

# NEW YORK MATTERS

## REFORMING NEW YORK'S PROPERTY TAX CONFERENCE SUMMARY

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## **REFORMING NEW YORK'S PROPERTY TAX**

New York has some of the highest property taxes in the nation. Measured as a percentage of home value, property taxes in five Upstate counties (Niagara, Monroe, Onondaga, Wayne and Chautauqua) are the highest in the nation. Four other Upstate counties -- Erie, Schenectady, Cayuga and Chemung -- are also in the top 10. Viewed on their own, median property taxes in Westchester and Nassau counties are the highest in the nation (Rockland and Putnam are also in the top 10).

The Center for Governmental Research gathered some of the state's top fiscal and tax experts to discuss what to do about New York's property taxes at a conference in Albany on Jan. 10, 2007. Participants debated the reasons for our relatively high taxes and possible solutions, along with discussing the fine points of property assessment. Perhaps the strongest point of agreement was criticism of the state's School Tax Relief program (STAR) enacted in 1997 to help overburdened property taxpayers. The following overview summarizes some of session's key points.

### **Options for Reducing the Property Tax Burden**

#### *Spending is the key*

"We have a spending problem here in NY, and that's why we have a property tax problem," said Robert Ward of the Public Policy Institute.

New York collected 10.2% of all property taxes in the United States in 2004, though it claimed only 6.6% of the nation's population and 7.8% of gross domestic product, Ward said. He noted that these high property taxes do not offset low taxes elsewhere, as the personal income tax, sales tax and corporate income tax are also relatively high.

Ward pointed to government payrolls as one reason spending continues to rise. Local-government employment rose 12.6 percent in the last decade though the overall population was up just 4 percent. School staffing increased 21 percent though student enrollment was up just 5 percent.

To put that in a national context, New York has about 57 local government workers for every 1,000 residents, while the national number is 49. Upstate is even higher, at almost 63 local government workers per 1,000 residents, according to Ward.

Spending needs to be brought in line through trimming pension and health benefits, considering whether we truly need all the government workers we have, and bringing the Medicaid program

providing subsidized health insurance to more than 4 million New Yorkers under control, Ward said.

### *STAR is not the answer*

When former Governor Pataki unveiled the School Tax Relief program (STAR) 10 years ago, it was the most significant commitment New York State has ever made to directly reducing local property taxes, said E.J. McMahon of the Empire Center for New York State Policy. The program reduced local school tax payments by exempting part of the value of the taxpayer's home from school taxes. The state makes up the difference, which now adds up to \$3.4 billion in additional payments to school districts from the state.

Yet, "Here we are talking about property tax reform. What happened? Why isn't everyone \$3.4 billion happier than 10 years ago?" McMahon asked. "Because STAR treated a symptom, not the disease." He likened the temporary relief to "a large dose of fiscal Novocain."

But it didn't have to turn out this way, McMahon said. Pataki originally proposed that STAR include a cap on annual increases of school property taxes, though voters would have the ability to override that cap with a two-thirds majority should they deem it necessary to raise more taxes.

The Legislature rejected the cap, even though Assembly Speaker Sheldon Silver had proposed a similar cap two years earlier, McMahon said. Now, STAR adds to the property-tax problem.

"When you subsidize something, you get more of it. In the final analysis, STAR is not a tax cut, but a tax shift, as the Comptroller's Office pointed out," McMahon stated.

An April 2006 Comptroller's Office report outlining concerns with STAR had this to say: "Although often described as a tax cut, STAR exemptions are actually a transfer of tax burden, from homeowners paying local school property taxes to taxpayers statewide."

### *Some point to a property tax cap*

Between 1998 and 2006, school property tax levies went up 57 percent, far outpacing the 24 percent growth in the Consumer Price Index, McMahon said. The increase in school property tax levies amounted to \$3 billion, even though there was no net increase in school enrollment outside of New York City. McMahon argued that, "There would be \$2-3 billion less in property tax levies if the Governor's cap had been enacted."

Elizabeth Karasmeighan of Americans for Tax Reform cited Massachusetts as a state where a property-tax cap has worked.

In 1977, Massachusetts had the highest property taxes in the nation. In 1980, the state enacted Proposition 2 ½ limiting the growth in local property tax levies to 2.5 percent, not including new construction. Voters may override the levy limit in a referendum should they desire a higher tax increase.

Around the same time, New Jersey, also one of the states with the highest property tax burden, created a new income tax and devoted the revenues to property tax relief. Since 1973, New Jersey's property taxes have increased 36 percent in inflation-adjusted dollars, whereas Massachusetts' property taxes have actually decreased 7 percent, Karasmeighan said. Now New Jersey taxpayers are paying income tax and have the highest property taxes in the nation, and Massachusetts has dropped to 32<sup>nd</sup> place in property taxes.

McMahon said New York should adopt a similar cap, limiting the growth in school tax levies to 4 percent, not including new construction or increases in student enrollment. Voters should be able to override the cap with a two-thirds vote, he said.

### *Problems with a cap*

Frank Mauro of the Fiscal Policy Institute did not see tax caps as a solution to high property taxes. A tax cap likely would “institutionalize and exacerbate the inequities inherent in the current system.”

Mauro said the real problem is that needs and resources aren't distributed equally across New York's communities. Areas with high needs and low resources have to tax at high rates because they don't receive enough help from the state.

The state has cut programs that provide aid to local governments. And, when it comes to paying for the expensive Medicaid program, the state does not provide more aid to poor counties than to richer counties, Mauro said.

The state should be doing more to use the wealth of the entire state to help poorer areas. “It does matter what level of government revenue is raised at; tax-based resources are not by some magic divided among localities in the same proportion as needs,” Mauro said.

In the area of education, state aid as a portion of school budgets has fallen to a 50-year low. When STAR is taken into consideration, the State covers a larger share, but STAR is distributed in a very different manner than other state aid to public schools. Rather than providing more aid to poor areas, STAR generally provides the same benefit to all homeowners in a particular school district regardless of their income levels and their property tax bills, or more importantly, the relationship between their income level and their property tax bills, said Mauro.

As a result, homeowners who pay relatively little of their income to property taxes benefit from STAR. As currently structured, STAR costs much more than it needs to for the amount of relief it provided to homeowners who are truly overburdened by their property taxes, Mauro said.

He also pointed out that STAR benefits are based on county and school district averages. The result is that two homeowners with the exact same income and the exact same school property tax bill can receive very different amounts of relief if they live in different counties.

Mauro said the state would best address the property-tax problem by stepping up aid to poor school districts, paying more of the Medicaid costs in poor areas, increasing aid to local governments and eliminating the fiscal disparities in STAR that disadvantage city school districts with high percentages of renters.

### **The Troubled World of Property Tax Administration**

Apart from the level of property taxes, many problems exist in the system that New York uses to value property for tax purposes. That was the focus of the conference's second panel.

"Property taxes are the foundation of local government in New York, and what we have is anarchy," said Jim Dunne of the Office of Real Property Services. "There's no other word to describe it. It's worse here than in any other state in the nation. You have to look at local government structure in general to understand why."

With more than 4,000 local governments, New York is far above most states. More local governments mean more employees and higher costs. "How many do you need? Two hundred by the standards of modern industrial countries. It's a colonial-era system and no one wants to change it," Dunne said.

