positive and negative correlation between state centralization and local fiscal effort across counties in Northeast and Midwest states. Xu and Warner (2015) found similar divergent results across space in a study of state and local fiscal policy and the impacts on recession using national data from 2002 and 2007. Thus, more spatially targeted state aid is needed for municipalities with severe local fiscal stress but limited resources.

This study explores the fiscal impacts of New York property tax cap on revenue loss differentiated by types of local government and regions, but also uses regional economic models to conduct economic impact analysis on employment, income and output, which is less commonly addressed in the literature. Differential impacts of the property tax loss across sectors are also examined.

Data and Methodology

Unit and Region

This research focuses on the property tax cap implemented in 2012 and its impacts on localities and regions in New York State. The first part estimates the cumulative property tax revenue loss across all municipalities, including 62 cities (except NYC which is exempt from the cap), 57 counties, 932 towns and 556 villages. In the second part, the economic impact study, the long-term tax revenue loss of all local governments is aggregated within each county boundary to show a more comprehensive fiscal picture of the impact of the tax cap on the economy within the county. The total property tax revenue loss within each county is further aggregated to the regional level to capture the regional revenue loss, which is imported as shock into the IMPLAN regional impacts model. Regions are aggregated according

to the division of economic development regions¹ in New York State. Figure 1 displays the major cities in these ten regions: New York City, Long Island, Mid-Hudson, Capital District (Albany Region), Mohawk Valley (Utica Region), North Country, Central New York (Syracuse Region), Southern Tier (Binghamton Region), Finger Lakes (Rochester Region) and Western New York (Buffalo Region). Upstate New York is defined as all regions excluding Long Island and New York City. As New York City is not affected by property tax cap, particular attention is given to the differential impacts of the property tax cap on Upstate and Long Island.

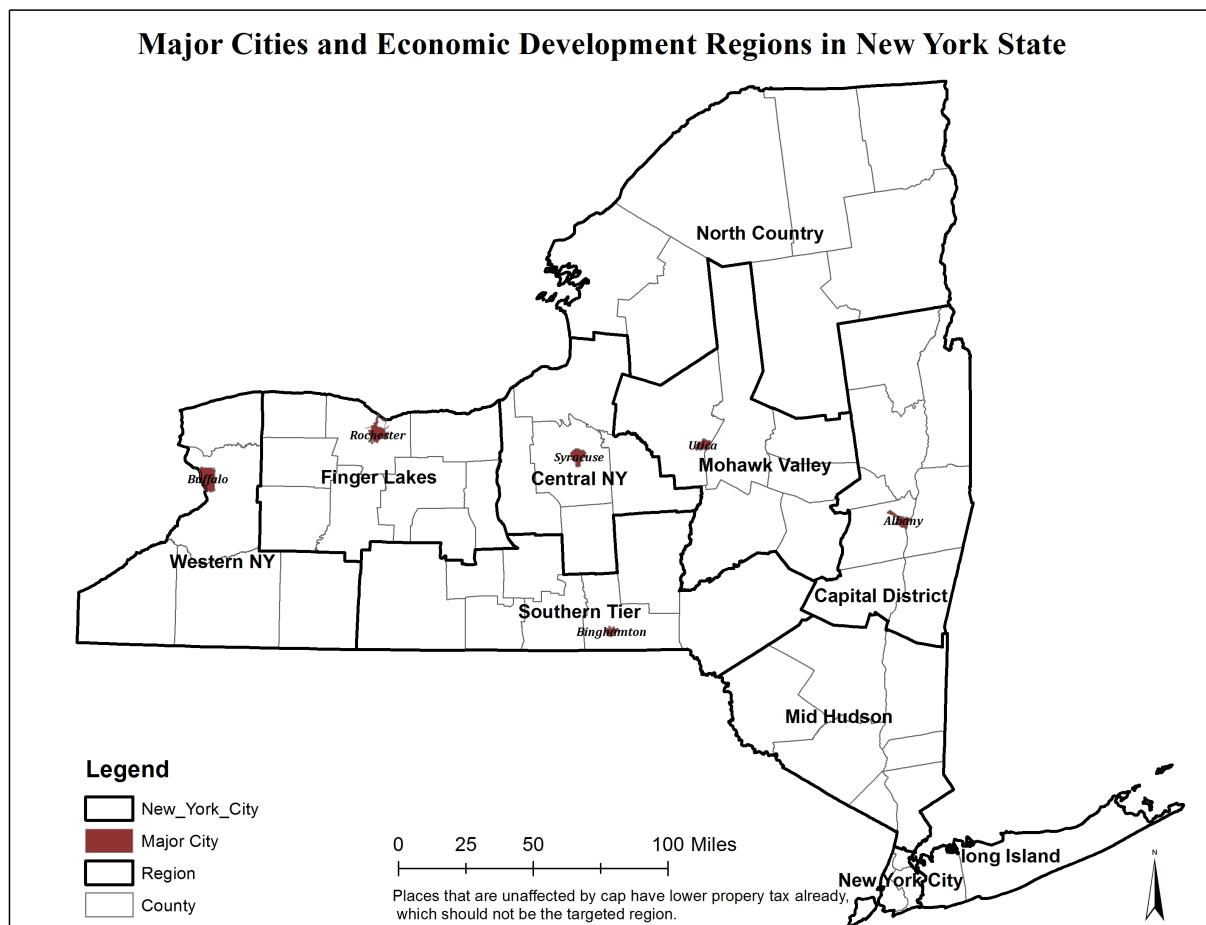


Figure 1: Major Cities and Regions in New York State

¹ In 2011, Governor Cuomo created 10 Regional Councils to develop long-term strategic plans for economic growth for their regions, which is a key component of Governor Cuomo's transformative approach to economic development.

