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THE LEAGUE OF WOMEN VOTERS *of New York State*

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REAL PROPERTY TAX RELIEF (CIRCUIT BREAKER)

The League of Women Voters of New York State (League):

- Supports implementation of a STAR circuit breaker rather than tax caps as a more effective way to provide meaningful real property tax relief to those New Yorkers most in need. A tax cap, while potentially slowing the rate of increase of taxes, would do nothing to provide relief to citizens most stressed by high real property taxes;
- Opposes implementation of a tax cap without concomitant implementation of a full and equitable foundation approach to the funding of education.

The final report of the State Commission on Property Tax Relief (Suozzi Commission), issued in 2008, recommended immediate passage of tax cap legislation. In doing so, the Commission compared California's tax cap, which resulted in massive degradation of the state's schools, with that of Massachusetts, which has enabled Massachusetts to run one of the more effective education systems in the nation. The major difference between the two systems is that Massachusetts employs a foundation approach to funding education, based on the needs of the district's students, so that all districts are adequately funded. The Suozzi Commission, in arguing for the Massachusetts approach, assumed that the New York foundation approach to education would be fully funded in a timely manner. In fact, the final two of four increments have been postponed, and a recent study indicates that education funding New York State has not, in fact, become more equitable during partial implementation of the foundation aid approach.

Implementation of a tax cap without meaningful implementation of foundation aid will result in those districts that are not property wealthy falling further behind in their quest to fund a sound basic education for their children, thereby creating a risk that New York's implementation of a tax cap program will look more like that of California than of Massachusetts, without providing meaningful tax relief to those most in need.

I. REPLACE THE STAR PROGRAM, WHICH IS POORLY CORRELATED TO NEED, WITH A NEED BASED STAR CIRCUIT BRAKER PROGRAM

The STAR program, which will cost New Yorkers \$3.2 billion in the 2011-2012 fiscal year, has neither staunched the increase in local taxes nor provided meaningful property tax relief to those most in need. Although it is one of the most politically popular programs in the state, it has been criticized by commentators on the right and left sides of the political spectrum. The current program is both too broadly targeted and insufficient in terms of relief provided to obtain its stated objective. It is as if the state were to alleviate HIV/AIDS by putting all its citizens on reduced doses of anti-retroviral medications.

As the Suozzi Commission noted, the upstate/downstate divide results in property values affecting those areas in wildly disparate ways. Westchester, Nassau, and Rockland counties are among the top ten counties nationally in terms of absolute amounts of property taxes paid. Nassau, Westchester, Rockland, and Putnam counties are among the top ten counties nationally in terms of percentage of household income paid for property taxes. By contrast, Niagara, Monroe, Chautauqua, Wayne, Oswego, Onondaga, Erie, and Steuben counties are among the top ten counties nationally in terms of taxes paid as a percentage of home value. The high rate of taxation in these upstate communities exacerbates the problems they face in attracting business.

By folding the STAR programs into a STAR circuit breaker, of the type recommended in the Suozzi Report and proposed by Senator Little and Assemblywoman Galef, relief would be provided when real property taxes comprise a certain percentage of income. This approach would have the advantage of providing help to those most in need when it is most needed. It would have the additional benefit of providing relief to those in all but the top income levels, as long as property taxes surpassed the target percentage of income. This approach would provide further insulation against income fluctuations caused by unpredictable events, such as loss of employment, by giving meaningful taxpayer relief to individuals when they were least able to afford real property taxes. The program could be made revenue neutral over the long term by taking a lien for the relief provided, as is the case in Medicaid, and as was suggested in the preliminary Suozzi Commission report.

II. WITHOUT FULL IMPLEMENTATION OF FOUNDATION AID THE PROPOSED PROPERTY TAX CAP WILL DEVASTATE PROPERTY POOR DISTRICTS

The Governor's tax cap proposal, while politically popular, does not get at the root causes of the tax problems that New York State faces. The bill, which would limit increases in school district and governmental tax levies to 2%, or the rate of CPI increase, whichever is lower, does not adequately address either the problems of high taxes or education disparities within the state because the problems differ from one taxing entity to the other. Downstate, the escalation in tax burden is in large part created by the increase in value of real estate. Thus, limitation of rate of increase of the levy will not necessarily solve the tax problems of those for whom inflation in real estate value has outpaced increase in income. Conversely, the cap will do not necessarily

limit percentage increases in property poor districts because a levy increase of a few points will increase individual taxes (in terms of the rate paid per thousand dollars of valuation) by many times that.