In addition, the state made a mistake when it passed a law in 1981 allowing local governments to assess property at a percentage of its value, Dunne said. Before that, governments had to value property at its full market value for tax purposes. The 1981 law "effectively permitted assessing units to ignore market value changes and copy inequitable rolls over, year after year," Dunne said.

As a result, in some pockets of the state, assessments are a small fraction of market value and years or decades out of date. "There are towns in Long Island and Westchester County where the average percentage of market value is one percent or less. That means the assessment took place between World War I and World War II."

Dunne said there has been progress in improving the assessment system. More jurisdictions today have appointed, as opposed to elected, assessors. Appointed assessors are more likely to possess the professional skills necessary to assess accurately.

Also, the percentage of jurisdictions with assessment uniformity has increased. Dunne's office measures uniformity by comparing assessed and market values. Jurisdictions are considered to have uniformity if properties are assessed at a uniform percentage of market value, with relatively little deviation.

But the state changed its standard for how much deviation is acceptable, and that led to some of the increase in jurisdictions meeting the standard, said David Gaskell, formerly director of the Office of Real Property Services and now a consultant with the Hudson Group.

The relationship between property assessment for tax purposes and value is almost random in some parts of the state. "I'm amazed that we haven't had a genuine revolt" over property taxes, Gaskell said.

New York also has far too many entities conducting property assessments, Gaskell said. Most states have 60 to 70 assessing entities. New York has more than 1,000, including towns and villages that duplicate each other's work. The result is inefficiency, Gaskell said.

Both Dunne and Gaskell agreed New York needs to enact standards for property assessment, requiring jurisdictions to update assessments at least every few years. Gaskell also called for New York to cut the number of assessing units and give the state Office of Real Property Services more authority to enforce good assessment practices.






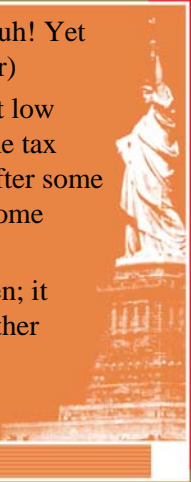
## Property Taxes in the Empire State

*Robert Ward  
Director of Research  
Public Policy Institute  
of New York State*


### A \$7.6 billion extra burden in 5 years

- 
- Property-tax levies jumped 60 percent from 1995 to 2005, more than twice the rate of inflation
  - Most of that growth occurred from 2000-05 – 42 percent, compared to 13 percent inflation
  - That five-year increase totaled \$11 billion; if held to the inflation level, taxpayers would have saved **\$7.6 billion**
  - New York collected 10.2% of all property taxes in the U.S. in 2004 – although we're 6.6% of population, and 7.8% of GDP

### Why are property taxes going up?

- 
- Because SPENDING is going up! (Duh! Yet we often ignore that side of the ledger)
  - It's not that high property taxes offset low taxes elsewhere – our personal income tax collections are still very high (even after some cuts); our sales-tax and corporate income taxes are high, as well
  - More state aid can't cut our tax burden; it simply shifts it from one level to another

### Why are property taxes up? Part II

- 
- School districts represent the largest total collectors of property taxes – \$14.4 billion outside New York City
  - They also showed the biggest percentage increases for both 1995-2000, and 2000-05
  - School spending rose far more sharply over the period (59%) than did enrollment (12%)
  - New York City, counties and municipalities are important, too – with \$21 billion in levies

### Why are property taxes up? Part III

- Property taxes aren't replacing other revenues – those are all rising faster than inflation
- For instance, state aid for all local governments was up by nearly 2x inflation from 2000-05
- Federal aid was up even more sharply
- Non-property tax revenues (sales, other taxes) also outperformed inflation easily
- Local debt is rising faster than property values, according to comptroller's office

### The boom in local payrolls

- One key reason for rising spending: Local-government employment statewide is up by 119,000 jobs, or 12.6%, in the last decade
- Our population during the period: Up 4%
- Some 83,000 of those new taxpayer-funded jobs were added in public schools
- That was a staffing increase of 21%, while enrollment rose only 5% during the period

### What about YOUR school district?

Region	School jobs added, 1996-'06	Percent increase
Long Island <i>(enrollment up 17%)</i>	17,000	23%
Westchester-Rockland-Putnam	10,400	34%
Dutchess-Orange	5,300	32%
Monroe County (Rochester)	6,000	19%

Source: U.S. Bureau of Labor Statistics

### More on those local payrolls

- New York State has an “extra” 156,000 or so local-government jobs, compared to U.S.
- More than half of those are Upstate
- Taxpayers here provide far more generous pay (26% above average), and richer benefits
- Conservatively estimating an average cost of \$45,000 per job, those extra jobs add up to additional taxes of \$6.7 billion statewide – and \$4 billion or so in extra taxes Upstate

## Those extra 156,000 jobs

	Local-government jobs, 2003	Local jobs per 1,000 residents
U.S.	13,802,000	49
New York State	1,087,200 (930,680, if we matched U.S. average)	57.3
Upstate	432,300 (338,800, if we matched U.S. average)	62.6

Details: *How High Is The Upstate Tax Burden – and Why?*  
[www.ppiny.org](http://www.ppiny.org)

## So, what to do about property taxes?

*We won't control taxes until we control spending. Some specific steps:*

- Rationalize public pensions and health benefits
- Look closely at the number of jobs – our local governments and schools are significantly overstaffed compared to other states
- Repeal Wicks; fix prevailing wages
- Get Medicaid under control, starting with a real look at the data

## What to do? Part II

- School-district budgets keep going up because voters keep saying 'yes'
- What Pogo said: The enemy is us
- Except, in some ways, it's not voters' fault – they sense that rejecting the budget doesn't change much
- We need to change the assumption that more school spending is always a good thing
- And resist unions' grabs for more power

## Good news from Governor Spitzer

- The right message from that bully pulpit: *'Now is the time to rein in spending'*
- Raising taxes in Albany is not the way to reduce taxes at the local level; instead, let's look for ways to control costs
- 'Reform mandates such as the Wicks Law'
- Consolidate the 'multiple layers of local government...that cost taxpayers millions each year in duplicative services.'

## More on the Spitzer agenda

- On education, ‘The debate will no longer be about money, but about performance...School districts must show where the money is spent, and whether it’s getting results.’
- ‘Fundamentally reform our health care system’ to reduce Medicaid costs; keep the promise on the local Medicaid cap
- Cut workers’ compensation costs – an issue for government as well as private businesses

## Contact info

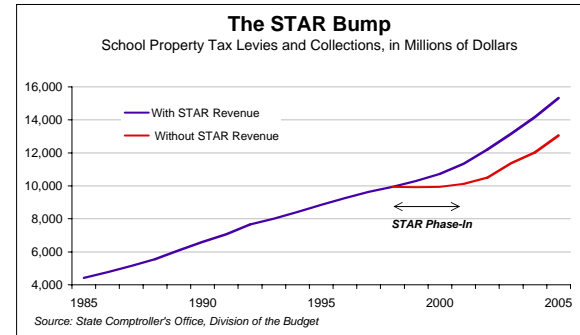
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# Reforming Property Taxes: *The Case for A Cap*