Data Sources

In order to estimate the long-term property tax revenue loss, we use local government finance data for all municipality types (county, city, township, village) from the New York State Comptroller Office 2000-2011 and develop a “what-if” model that hypothetically applies the property tax cap ten years prior. The Consumer Price Index is obtained from Bureau of Labor Statistics to determine the property tax increase rate for each year.

For the regional analysis we use NYS Comptroller Office fiscal data for all municipalities in a county and group the counties into ten regions to explore fiscal disparities by region. We then use the American Community Survey 2009-2013 rolling average (mid-point for 2011) to present demographic data showing regional disparities of local need in New York State.

The regional economy model is built in IMPLAN based on Social Accounting Matrix data of New York State counties in 2012. This is developed by Minnesota IMPLAN Group using the Bureau of Economic Affairs Regional Economic Data to disaggregate sectors (440) of the economy. The employment data in IMPLAN is from Census on Employment and Wages (CEW) of the Bureau of Labor Statistics. IMPLAN generates its output data from output series of Bureau of Economic Analysis and Annual Survey of Manufacturers. The household personal consumption data derives from BEA and its National Income and Products Accounts (NIPA). NIPA also provides the data for government through its annual survey of governments. National Agricultural Statistics Service as well as the Annual survey of Manufacturers are the data sources for inventory. Foreign trade derives from data given by the Department of Commerce. Capital data derives from the BEA and its NIPA survey.

Methodology

Property Tax Cap Projection

First, in order to quantify how much fiscal stress the tax cap might cause, we projected a counter factual baseline to compare with what actually happened. To avoid making too many future assumptions, we employed a “what-if” model using historical data to project how the current tax cap would impact property tax revenues if it had been implemented for the previous decade. Our model estimates the tax levy a locality could charge each year if it had a tax cap from 2001 to 2011 by using the formula below.

(Previous Year Property Tax Levy × Growth Factor) × Tax Cap = Current Year Allowable Tax Levy

This formula is a simplified version² of the complex formula used to determine the property tax levy under the New York property tax cap. The previous property tax levy for each year is multiplied by a growth factor to generate the allowable tax levy base. The growth factor³ is a number computed by New York State Comptroller, which accounts for physical growth of each locality. The levy base, considering the growth factor, is then increased by the tax cap⁴, which is the lower of the inflation rate, measured by the Consumer Price Index, or 2%. These steps were repeated for each year from 2001 to 2011 to calculate the 10-year projection of property tax revenue. Through comparing the projected with observed actual tax levy from 2000-2011, we can calculate the property tax revenue shortfall in both real amount and percentage terms if the property tax cap had been implemented 10 years prior. The gap between projected and the observed property tax revenue in 2011 shows the cumulative effect after 10 years on local government annual revenue loss in property tax under the cap. This shortfall in

²Due to data limits, the projection doesn't include any carryovers or exclusions that may have been applied. The growth factor is only available in 2012-2013 and is used in our projection for all years.

³ The average growth factor for each type of local government is used for the first estimates. As growth factor varies across localities, our second growth estimate applies the local growth factor for each individual locality to calculate the property tax revenue loss for each local government. This second estimate is aggregated by regions to be used as shock in the economic impact analysis.

⁴ There are 7 out of 10 years when prior year CPI is higher than 2% so the tax cap is used. The 3 years when prior year inflation was less than 2% are 2003, 2010 and 2011.

2011 captures the cumulative rolling effect of the property tax cap and is used as the final year shock in the following economic impact analysis.

Economic Impact Analysis of Property Tax Cap

Based on the projected long-term property tax revenue loss, we shock this change of government demand to explore the impacts on employment, labor income and output for different regions in IMPLAN. The regional impact model is built from Social Accounting Matrix (SAM) data of New York counties in 2012. In IMPLAN SAM data, there are 440 sectors to describe economic activity within a region. SAM is able to capture the interrelationships between industries, institutions, factors of production and government accounts. Using SAM, we not only model the regional economy but also calculate the multipliers to measure the direct, indirect and induced effects⁵ of economic impact. The multiplier is calculated based on the formulas below.

According to SAM, the matrix could be written as: $\mathbf{AX} + \mathbf{D} = \mathbf{X}$

\mathbf{A} is the matrix of technical coefficients through dividing intermediate sales by total output for that sector to capture the transfers among sectors when unit output is generated.

$\mathbf{A} = \mathbf{Z}/\mathbf{X}$ (\mathbf{Z} is the intermediate sales matrix to record inter-transfers among sectors, \mathbf{X} is total output including value added)

$$a_{ij} = z_{ij}/X_j \quad (i: \text{row number}, j: \text{column number})$$

\mathbf{D} represents the final demand of economy including government spending, consumption, investment and net export of regions.

⁵Indirect effect measures the ripple impacts resulting from the inter-industrial transfers. Induced effects capture the impacts on consumption.

