

THE SCHOOL TAX RELIEF (STAR) PROGRAM  
AND OTHER MECHANISMS TO REDUCE THE PAIN OF SCHOOL PROPERTY TAX

The School Tax Relief Program (STAR), enacted in 1997, shifts a portion of the school tax burden from homeowners to the state.

I STAR

A. HOW DOES IT WORK?

1. Basic STAR

Basic STAR is available for owner occupied one to three family houses, mobile homes, condominiums, and cooperative apartments, regardless of the owner's age or income. It works by exempting the first \$30,000 of the full value of a home from school taxes<sup>1</sup> In New York City (NYC) there is also a STAR Supplement, which provides a state-funded refund of the NYC resident personal income tax (PIT).

2. Enhanced STAR

Enhanced STAR is available to qualifying senior citizens (age 65 and older, with yearly household adjusted gross income limit of \$64,650).<sup>2</sup> It exempts the first \$50,000 of the full value of their homes from school property taxes.

3. Adjustment for Regional Differences in Housing Cost

The base amount of either the Basic or Enhanced STAR exemption is multiplied by a Sales Price Differential Factor<sup>3</sup>, increasing the value of the exemption in counties with median property values above the statewide median. Geographic indexing of the exemption was developed as a way of granting homeowners in all areas of the state approximately equivalent tax relief as a percentage of school taxes paid.

4. Who Reimburses Local Districts for Monies Lost as the Result of the STAR Exemptions?

The state reimburses districts for taxes they are unable to collect as the result of the STAR exemptions. The amount of revenue received by any school district depends on the location of the district and the rate of school taxes

B. HOW MUCH DOES STAR COST?

The state has paid out the following amounts under the STAR program since its inception.

Year	Amounts (Billions of Dollars)
98-99	\$.58

<sup>1</sup> If the assed value of the house were \$60,000, a basic STAR exemption would decrease the assessed value to \$30,000, and the owner would pay school taxes based on an assessed value of \$30,000.

<sup>2</sup> This income limitation applied to 2003 adjusted gross income, which was used to determine STAR enhanced exemptions in 2005. It is subject to an annual cost of living increase (COLA).

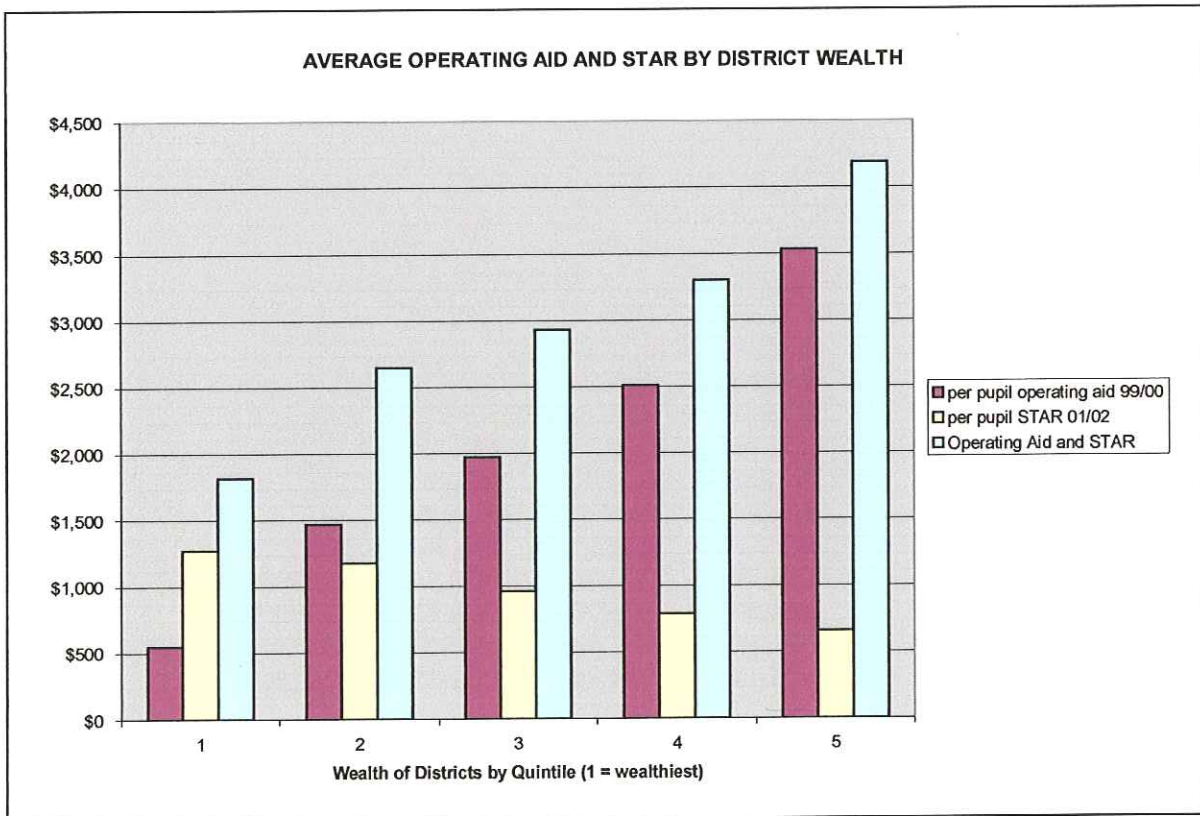
<sup>3</sup> The Sales Price Differential Factor is the ratio of the three-year average sales price of residential property in a district's county relative to the three-year average in the state as a whole. The ratio cannot fall below one.