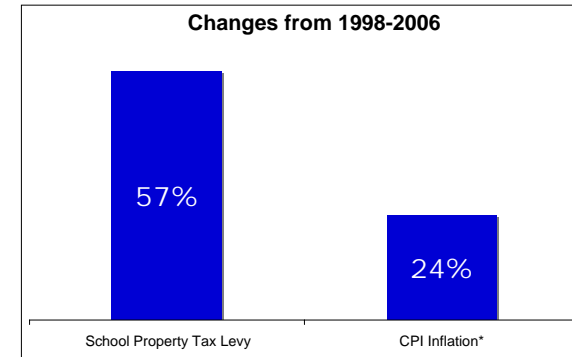
E.J. McMahon

**EMPIRE CENTER**  
FOR NEW YORK STATE POLICY  
A project of the Manhattan Institute for Policy Research



## “Prop Four”

1. “The amount of taxes levied for school district purposes for any school year may not exceed the amount of taxes levied for the prior school year by four percent, or by the ‘inflation factor’ .... [which] shall be a percentage that represents the average of the national consumer price indexes determined by the United States department of labor for the twelve months of the prior calendar year.”
2. “The inhabitants of a school district may, by a two-thirds majority vote, suspend the limitations imposed by this section ... [for] no more than one school year.”
3. “The tax limit may be increased in proportion to the net percentage increase in [district] enrollment.”
4. “If the quantity of real property within the district has increased due to new construction, improvements, or other physical improvements, the tax limit may be increased in proportion to the net percentage quantity increase.”



## Property Tax Reform: A Tale of Two States

Elizabeth Karasmeighan  
Americans for Tax Reform

Across the country, property owners are facing steep bills from the tax collector. In response to a growing taxpayer outrage, lawmakers are turning to examine the way property taxes are levied.

While several legislatures debate options which increase other taxes to “pay for” property tax cuts, the root problem is rarely addressed: out-of-control spending.

### The Key to Reform is in the System

- Property taxes, unlike sales and income taxes, are directly tied to local spending.
- The formula: minimum desired for spending purposes – current revenues = minimum amount sought through rate hike

☞ Meaningful reform must limit growth in local government spending

### Increasing other Taxes will not Work

- Property taxes are assessed on the local level and are not controlled by state legislatures. Localities receiving aid from the state for property tax relief, tend to spend the aid without cutting property tax rates.
- Experience has shown that rates will eventually creep up again.
- Additionally, local spending tends to increase with state aid and increases in other taxes, rather than decrease as it would under an effective tax cut.

☞ By increasing other taxes to attempt to fund property tax relief that is short-lived at best, state lawmakers are treating a symptom, not curing the over-spending disease.

## A Model for Reform

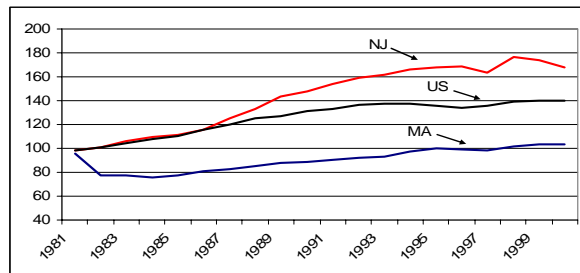
- In 1981, Massachusetts implemented a successful method of restricting ever-increasing property tax bills, enacting a *levy limit and a levy ceiling*. Proposition 2 ½, has reduced the property tax burden and has given voters the power to shape spending and taxation decisions.
- Proposition 2 ½ establishes two limits:
  - a levy ceiling that caps municipal property taxes at 2.5 percent of total assessed value.
  - a levy limit that caps increases in the property tax levy for a given year to 2.5 percent of the previous year's levy limit, plus certified new growth.

## A Tale of Two States

In the late 1970s, Massachusetts and New Jersey were among the states with the highest property tax burdens

- Massachusetts chose Prop. 2 ½
- New Jersey chose to impose an income tax

## New Jersey and Massachusetts after Reform



Source: U.S. Census Bureau, per capita property taxes in 2004 dollars

## Two Different Avenues of Reform, Two Different Outcomes

- According to Census data, in New Jersey, property taxes have **increased 36 percent** in inflation adjusted dollars since 1973.
- Over the same time period, property taxes in Massachusetts have actually **decreased 7 percent**.

## The Two Outcomes Show that Spending Matters

- The benefits of the Proposition 2 ½ model include:
  - property taxes are lower and more stable,
  - local officials are held accountable for spending, and
  - residents are able to sort themselves among municipalities according to their optimal level of spending and taxation.

## What is the Difference between Prop. 2 ½ and California's Prop. 13?

- In 1978, California led the property tax revolution by passing Proposition 13, a measure that froze property tax rates statewide at one percent and rolled back assessments to 1975 levels. Reassessment was permitted only upon sale of property, except for a maximum 2 percent annual increase.
- Although Proposition 13 reduced property taxes significantly in California, the inflexibility of the program, coupled with the inability to vote on the budget has hurt the education and municipal delivery system.
- Massachusetts avoided these problems by allowing local governments to propose levy overrides to be voted on by taxpayers.

## The Choice is Clear:

The Proposition 2 ½ model is an effective, flexible option that lowers property taxes and puts the voter in charge of local decisions.



**Frank Mauro**  
**Fiscal Policy Institute**

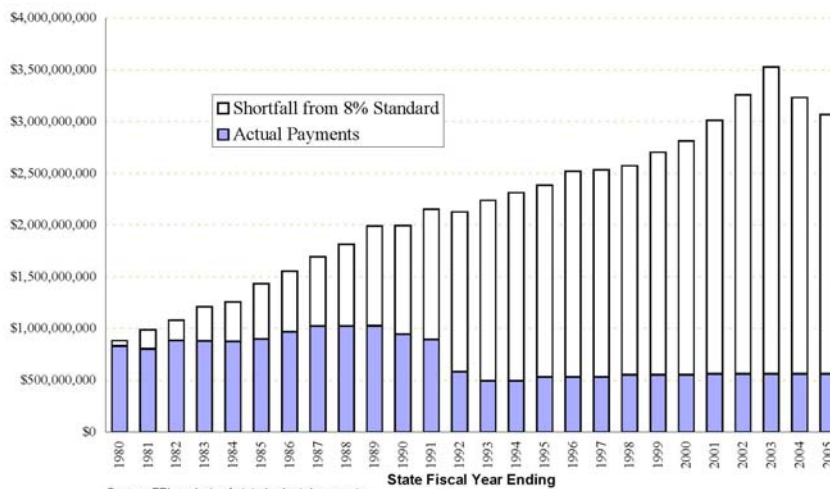
The property tax is an important part of New York State's state-local tax system. But state policies have placed great pressure on this tax base and institutionalized unnecessary inequities in the operation of this tax.

New York has also established an incredible number of property tax exemptions which are intended to deal with this tax's negative aspects but which instead serve to make the tax more inequitable.

The governor and the legislature should undertake a comprehensive reevaluation of all of the state's real property tax relief programs and work toward an integrated circuit breaker-like variation of STAR that is consistent with the principles of horizontal and vertical equity.

Even more importantly, New York's state-local fiscal relationships should be reworked in ways that recognize the fact that tax base resources (from taxable income to taxable sales to the full value of taxable real property) are not by some magic divided among localities in the same proportions as needs.

New York State has cut its revenue sharing with local governments to help balance its own budget.