Then we can rewrite matrix as: $[I-A] X = D$

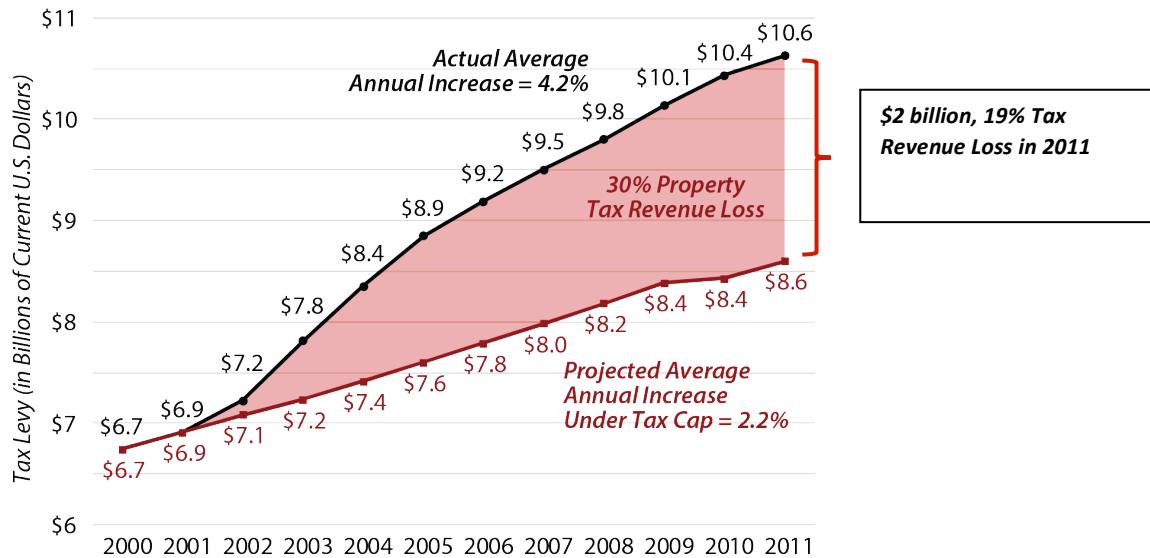
$$X = [I-A]^{-1} D$$

The multipliers are the matrix of $[I-A]^{-1}$. D is the matrix of economic shock, which is our projected government property tax revenue loss as the change of institution spending pattern in this study. The economic impacts X are examined in IMPLAN through the output, employment, labor, and income for different regions in New York State.

Results and Analysis

Property Tax Cap Projection Analysis: Shortfall by Types of Local Government

In order to quantify the property tax revenue loss under the cap, especially over the long term, we conduct a projection of the current property tax cap using historical data to see what the revenue loss would be if it had been implemented for the previous decade. Figure 2 uses the average growth factor to show that for all local governments in New York, the property tax increase shortfall would be 30% and over \$13 billion in forgone revenues for the 10 years total. The average annual levy increase would be 2.2% compared to the actual observed increase of 4.2% (see Table 3). The cumulative property tax revenue loss for the final year of our analysis, 2011, is \$2 billion or 19%.



Source: Author analysis of Local Government Data 2000–2011, NYS Comptroller

Figure 2 Property Tax Revenue Loss under 10-Year Projection for All Local Governments

Table 1 differentiates the property tax revenues loss by types of local government. Through the comparison between observed and projected property tax revenue increases from 2001-2011, we can calculate the 10-year shortfall in property tax increase. Villages and towns are projected to suffer the most loss from the tax cap, missing out on 33.6% or \$4.5 billion, and 41.7% or \$1.7 billion of property tax revenue increases in total across the 10 year period. The rolling effect of the property tax cap indicates that the annual gap in the property tax levy increase becomes larger over time. In 2011, the cumulative effect of the tax cap results in an annual property levy gap of 19.1%, which alone accounts for 2/3s of the total 30% tax revenue loss across the total 10 years. Towns and villages are found to have an even larger annual levy gap of 20.7% and 24.9% at the end of the 10-year projection in 2011.

Table 1 Gap in Property Tax Increase under Cap from 2001-2011 by Type of Government

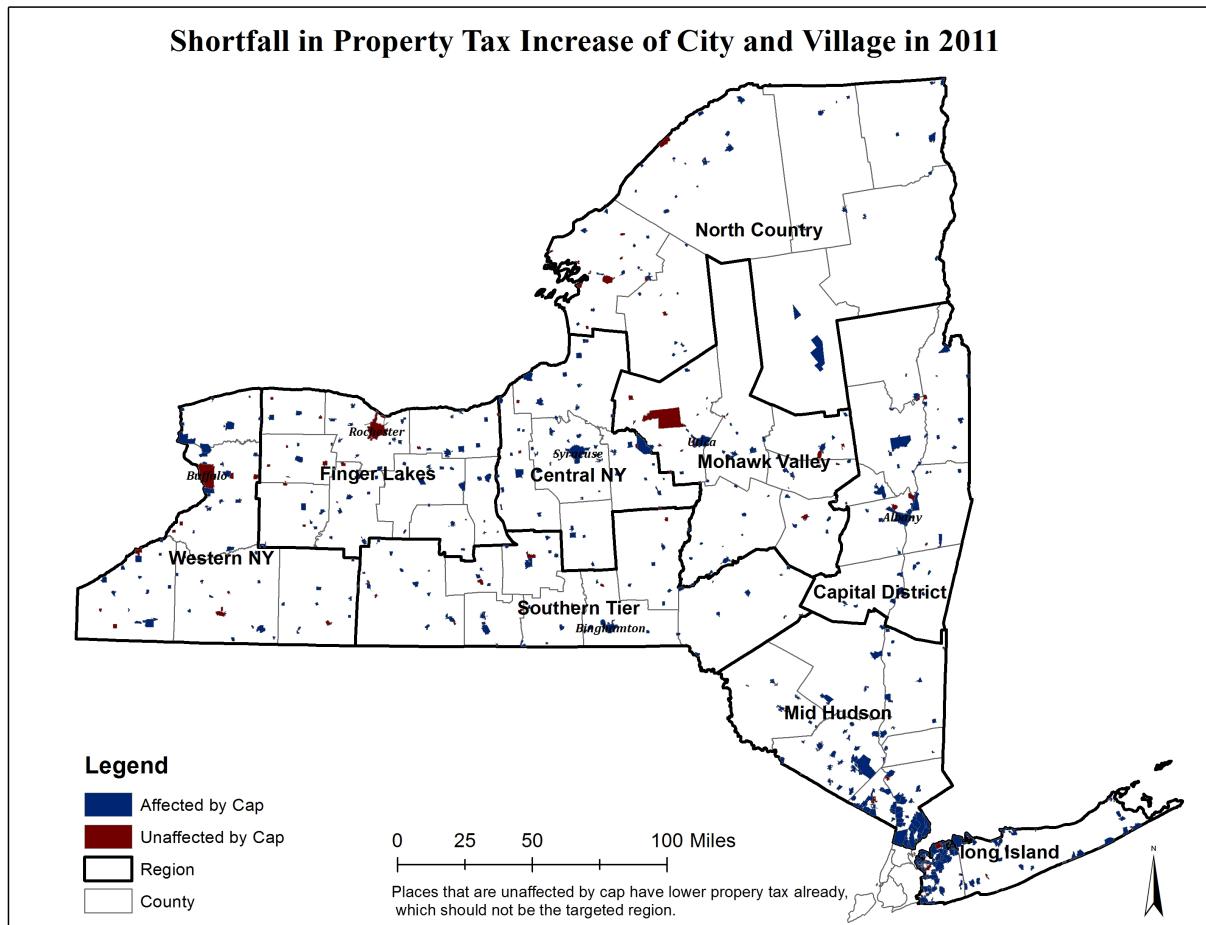
Gap in Property Tax Increase over 10 years						
	Observed 01-11	Projected 01-11	Shortfall 01-11	10 Year Total Tax Loss 01-11	The 10 th Year (2011) Tax Loss	The 10 th Year (2011) Tax Loss %
City	48.9%	26.1%	-22.8%	\$-995,137,489	\$-153,092,461	-15.3%
County	53.7%	27.2%	-26.6%	\$-6,107,576,686	\$-832,485,402	-17.3%
Town	62.2%	28.6%	-33.6%	\$-4,495,186,711	\$-744,022,575	-20.7%
Village	67.6%	25.9%	-41.7%	\$-1,689,984,034	\$-304,531,339	-24.9%
Total	57.5%	27.5%	-30.0%	\$-13,237,516,241	\$-2,025,260,277	-19.1%