99-2000	\$1.19
00-01	\$1.85
01-02	\$2.52 <sup>4</sup>
02-03	\$2.66
03-04	\$2.84 <sup>5</sup>
04-05	\$3.0 <sup>6</sup>

For 2003-04, STAR represented 7.2% of the \$39.4 billion General Fund and 16% of the state share of education funding.<sup>7</sup>

C. IS STAR FAIR?<sup>8</sup>

STAR has been described as being skewed toward higher wealth school districts and thus undermining a decades-long attempt to equalize school funding within the state. Although the STAR exemption is progressive within a district, it is highly regressive at a statewide level, both for taxpayers and for school districts.



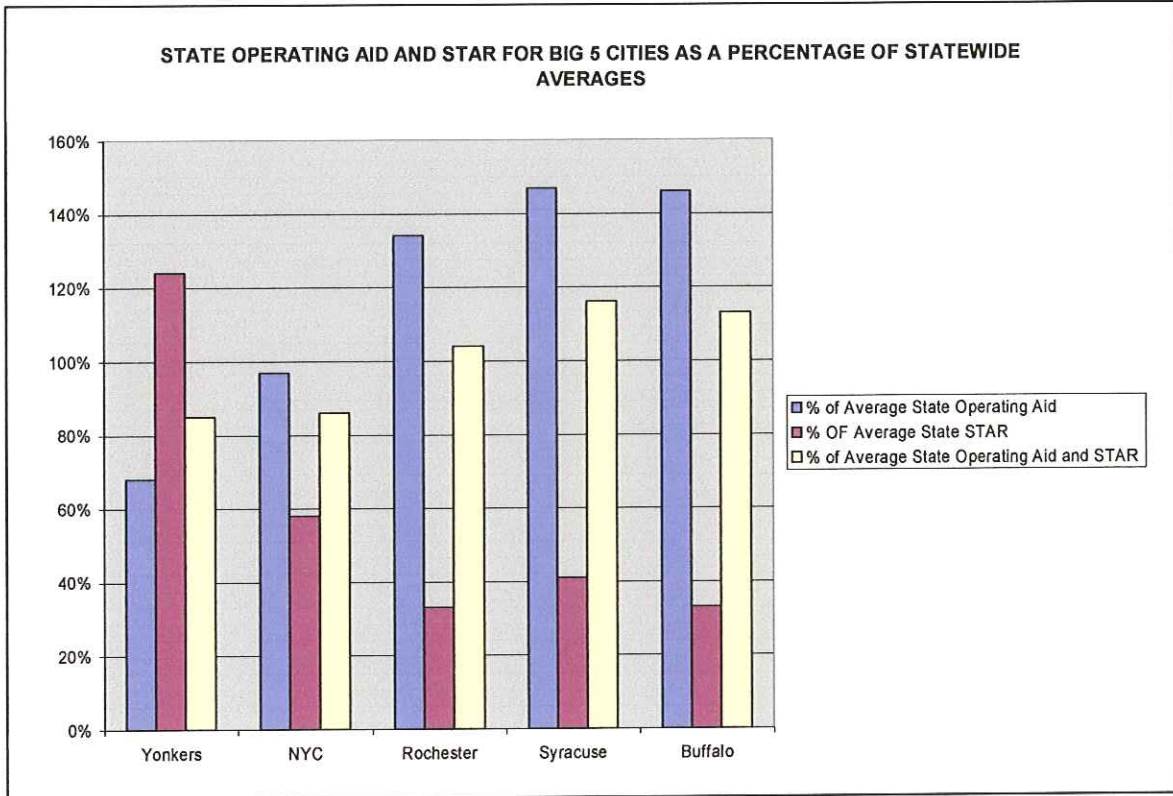
<sup>4</sup> This was the first year of complete phase-in.

<sup>5</sup> In 2003, property tax rebates accounted for \$2.278 billion and the PIT credit accounted for \$54 billion.

<sup>6</sup> Estimated.

<sup>7</sup> NYSED Fiscal Analysis and Research Unit, (2004) *Analysis of School Finances in New York State School Districts*, at [www.oms.nysed.gov/faru/Analysis/2004%20Analysis.pdf](http://www.oms.nysed.gov/faru/Analysis/2004%20Analysis.pdf), p. 3.

<sup>8</sup> Unless otherwise noted, the information in this section is taken from Duncombe, William, and Yinger, John, *An Analysis of Two Educational Policy Changes in New York State: Performance Standards and Property Tax Relief*, [www.cpr.Maxwell.syr.edu/efap/publications/analysis%20of%202%20ed%20policies.pdf](http://www.cpr.Maxwell.syr.edu/efap/publications/analysis%20of%202%20ed%20policies.pdf).