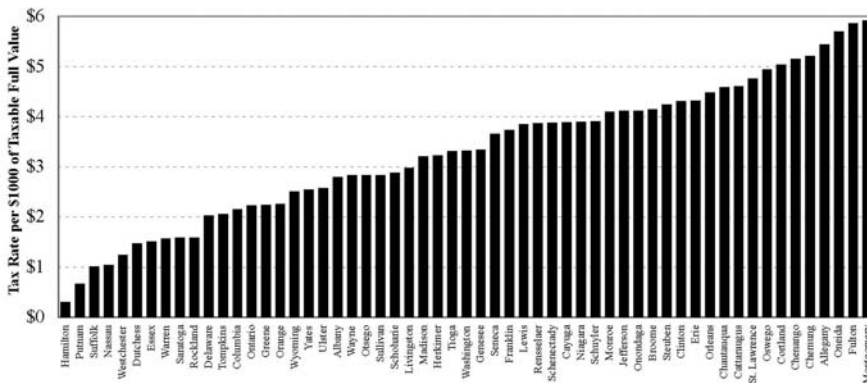


Fiscal Policy Institute



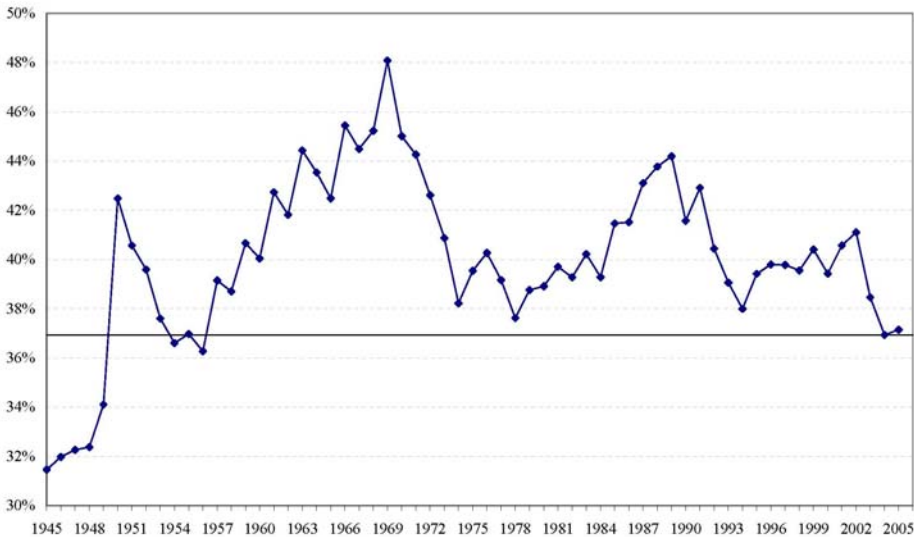
**New York's method of financing Medicaid places great pressure on counties with weak tax bases relative to their concentrations of needy individuals.**

Tax Rate Per \$1000 of Taxable Full Value Necessary to Cover Local Share of Medicaid Costs, excluding New York City at \$9.78 per \$1000.



Sources: 2003 Medicaid Expenditures from NYS Department of Health. 2003 full value from Office of State Comptroller.

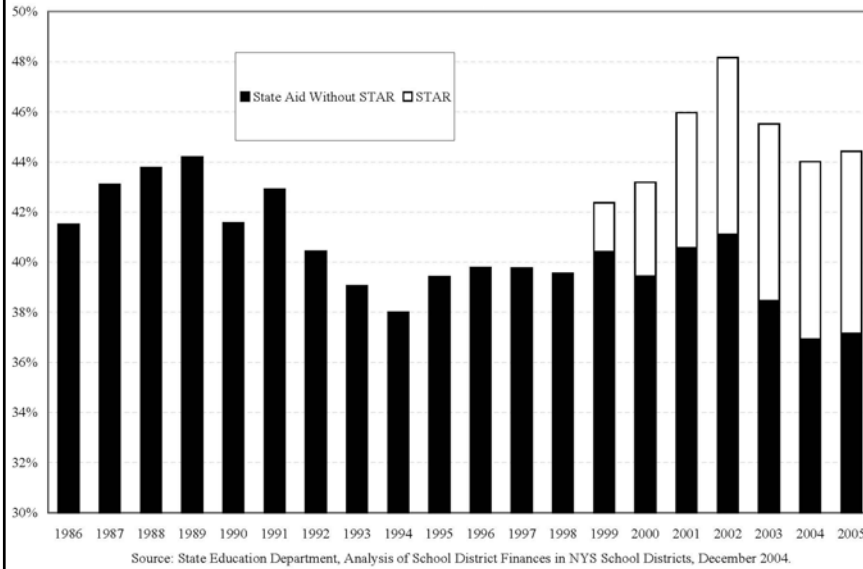
**During the last several years, State Aid as a percent of public school budgets has been at a 50-year low.**



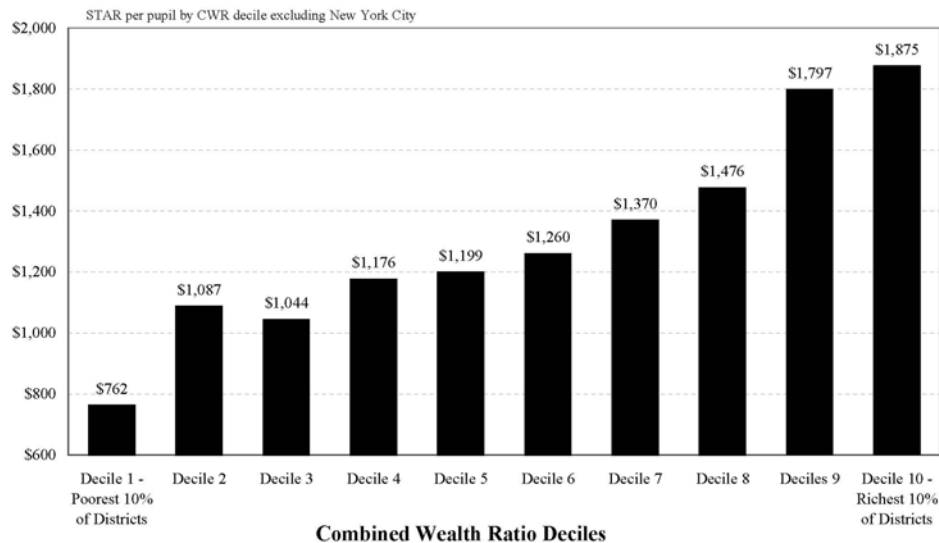
Source: State Education Department, Analysis of School District Finances in NYS School Districts, December 2004.