Sources: Author analysis of Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; US Department of Labor, Bureau of Labor Statistics, 2013

Regional Analysis: Shortfall in Property Tax Cap Increase

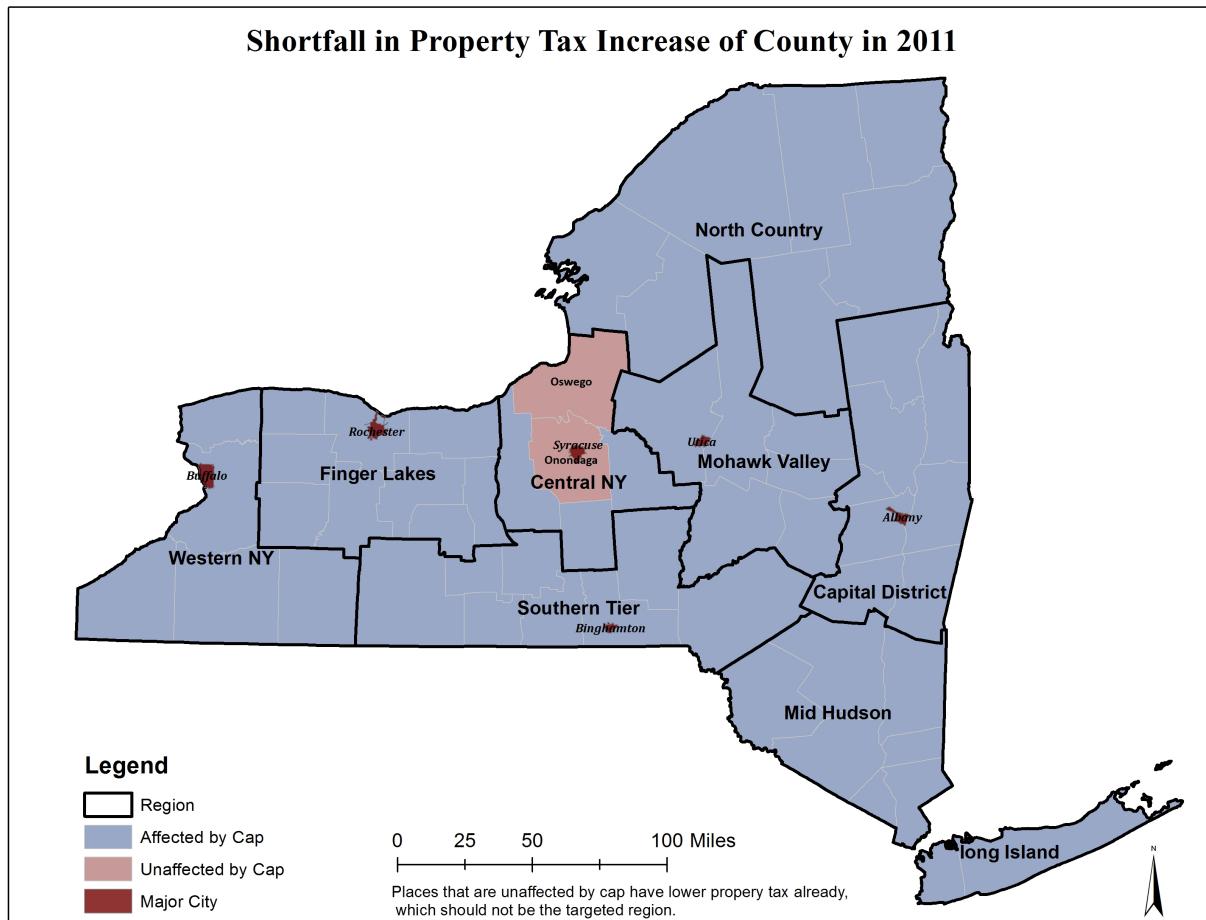
Our estimate employs the local growth factor⁶ to calculate the cumulative increase in the gap in property tax revenue for each locality. Figures 3-5 demonstrate the spatial variations of the increase shortfall in property tax for all municipalities. In applying the actual local growth factors to project the tax cap impact, we found not all local governments experience a tax revenue loss. There are 231 local governments, including 9 cities, 2 counties, 147 towns and 73 villages, whose actual tax rates were lower than our projections. These places are not affected by the property tax cap, because property taxes rates in these localities were already under the tax cap. The majority of the unaffected places are in Upstate, which suggests high property tax burden is primarily a downstate rather than an Upstate problem. For example the cities of Buffalo and Rochester already are constraining their property tax rate growth and are unaffected by the cap, while most affected cities and villages are concentrated along Hudson River and Long Island. Onondaga County, home to Syracuse, and Oswego county also are shown to stay under the cap.