Generally, the STAR benefit is highest in areas of high real estate values and high levels of home ownership. At full implementation, the Basic STAR exemption in Westchester County was approximately \$72,000, compared to \$30,000 in most upstate areas.

The geographic disparity is highlighted by looking at the amount of 2003 STAR relief various counties received for each resident.<sup>9</sup>

County	Total STAR	Residents	STAR per Resident
Suffolk	\$326 M	1.4 M	\$233
NYC	\$137 M	8 M	\$17
Nassau	\$311 M	1.4 M	\$222
Westchester.	\$285 M	.925 M	\$308
Erie (Buffalo)	\$131 M	.950 M	\$138
Monroe (Rochester)	\$129 M	.735 M	\$176

The geographic disparity of STAR benefits is further heightened by the disparity between wealthy and poor districts within the same geographic areas. In 2003, the average STAR payment was \$968 per pupil. The value of the rebate ranged from \$62.50 to over \$1500 per taxpayer who benefited from the program. The richest school districts (those with no more than 5% of students eligible for Free and Reduced Price Lunch (FRPL) educate 10.3% of the state's students and receive 17% of the STAR benefit, or an average of \$1,614 per pupil. The poorest districts (those with at least 65% of students eligible for

<sup>9</sup> Gallagher, Jay, (2004) *Suburbs Get the Golden Star When State Doles Out Tax Relief*, Times Union, Nov. 21, 2004, [http://thejournalnews.gannetonline.com/gns/newyork/p7\\_star.html](http://thejournalnews.gannetonline.com/gns/newyork/p7_star.html)

FRPL) receive lower STAR payments. They educate 45% of the state's students and receive 32% of STAR benefits. The average per-pupil payment of these districts, excluding NYC, is \$772. NYC received \$667 per student in property tax rebate and PIT credit.<sup>10</sup>

The STAR Program has been criticized further because it fails to target its tax relief to the most heavily taxed districts.<sup>11</sup> In fact, those districts that receive the greatest dollar benefit from STAR are in those that tax in the lowest quintile. Scio, the sixth poorest district in the state, with a Combined Wealth Ratio of .32, taxes itself at a true value rate of 31.52, 66% higher than the statewide average of 18.87; yet in 1999 – 2000 it received 12% less than the statewide average STAR reimbursement.

Critics of the STAR Program speculate that it will have unintended deleterious consequences for the state. First, in those districts that rely on the Homestead Tax Option, in which the school tax burden is apportioned between residential and commercial property at a fixed ratio, voters may be willing to vote for higher taxes because they will be somewhat insulated from the effect of such increases. This will result in commercial interests footing a higher percentage of the property tax bill, with potential anti-competitive consequences. Furthermore, because the PIT tax Credit is unavailable to renters outside NYC (approximately one-third the state's renters), it will probably result in increased rents, as commercial property tax increases are passed on to renters.

## II. OTHER TAX RELIEF PROGRAMS<sup>12</sup>

- A. Senior Exemption: Optional with localities, both as to adoption and setting of income limits for eligibility. Reduces assessed value of property owned by people 65 and older, with incomes from \$3,000 to \$1,500 by up to 50%. Seniors with incomes over \$24,000 and up to \$32,400 may receive a lesser exemption. This exemption may be combined with STAR
- B. Disability Exemption. This is similar to the senior exemption in operation. It cannot be used with a Senior Citizen exemption.
- C. Agricultural Assessment Partial Reduction. This limits the assessed value of land used for farming.
- D. Real Property Tax Credit. This income tax credit is available to owners and renters whose household income is \$18,000 or less and whose house is valued at \$85,000 or less or whose rent is \$450 a month or less. If no member of the household is 65, the credit is up to \$75. If one or more members are 65, the credit is up to \$375. The income and property value levels are not indexed for inflation and have not changed since 1986.

## III. RECOMMENDATIONS FOR CHANGE<sup>13</sup>

- A. Eliminate Program
- B. Eliminate Program and Increase Circuit Breaker.
- C. Means Test Eligibility for STAR
- D. Eliminate Sales Price Differential Factor

<sup>10</sup> Bott, Marian, (2004) *The Impact of the New York State School Tax Relief (STAR) Program: Analysis of 2003 Refunds*, pp.18-21.

<sup>11</sup> Widerquist, Karl, (2001) *The Regressive Effect of STAR*, Educational Priorities Panel, [www.edpriorities.org/Pubs/Report/STAR.PDF](http://www.edpriorities.org/Pubs/Report/STAR.PDF), p.12.

<sup>12</sup> See, Griffith, Michael, *Survey of Selected States With Property Tax Policies that Provide Relief to Homeowners*, at [www.ecs.org/clearinghouse/32/14/3214.htm](http://www.ecs.org/clearinghouse/32/14/3214.htm).

<sup>13</sup> This list is a compilation of recommendations made by the various authors of the materials in the STAR Bibliography and participants in the Marist College Symposium on Financing Education, available on DVD and VHS from the LWVNYS.