**When STAR is taken into consideration, the State covers a larger share of public school budgets.**



**But STAR is distributed in a very different manner than other state aid to public schools.**



**STAR provides much more state revenue per pupil to schools in the New York City suburbs than it provides to schools in New York City and other needy, urban school districts.**

	2005-2006 STAR Revenue	2005-2006 Enrollment	Total STAR per Pupil
5 NYC-Area Suburban Counties	\$1,137,983,549	681,378	\$1,670
State Total/State Average	\$3,163,973,078	2,827,978	\$1,119
Rest of State	\$1,216,628,878	1,111,611	\$1,094
Binghamton	\$6,451,229	6,374	\$1,012
Albany	\$10,225,351	10,424	\$981
Utica	\$9,091,957	9,308	\$977
Newburgh	\$11,823,684	12,459	\$949
New York City -with PIT Supplement	\$809,360,651	1,034,989	\$782
Poughkeepsie	\$2,979,298	4,887	\$610
Syracuse	\$11,709,790	22,584	\$518
Buffalo	\$17,668,614	41,388	\$427
Rochester	\$14,259,434	36,710	\$388
New York City - without PIT Supplement	\$165,360,651	1,034,989	\$160

### **STAR: New York's Flawed Property Tax Relief Mechanism**

- Under STAR, all owner-occupied residential dwellings in the state are eligible for a state-funded homestead exemption of at least \$30,000. In counties in which the median home value is greater than the statewide median home value, the value of this exemption is prorated upward by the ratio of the county median home value to the statewide median home value. In Westchester County, the county with the highest median home value, this "sales price differential factor" was 2.8833 making the value of the exemption about \$86,500 and, according to the Division of the Budget's website, it is estimated to be \$90,000 next year.
- Homeowners aged 65 and over, with incomes below \$60,000 adjusted upward for changes in the cost of living since 2003 (for the 2006-07 school year this income threshold is \$66,050) are eligible for an "enhanced" STAR exemption of \$50,000. This exemption is also prorated up in counties with median home values above the statewide median. In this year's Executive Budget, the Governor has proposed to increase the enhanced exemption from \$50,000 to \$56,800 to reflect increases in the cost of living since 2001.
- In the 2001-2002 school year, the first year in which STAR was fully phased-in, the NYS Office of Real Property Services reported that there were nearly 640,000 "enhanced" STAR exemptions and more than 2.2 million "basic" STAR exemptions representing \$118.9 billion in exempt value. It is estimated that in the current school year, these numbers have increased to about 652,000 "enhanced" STAR exemptions and 2.77 million "basic" STAR exemptions.



**STAR disadvantages renters and the needy school districts  
in which the state's renters are concentrated.**

- Because STAR provides reimbursements to school districts only for the property taxes on owner-occupied dwellings, it substantially disadvantages those communities (primarily cities) with large numbers of renters.
- State reimbursements to school districts, during 2005-06, for these STAR property tax exemptions are estimated to be about \$2.52 billion with about \$163 million (or 6.46%) of that total going to New York City. New York City's low share of the property tax reimbursements is attributable to two factors - its relatively high percentage of renter-occupied dwellings and the special calculations of STAR benefits established for the Big 5 cities. In recognition of the limited benefits that would accrue to New York City under the STAR property tax exemption, the initial STAR legislation established a special New York City STAR Supplement which provides for a state-funded reduction in the NYC resident income tax. This element of the program is providing NYC residents with an estimated \$595 million in income tax relief in 2005-06 with the state reimbursing the city that amount, bringing the estimated total cost of the STAR program that year to \$3.1 billion with 24% of the benefits going to New York City.
- With STAR representing 40% of the increases in state revenue to school districts since its creation, this serves to undercut the effectiveness of the state aid system in addressing fiscal disparities among school districts. While New York City is treated unfairly by STAR, other school districts with large percentages of renters are treated even worse since they do not benefit from anything like the NYC STAR Supplement.

**The STAR program, as currently structured, is not effectively targeted -  
thus costing much more than it needs to for the amount of relief that it gives  
to taxpayers who are overburdened by high property taxes.**

- One of the basic flaws of the STAR program is that, with the exception of the "enhanced" STAR available to seniors with income below the \$60,000 (adjusted for inflation) cutoff, it provides the same benefit to all homeowners in a particular school district (or in a municipal segment of a school district that is located in more than one municipality) regardless of their income levels, or their property tax bills, or more importantly, the relationship between their income levels and their property tax bills. This creates two significant problems.
  - First, it prevents the program from delivering on its rhetorical premise - that it is designed to protect New Yorkers from being "forced from their homes because of escalating school property taxes."
  - Second, it provides a significant amount of relief to a significant number of homeowners for whom property taxes represent only a relatively small percentage of their income.
- The combined result of these two shortcomings is that STAR, as currently structured, costs much more than it needs to for the amount of relief that it actually provides to homeowners who are truly overburdened by their property taxes. Similarly, a reformed STAR program could provide much more relief to those who need it at a greatly reduced cost.

**CGR**

**Reforming NYS Property Tax: January 10, 2007 Conference**

**The STAR program provides different benefits to taxpayers with the same incomes and the same property tax bills - depending on where they live.**

- A second basic flaw of the current program is that similarly situated taxpayers are treated very differently depending on where they live. Two taxpayers with the same incomes and the same property tax bills will get very different amounts of relief through STAR if one of those taxpayers lives in one of the seven counties with median home values of the state median, and the other does not.
- While, on average, residents of some communities may have higher incomes and higher property tax bills than people in some other communities, these averages should not serve as the basis for treating two similarly situated New York taxpayers.
- While a higher percentage of the residents of one community may be in a particular income/property category than the residents of another community, all of the taxpayers with that income/property tax mix should be treated the same.

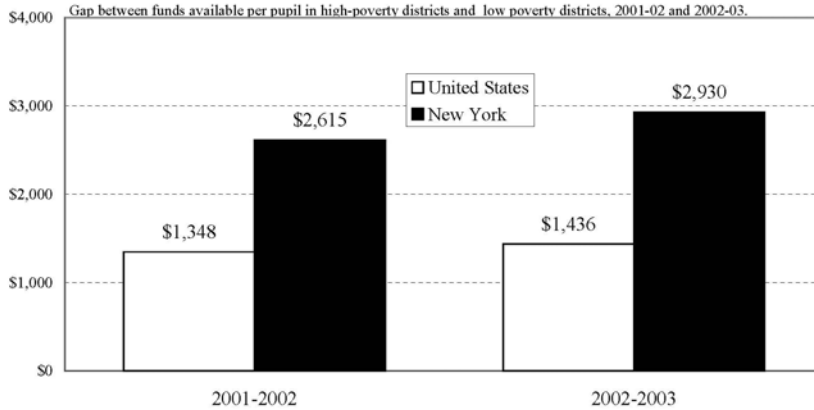
**Governor Pataki's STAR Plus proposal was fundamentally inconsistent with a statewide solution to the Court of Appeals decision in the CFE case.**

- The Governor's proposed STAR Plus Rebate program would have provided \$400 rebate checks to residents in districts that limited their spending increases to the lesser of 4% or 120% of the increase in the Consumer Price Index.
- Under the proposal advanced by Gov. Pataki in the proceeding before the Special Masters, 177 of the 639 districts analyzed needed to increase spending for purposes of providing a Sound Basic Education over and above the levels needed to meet ordinary annual changes in the cost of educational inputs. Modifying this model to make the corrections recommended by the Referees in the CFE case, 477 districts would require additional spending over and above inflationary increases.
- A percentage-based spending cap of this type would institutionalize and exacerbate the inequities inherent in the current system, and this particular cap (the lower of 4% or 120% of the CPI<sup>2</sup>) is inconsistent with the costs increases school districts currently face, as documented by the New York State Educational Conference Board has documented the fact that school district costs are increasing at a much faster rate than the change in the CPI.
- The legislation proposed by Gov. Pataki exempt from this proposed cap "court ordered spending to provide a sound basic education" even though Gov. Pataki and the legislative leaders had all said that they want a legislatively-enacted statewide solution to the CFE case without every needy school district in the state having to go to court.