⁶The local growth factor is calculated by the New York Comptroller's office to determine the change in the size of the local tax base due to physical growth through new development.



Sources: Property Tax Cap projection results using Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; US Department of Labor, Bureau of Labor Statistics, 2013

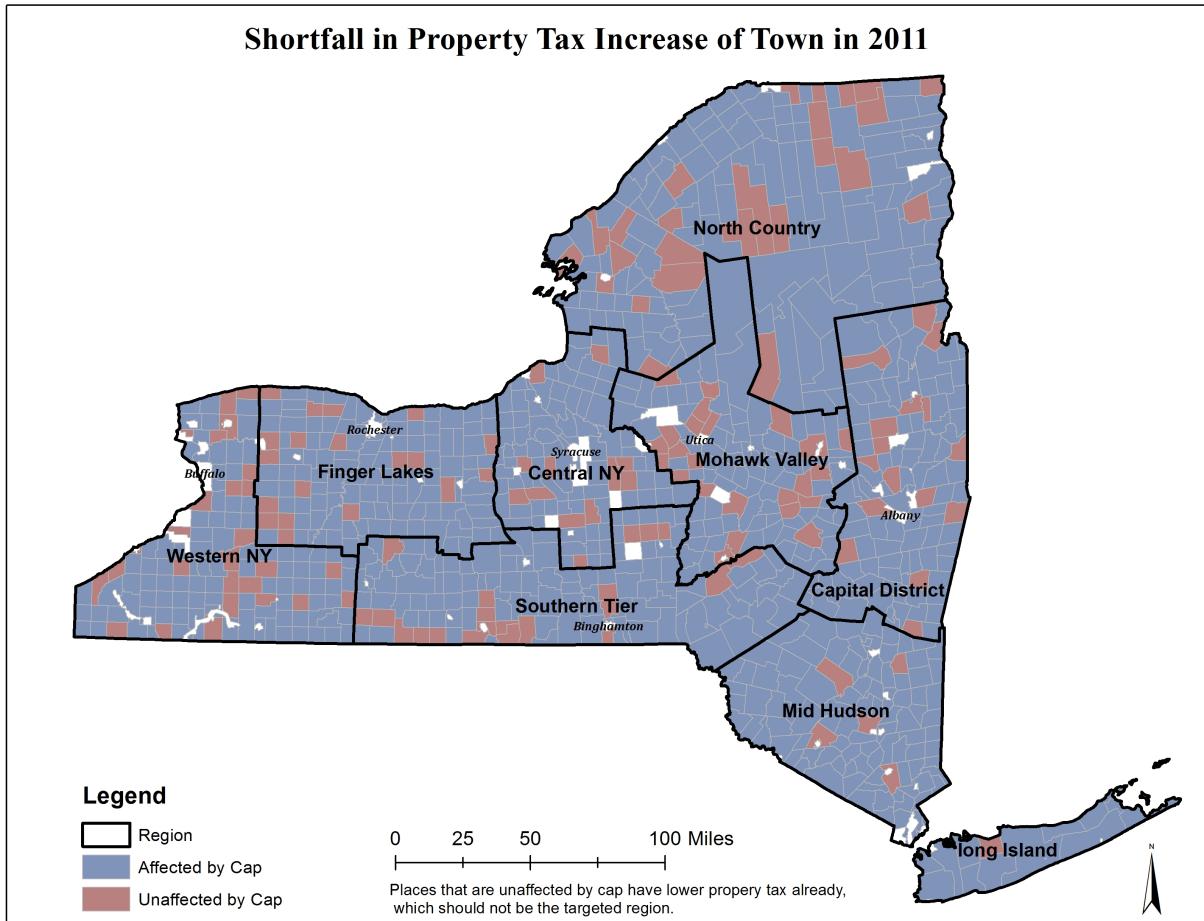
Figure 3: Shortfall in Property Tax Increase of City and Village in 2011



Sources: Property Tax Cap projection results using Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; US Department of Labor, Bureau of Labor Statistics, 2013

Figure 4: Shortfall in Property Tax Increase of County in 2011

The uniform tax cap is a blunt constraining instrument that ignores local conditions. The tax cap is not the major constraining factor for localities with high need and limited tax base, such as Buffalo, Rochester and Syracuse. However, affected places are also found in Upstate. For example, the Southern Tier region has suffered economically. Local government revenues are now further affected by property tax cap, which worsens local fiscal stress. The highest effects are found in the two downstate regions, Mid-Hudson and Long Island. These regions also have the highest property tax burden.