<sup>2</sup> The proposal sets the percentage increase cap using the average of changes in two national CPI indices despite the fact that the experts engaged by the State in the CFE case recommended the use of the NYC regional CPI rather than the national CPI indices. (The NYC regional CPI tends to increase at a faster rate than the national CPI.)

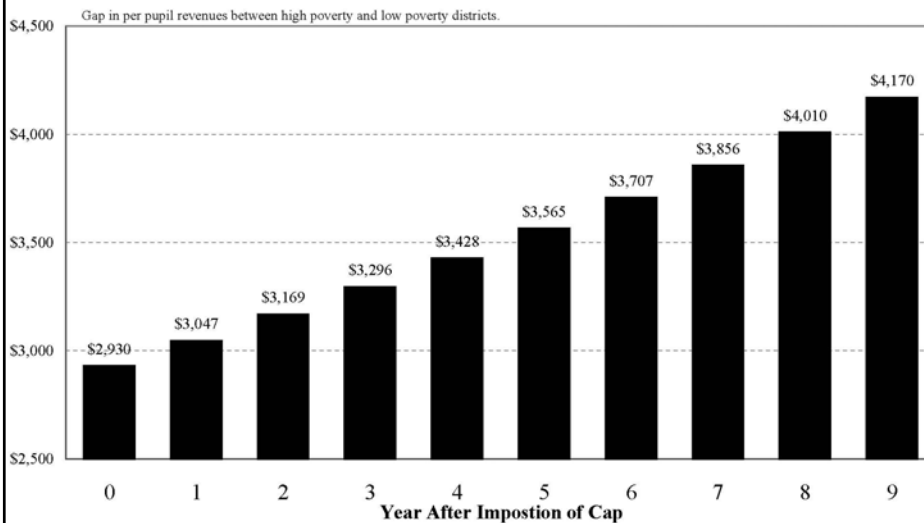


**New York has the largest gap between the resources available in high-poverty and low-poverty school districts of any state in the nation and that gap is growing.**

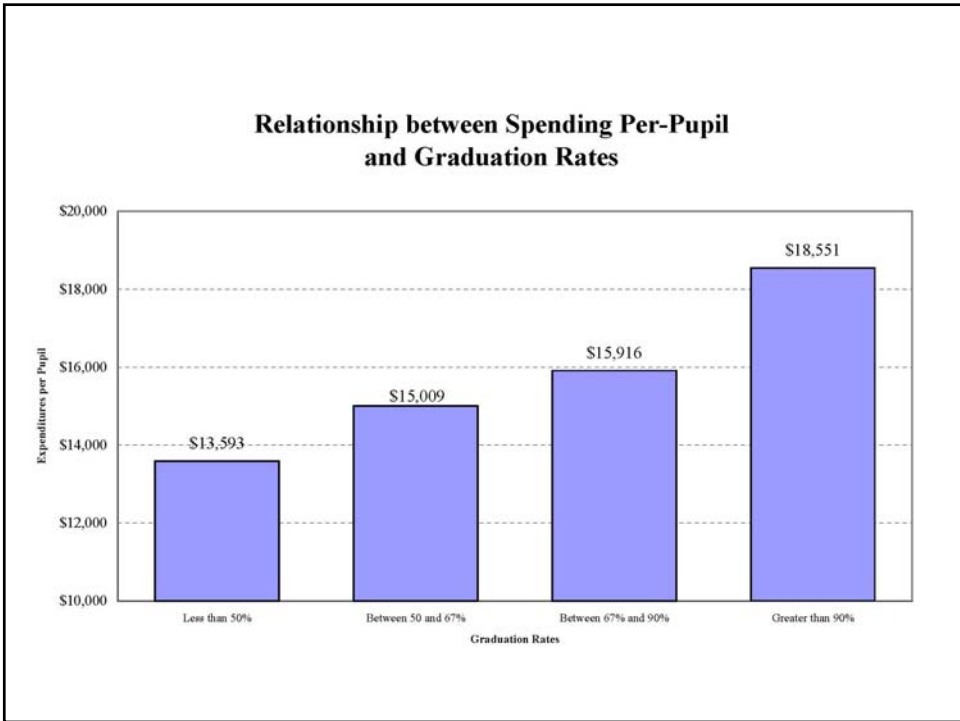


Source: The Education Trust, "The Funding Gap 2004: Many States Still Shortchange Low-income and Minority Students," October 2004 and "The Funding Gap 2005: Low-Income and Minority Students Shortchanged by Most States," Winter 2005. Available at [www2.edtrust.org](http://www2.edtrust.org).

**If Gov. Pataki's STAR Plus Spending Cap were successful in holding all districts to the same percentage increases in spending, this gap would grow wider each year.**



<b>Impact of a Cap on Increases in School Spending on Two Neighboring Westchester County School Districts</b>					
Base Year Data from Standard & Poor's Model*			Four Years Later Assuming that Costs Per Pupil Increase 4% Per Year and that a Spending Cap is Effective in Limiting the Growth in Actual Spending Per Pupil to 4% Per Year		
	Harrison	Port Chester		Harrison	Port Chester
Enrollment	3,336	3,564	Enrollment	3,336	3,564
Economically Disadvantaged	5%	42%	Economically Disadvantaged	5%	42%
Estimated Actual Spending Per Pupil	16,681	12,048	Estimated Actual Spending Per Pupil	19,515	14,095
Needed Resources Per Pupil Under Pataki Proposal	11,452	13,039	Needed Resources Per Pupil Under Pataki Proposal	13,397	15,254
Over/(Under)	5,229	(991)	Over/(Under)	6,117	(1,159)
*Expenditures are for the 2002-03 school year, in January 2004 dollars, not including debt service and transportation					

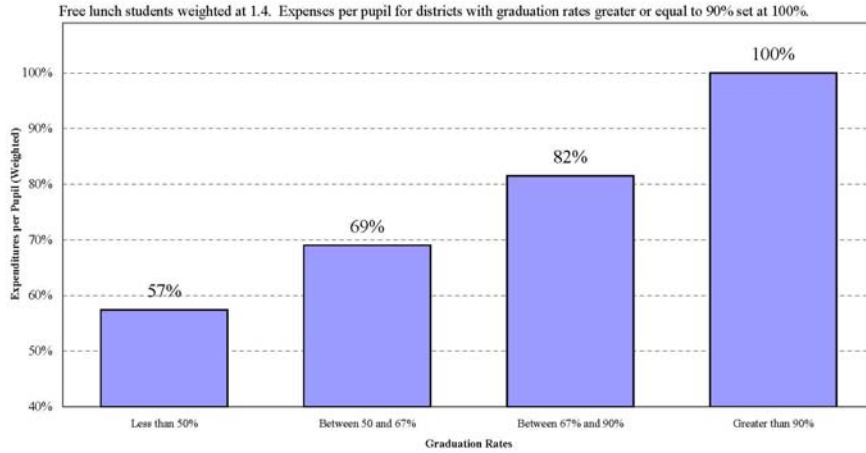


**CGR**

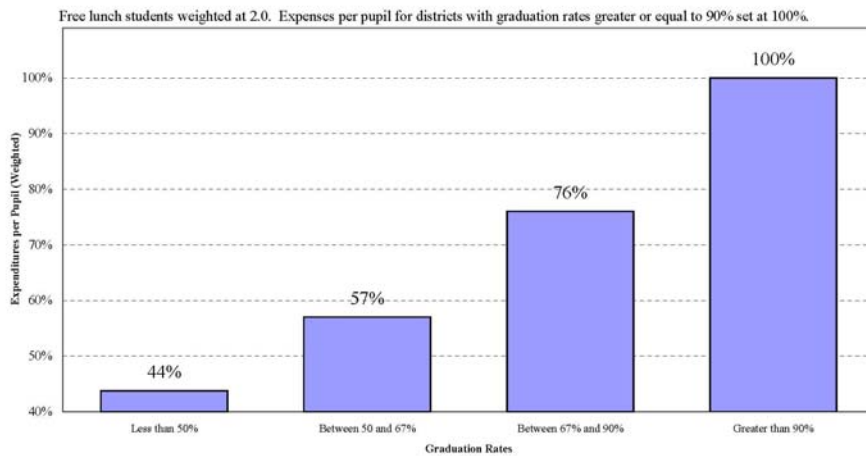
**Reforming NYS Property Tax: January 10, 2007 Conference**



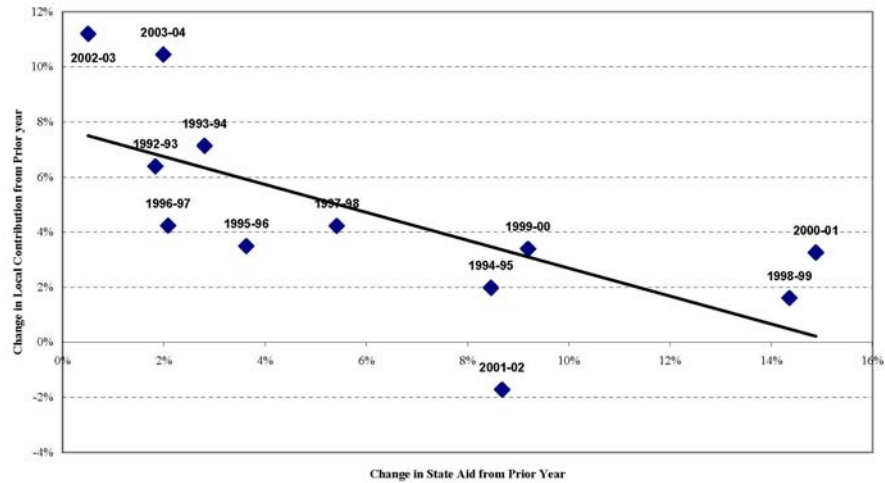
**Relationship between Spending Per-Pupil and Graduation Rates  
(Applying Federal Standards for Spending on Lower Income Students)**



**Relationship between Spending Per Pupil and Graduation Rates  
(Applying NYS Standards for Spending on Lower Income Students)**



### Relationship between School Taxes and School Aid



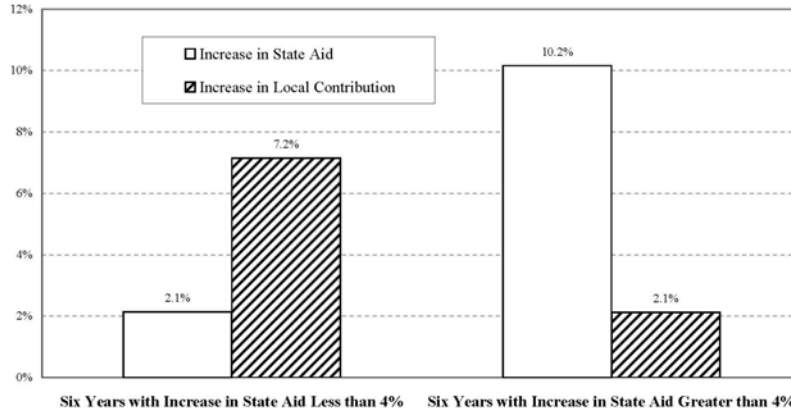
### Trends in School District Budgets, 1992-1993 through 2003-04

School Year	Percent Change in State Aid from Prior Year	Percent Change in Local Contribution (School Taxes) from Prior Year
1992-93	1.8%	6.4%
1993-94	2.8%	7.1%
1994-95	8.5%	2.0%
1995-96	3.6%	3.5%
1996-97	2.1%	4.2%
1997-98	5.4%	4.2%
1998-99	14.4%	1.6%
1999-00	9.2%	3.4%
2000-01	14.9%	3.3%
2001-02	8.7%	-1.7%
2002-03	0.5%	11.2%
2003-04	2.0%	10.4%

Note: The overwhelming majority of district local contributions are from school taxes.

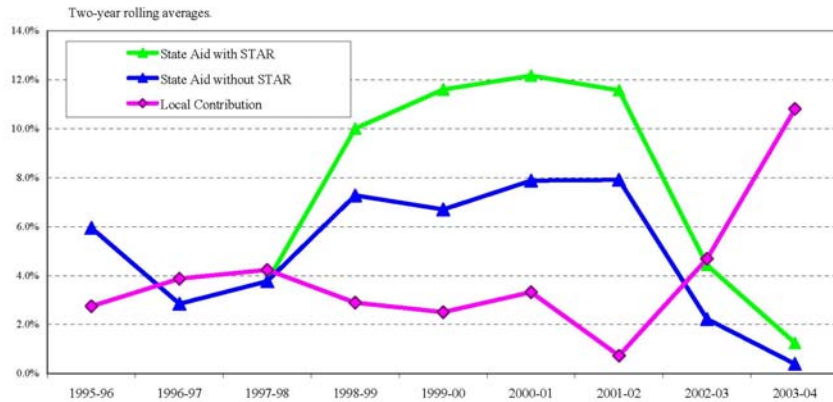


**The Growth in School Property Taxes Is Low in Years When State Aid Increases Are Higher. Property Tax Increases Accelerate when State Aid Increases are Lower.**



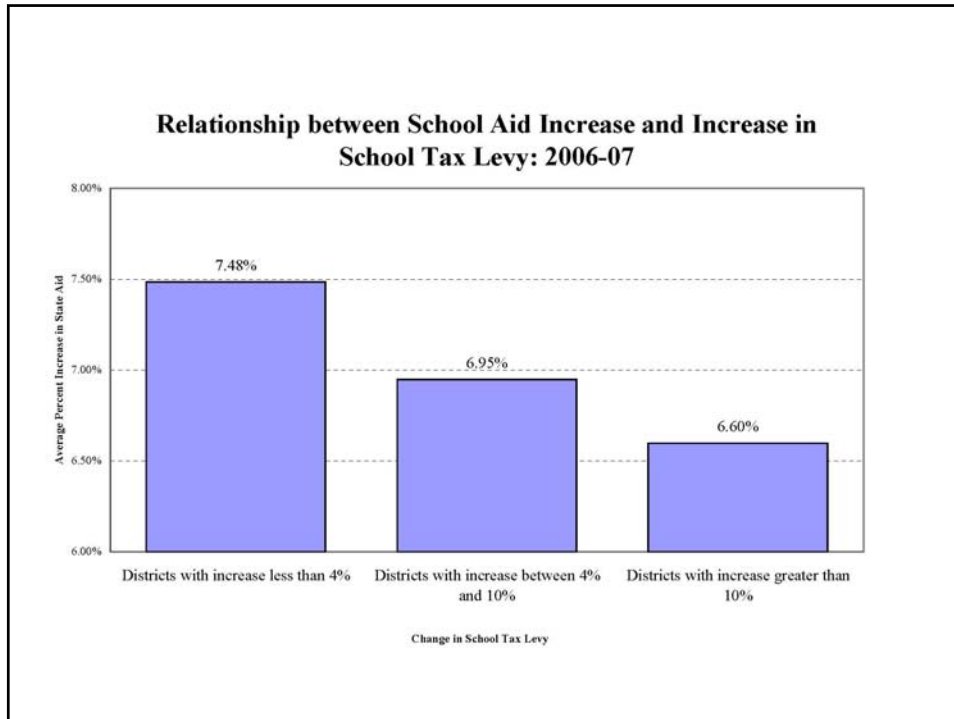
Data on state aid and local revenues for 1991-1992 to 2003-2004 used to calculate changes from prior year from State Education Department, Analysis of School Finances in NYS School Districts, January 2006.