Sources: *Property Tax Cap projection results using Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; US Department of Labor, Bureau of Labor Statistics, 2013*

Figure 5: Shortfall in Property Tax Increase of Towns in 2011

Table 2 displays the cumulative gap in the property tax increase by regions in 2011 if the cap had been applied for 10 years. When we control by population size, the results are robust to find higher property tax loss downstate than Upstate. The Mohawk, Central, Finger Lakes and Western regions in Upstate New York have lower projected tax loss than downstate due in part to the fact that their property tax dependence is lower.

Table 2 Gap in Property Tax Increase in 10th Year (2011) by Regions

REGION	THE 10 TH YEAR (2011) PROPERTY TAX LOSS (SHOCK)	THE 10 TH YEAR (2011) PROPERTY TAX LOSS PER CAPITA
LONG ISLAND	-646,082,302	-228
UPSTATE	-1,622,116,335	-194
MID-HUDSON	-798,768,604	-349
CAPITAL DISTRICT	-224,282,161	-208
NORTH COUNTRY	-81,682,970	-189
MOHAWK VALLEY	-63,529,215	-127
SOUTHERN TIER	-138,671,081	-211
CENTRAL NY	-67,276,383	-85
FINGER LAKES	-147,144,947	-121
WESTERN NY	-100,760,974	-72

Sources: Author analysis of Local Government Data 2000–2011, NYS Comptroller; Property Tax Cap Data 2012–2013, NYS Comptroller; CPI from US Department of Labor, Bureau of Labor Statistics, 2013

Regional Analysis: Local Need and Fiscal Capacity

Next we compare local need and fiscal capacity by regions in New York State. For local fiscal capacity, we examine property tax and state aid together to show the regional difference in local fiscal structure. Local need is measured by unemployment rate, per capita income, GINI and poverty. Table 3 compares fiscal capacity across regions and shows relative dependence on different revenue sources in both real amount per capita and as a percent of total expenditure. The big difference is that Long Island has higher property tax per capita, \$1207, and more dependence on property taxes, 33.0% as compared to Upstate where property tax per capita is \$886 and accounts for 26.2% of the local budget. Upstate does not have as strong a property tax base as Long Island has, and relies more on state aid for its public expenditure. State aid to Upstate is \$403 per capita, accounting for 11.9% in total expenditure while

Long Island is more fiscally independent with state aid only at \$250 per capita and 6.8% of the budget. In other words, New York's high property tax burden is primarily driven by Long Island rather than Upstate.

Sales tax is similar for both Long Island and Upstate while Upstate is more dependent on user fees for local revenue. Breaking down Upstate, we see high property taxes in the Mid-Hudson region, which includes the northern suburban counties on the other side of NYC from Long Island. All other Upstate regions have lower property tax than the Upstate average. Regarding dependence on state aid, state aid is more important to Western New York (Buffalo Region), Mohawk Valley (Utica Region), and Central New York (Syracuse Region) and Finger Lakes (Rochester Region). While property taxes are high across the state, it appears that the two downstate regions, Mid-Hudson and Long Island, the suburban fringe of NYC, which have both high property taxes and local wealth, are the real target of New York property tax cap.

Table 3 Local Government Revenue Structure across Regions in New York

		PROPERTY TAX		STATE AID		SALES TAX		USER FEES	
		pc ⁷	% exp ⁸	pc ⁶	% exp ⁷	pc ⁶	% exp ⁷	pc ⁶	% exp ⁷
LONG ISLAND		1207	33.0%	250	6.8%	831	22.7%	349	9.5%
UPSTATE		886	26.2%	403	11.9%	778	23.0%	491	14.5%
	Mid-Hudson	1279	32.6%	422	10.8%	724	18.5%	529	13.5%
	Capital District	723	23.6%	346	11.3%	832	27.2%	464	15.2%
	North Country	765	21.7%	372	10.5%	708	20.1%	789	22.4%
	Mohawk Valley	666	24.0%	378	13.6%	703	25.3%	358	12.9%
	Southern Tier	772	24.5%	372	11.8%	716	22.8%	482	15.3%
	Central NY	705	20.4%	444	12.9%	781	22.6%	513	14.9%
	Finger Lakes	741	22.9%	411	12.7%	817	25.3%	522	16.1%
	Western NY	768	24.3%	415	13.2%	865	27.4%	368	11.6%

Source: Author Analysis of Local Government Finance Data 2012, NYS Comptroller in \$ of 2012

⁷pc means per capita to compare the magnitude of different local government revenue sources controlled by population.

⁸% exp means the percentage of total expenditure to compare the dependence of local budget on different revenue sources.

Table 4 shows the spatial disparities in local need. Upstate has greater local need than Long Island, which has higher per capita income, lower unemployment rate and a much lower poverty rate. Per capita income in Long Island is 1.5 times that of Upstate, while the poverty rate is less than half of Upstate. Within Upstate, except for the Mid-Hudson region, the other regions have lower per capita income level and higher poverty rates. However, the GINI coefficient of inequality is higher in the Mid-Hudson region. Poverty is higher in regions which have greater needs, such as Western New York (Buffalo Region), Mohawk Valley (Utica Region), and Central New York (Syracuse Region), Finger Lakes (Rochester Region) and Southern Tier (Binghamton Region). These are regions with great need and poverty don't have tax wealth and per capita income to raise property taxes.