**Historically, Changes in Local Revenues in Support of Education Mirror Changes in State Aid: When State Aid Increases Significantly, Increases in Local Burdens are Moderated**



Source: Analysis of School Finances in NYS School Districts, New York State Education Department, January 2006.





New York State divides responsibility for the financing of important public services between itself and its local governments in ways that place great pressure on local property and sales taxes. This is particularly problematical for those localities that have relatively weak tax bases compared to their needs. It also increases the regressivity of the overall state-local tax system while exacerbating the impact of the property tax’s shortcomings.

The governor and the legislature can simultaneously address these fiscal disparities and reduce the pressure that has been placed on the local property tax base by:

1. Implementing a legitimate statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit.
2. Gradually increasing the state share of Medicaid costs and basing each county’s share of Medicaid costs on objective measures of its relative “ability to pay.”



3. Restoring the state's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
4. Eliminating the fiscal disparities in the School Tax Relief (STAR) program that disadvantage city school districts with high percentages of renter-occupied dwellings and high concentrations of needy children. The governor and the legislature should undertake a comprehensive reevaluation of all of the state's real property tax relief programs and work toward an integrated circuit breaker-like variation of STAR that is consistent with the principles of horizontal and vertical equity. In addition, since STAR is both a property tax relief mechanism and a way to deliver state revenue to school districts, it should also be integrated with a legitimate statewide solution to the CFE decision to ensure that it is fair to the upstate cities.



## Center for Governmental Research Conference

James Dunne  
NYS Office of Real Property Services

### "Principles of Sound Tax Policy"

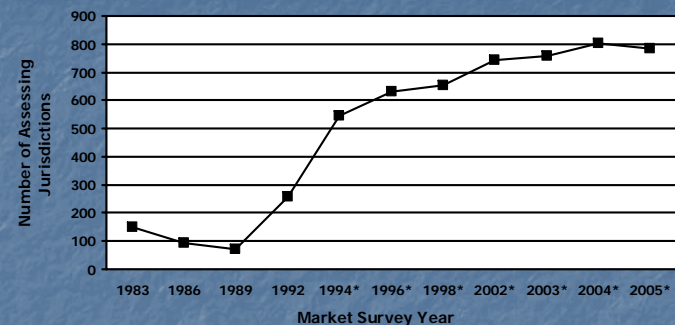
- from the Tax Foundation

- ❖ **Simplicity:** The tax system should be as simple as possible, and taxes should be easy to understand and comply with.
- ❖ **Transparency:** Taxes should be as visible as possible to taxpayers, and should make clear who and what is being taxed.
- ❖ **Neutrality:** Taxes should raise revenue with a minimum of economic distortion...

### Chapter 1057 of Laws of 1981

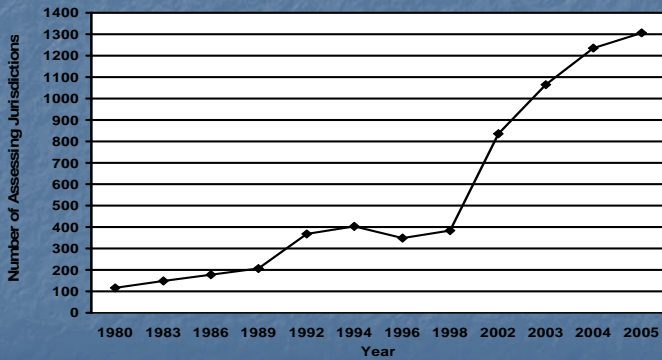
- ❖ Repealed the full value standard
- ❖ Replaced it with the ambiguous "uniform percentage of value"
- ❖ Instituted Article 18 & 19 (to legalize existing inequities)
- ❖ Effectively permitted assessing units to ignore market value changes and copy inequitable rolls over, year after year
- ❖ Today, some assessing units continue to use pre-World-War-II rolls.

Number of County, City and Town Assessing  
Jurisdictions with Assessment Uniformity

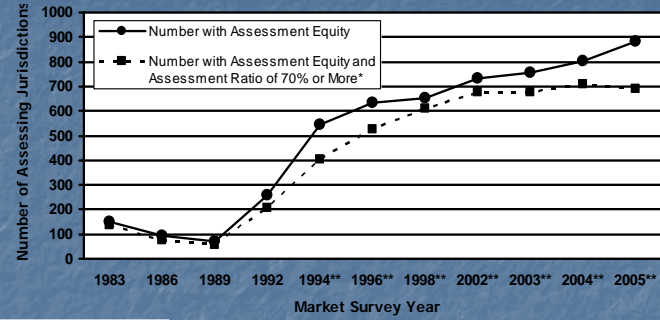


\* For survey years 1994 through 2005, acceptable levels of the coefficient of dispersion (COD) statistic were increased for the more rural assessing units in recognition of relative lack of market data and heterogeneity of properties.

**Number of ORPS-Assisted Reassessment Projects in Past Four Years**



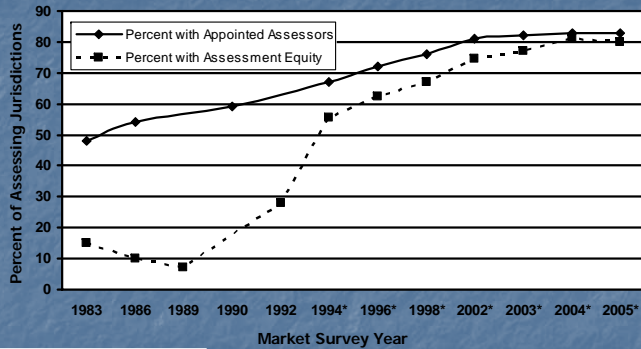
**Number of County, City and Town Assessing Jurisdictions with Assessment Equity and Number of these with Assessment Ratio of 70% or More**



\*Median ratio was used in data for 1983-2005 surveys, but weighted mean was used in the 2002 survey because of data limitations.

\*\* In measuring assessment equity to for survey years 1994 through 2005, acceptable levels of the coefficient of dispersion (COD) statistic were increased for the more rural assessing units (see Figure 1).

**Percent of County, City and Town Assessing Jurisdictions with Assessment Uniformity and Percent with Appointed Assessors**



\* In measuring assessment equity to for survey years 1994 through 2005, acceptable levels of the coefficient of dispersion (COD) statistic were increased for the more rural assessing units (see Figure 1).

**Number of Assessing Jurisdictions with Multi-Jurisdictional Assessors, 1987-2005**