Table 4 Local Need across Regions in New York

	UNEMPLOYMENT	PER CAPITA INCOME	GINI	POVERTY
LONG ISLAND	7.4%	\$39,673	0.43	6.2%
UPSTATE	8.4%	\$26,518	0.43	13.3%
Mid-Hudson	8.7%	\$34,638	0.45	10.8%
Capital District	7.8%	\$29,955	0.43	11.4%
North Country	9.5%	\$24,188	0.42	16.2%
Mohawk Valley	8.8%	\$24,421	0.43	14.2%
Southern Tier	8.2%	\$25,016	0.43	16.1%
Central NY	8.1%	\$24,997	0.43	14.6%
Finger Lakes	8.1%	\$25,097	0.42	13.8%
Western NY	8.7%	\$23,833	0.43	15.1%

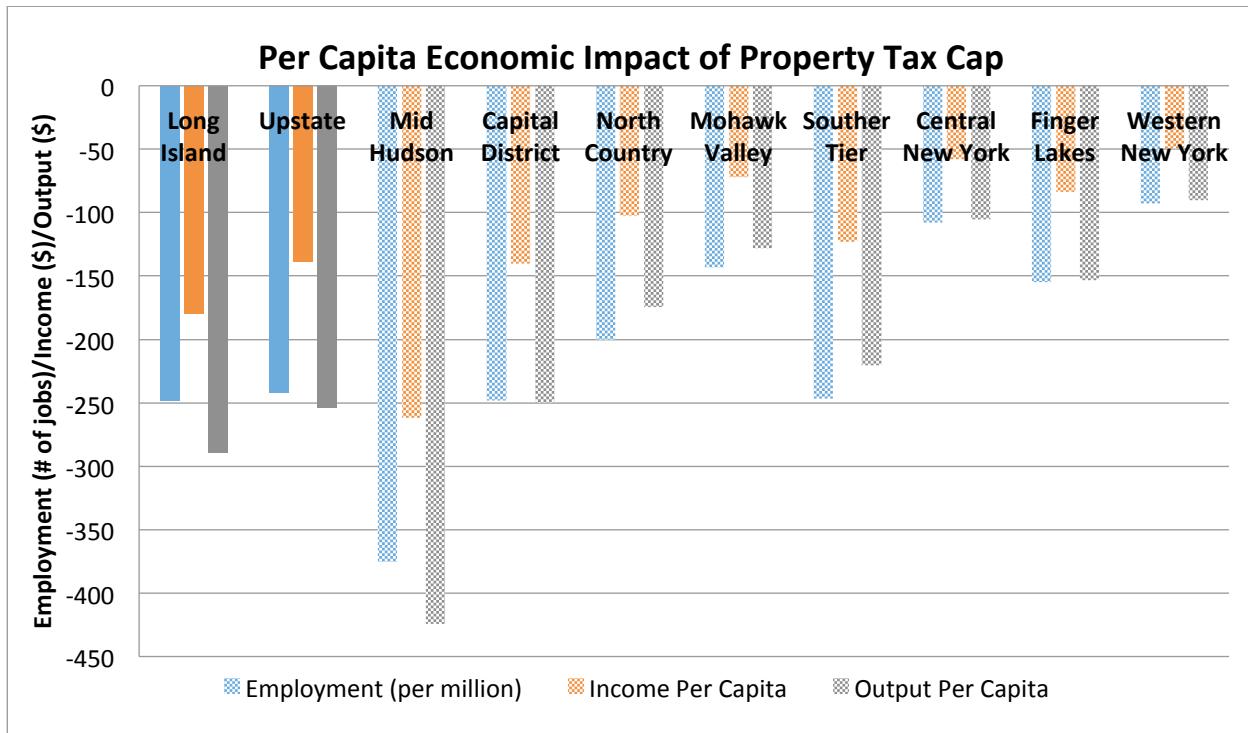
Source: Author Analysis of American Community Survey 09-13 in 2012 dollars

While the descriptive statistical results show that property tax and the revenue loss under the cap are higher in Long Island than Upstate, these analyses only focus on fiscal implications on government revenues. We are also interested in how the property tax cap impacts the regional economy. Considering complexity and disparities of regional economic structure and local socioeconomic conditions, state policy, such as this property tax cap, could have disproportional impacts

on the regional economy and on certain sectors. Regional economic analysis is needed to determine the broader economic impacts of the tax cap.

Regional Economic Impact Analysis (IMPLAN)

We conducted economic impact analysis of the property tax cap in IMPLAN using the projected property tax revenue loss by regions in the 10th year, 2011, as our government spending shock (see Table 2). The results of impacts are examined through indicators of employment, labor income and output (See Figure 6) controlled by population size. The consequences of economic loss are not linearly correlated with revenue loss across regions. Even though Long Island is more reliant on the property tax and has higher projected per capita property tax loss than Upstate, the negative impact on the Upstate economy is similar to Long Island. Differences in economic structure and local conditions make each dollar of property tax revenue loss hurt the economy more in Upstate. Although the property tax burden is not as high Upstate as in the Mid-Hudson and Long Island suburban collar counties to NYC, the Upstate region is hurt more by the disproportional impacts of this uniform tax cap. When disaggregating Upstate, the Capital District and Southern Tier have more dependence on the property tax and higher projected tax loss and are also found to have similar negative economic consequence with Long Island. Therefore, economic inequality across regions has been worsened by property tax cap. This suggests that instead of a “one-size fits all” policy, the State should adjust this uniform property tax cap giving more exemptions and overrides to places with already lower property tax and suffering side effects of disproportional impacts on the local economy. More spatially targeted state aid to Upstate and state centralization of fiscal responsibility for programs and services (such as Medicaid) is needed to make up for these negative consequences on the Upstate economy and local fiscal conditions.



Sources: Shock of total property tax loss on regional economy 2012, analysis presented as per capita impact

Figure 6 Per Capita Economic Impact of Property Tax Cap

IMPLAN also enables us to examine the impacts of the property tax cap across sectors. We find the most negatively affected sectors are related to local government, real estate, health and education. Upstate shows a more negative impact on higher education and nursing homes. Compared with Long Island, this reflects the importance of higher education to Upstate economy and the higher proportion of the seniors in the Upstate region.

Conclusion

Tax and Expenditure Limitations (TELs) have been shown in other studies to have differential effects across space – limiting revenues the most in poorer districts with greater need and weaker economies. In this analysis we have projected the impact of New York's tax cap if it had been applied ten years prior. We find that the greatest loss in property tax revenue is in the regions with the greatest

level of property taxes and highest percentage budget reliance on the property tax. These are the suburban collar counties to New York City – Long Island and the Mid-Hudson region, which also have the highest incomes. While New York City is exempt from the property tax cap, these high cost suburban counties are not.

In Upstate New York we find a different story. Here property taxes are a bit lower than downstate, as is property tax dependence. The one exception is the Southern Tier where property tax dependence is higher, though not as high as downstate. In general state aid is higher in the Upstate regions. These are primarily old manufacturing regions with struggling post-industrial economies. Need, as measured by poverty rates and unemployment is higher Upstate and per capita incomes are lower. Local governments in these Upstate regions have diversified their fiscal structure with greater reliance on user fees than downstate. While the property tax cap is a burden for these Upstate regions, they do not have the capacity to raise property taxes as much as downstate due to their overall weaker economies. Indeed in our analysis we found 231 municipalities Upstate were unaffected by the property tax because they had voluntarily kept their tax rates below the cap.

What we see emerging here is the tale of three New Yorks. New York City, the Big Apple and economic engine for the state, is exempt from the tax cap. It is also one of the few cities in the state allowed access to a local income tax. The second New York is Long Island and to some extent the Mid-Hudson Region. These are the suburban counties surrounding New York City. Their economies are vibrant and growing and incomes are generally high (Fiscal Policy Institute, 2014). Property tax dependence is high. These appear to be the primary target of Governor Cuomo's tax cap. The third New York is Upstate. Here we find municipalities that, by and large, have kept revenues under the cap even before it was implemented. Weak economies and low incomes limit the extent to which these local governments can raise property taxes.

Our analysis goes a step further to assess the broader regional economic impact of the tax cap on local government expenditure. We find that even though the direct impact on revenue loss is highest on Long Island, the broader impact on the regional economy is as high in Upstate. This is because local government expenditures fund the infrastructure and services that are core to economic vitality. When basic services suffer, then the economy suffers too. Upstate New York's economy has lagged for quite some time, a product of deindustrialization. But Upstate local governments have been frugal. Expenditures among local governments in New York State have remained flat in real terms over the decade (Warner, 2015). The tax cap further constrains expenditure growth (Rivera and Xu, 2014). Among municipality types, we find towns and villages, which have limited alternative sources of revenue, are most severely constrained by the tax cap. Keeping the property tax revenue increases below the rate of inflation means local government expenditures must drop in real terms. Our economic analysis shows the broader effects of limited local government revenue – further crippling the regional economy.

Our tale of three New Yorks gives insight into the nature of austerity policy. State policy is trying to turn local government from a “growth machine,” investing in the core government services that promote economic growth, to an “austerity machine” that faces severe limits on revenue raising capacity. This problem is most pronounced in the growing regions – Long Island and Mid-Hudson. For the declining regions Upstate, the tap cap will lead to further hollowing out, not just of the economy but of the public sector. Infrastructure is the foundation for economic development, and local and state government are the primary funders of such infrastructure and services.

New York State is the second most decentralized state in the US – according to the 2012 US Census of Government Finances, fully 64% of every dollar of state and local spending is the responsibility of local government. While state aid to localities is high, and higher per capita Upstate where poverty is higher, it is not enough to overcome the local burden created by state mandates. Mandate relief, the third leg in the stool of fiscal reforms originally proposed by the Legislative Commission (2008) and the

Governor, has not happened. These policies have helped the State address its own fiscal challenges and provided a very positive political narrative for the Governor, that local government is the problem.

However, the result is a state policy that starves local government and by extension the regional economy. This is perhaps best captured by Syracuse, an Upstate city whose mayor, Stephanie Miner, has called for mandate relief, and state support for local government to invest in critical local infrastructure for economic development. Governor Cuomo, in a January 2015 visit to the city, responded to the City's request for funds to fix critical infrastructure, "You are unsustainable. You need jobs, an economy, business. Show us how you become economically stronger and create jobs, then you fix your own pipes." (Syracuse Post Standard, 2015).

Urban scholars such as Jessop (2002) have focused on state rescaling as a process in which city regions are recognized as economic drivers and able to claim power to lead a region in the global economy. While that may be true for the first New York, New York City, it is not true for the other two New Yorks. State policy is actively starving the suburban counties of Long Island and the Mid-Hudson, as well as the Upstate cities and rural areas, which have long suffered economic decline.

Our analysis calls for a new understanding of state rescaling that looks especially at the power of the mid-level state – in constraining local action and in passing fiscal crisis down to the local level. If an “austerity machine” is driving New York, it is the State, not the local governments. Urban scholars such as Peck (2014) and Donald et al (2014) should be careful not to blame the victim. Cities have limits, made more strict by state policy which ignores the basic links between public investment and economic growth.

TELs need to be understood in the context of decentralization with particular attention to the role of state policy. When implementing TELs and mandates to pursue local efficiency, the State should also offset the negative impacts of these policies, such as increasing local fiscal stress, service cuts, more regressive revenue structure and regional inequality. Based on experience in other states, we

recommend adjustments of New York's current property tax cap structure allowing more exemptions and overrides, more spatially targeted state aid to places in greater local need and severe fiscal stress, and the lifting of mandates by centralizing spending responsibility to the State level. State policy is the key to promote greater economic efficiency as well as regional equity. Mandate relief can free local budgets from growing redistributive responsibilities, and ensure that New York's Property Tax cap does not undermine the state's capacity for economic growth or endanger the long-term resiliency and sustainability of New York localities.

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