Proponents of the proposed 2% property tax cap point to the Massachusetts cap as proof that a cap can be adopted without decimation of a state's school system. However, the Massachusetts cap differed from the proposed New York cap in a number of ways that will potentially affect its overall impact on education within the state. A recent report by Phil Oliff and Iris J. Lav noted in *Hidden Consequences: Lessons From Massachusetts for States Considering a Property Tax Cap*, published by the Center on Budget and Policy Priorities and updated in 2010 at <http://www.cbpp.org/files/5-21-08sfp.pdf>, explained the differences.

Massachusetts was able to avoid the most negative effects of a tax cap because Massachusetts had a system of state aid for schools that was highly targeted to poorer districts, and the cap was implemented at a time of declining enrollment and relative economic prosperity.

III. GREATER EQUITY IN EDUCATION FUNDING WILL LEAD TO GREATER EDUCATION ACHIEVEMENT

The League believes that educational progress and stabilization of education cost, are best fostered, as they have been in Massachusetts, by a state-funded foundation approach to funding education – where the cost to educate a student is determined by the student's needs – poverty, disability, and English language learners being more costly to educate than students without special needs. Massachusetts limits annual tax increases, and the state picks up the difference.

In *IS SCHOOL FUNDING FAIR: A NATIONAL REPORT CARD* (2010), at http://www.schoolfundingfairness.org/National_Report_Card.pdf, Bruce Baker of Rutgers and David Sciarra and Danielle Farrie of the Education Law Center examined issues of education spending, equity, and achievement.

New York State and Massachusetts were both relatively high spenders. Examining data from 2005 through 2007, the report found New York had the 5th highest per capita education expenditure in the nation, while Massachusetts was the 9th highest. Conversely, California was 31st in the nation. Similarly, New York was 8th highest in the nation in terms of percentage of GDP allocated to education while MA was average, at 24th in the nation. California was 14th from the bottom.

In the measurement of equity in education funding distribution, Massachusetts was found to have the 6th most fair distribution in the nation.¹ California was 19th from the top.² New York was the 4th least fair.³

¹ Poorer districts, defined as those with 30% or more students eligible for free or reduced price lunch, with received 119% of the state and local funding received by wealthy districts, defined as those with 0% of their students eligible for free or reduced price lunch.

These measures were updated with 2008 data in *IS SCHOOL FUNDING FAIR: A NATIONAL REPORT CARD, 2008 UPDATE*, at http://www.schoolfundingfairness.org/SFF_2008_Update.pdf. Notwithstanding that New York's mean annual state and local revenue per pupil increased by \$1,100 in 2008 from the 2007 level, the third highest increase in the country, and notwithstanding the fact that NY implemented a quarter of its foundation aid in that year, New York lost one place in the national ranking of equity, becoming the 3rd least fair state in the country in terms of the funding the funding differential between wealthy and poorer districts.

Thus, it appears that the CFE settlement has injected a vast amount of money into funding of education, without altering the traditional shares system.

In terms of what investment buys, it appears that equity is cost-effective. Massachusetts is widely regarded as being close to the top of the nation in terms of educational achievement, measured by the National Assessment of Educational Progress (NAEP). New York is above average but gravitating toward the middle, and California is near the bottom.⁴

² Poorer districts, defined as those with 30% or more students eligible for free or reduced price lunch, with received 103% of the state and local funding received by wealthy districts, defined as those with 0% of their students eligible for free or reduced price lunch.

³ Poorer districts, defined as those with 30% or more students eligible for free or reduced price lunch, with received 82% of the state and local funding received by wealthy districts, defined as those with 0% of their students eligible for free or reduced price lunch.

⁴ A full assessment looking at educational equity and achievement remains to be done. However, a brief perusal of NAEP 2009 4th grade reading data at <http://nces.ed.gov/nationsreportcard/pdf/main2009/2010458.pdf>, shows Massachusetts leads the nation, with 80% of its students achieving proficiency, New York has 71% proficiency, with a national average of 66%, and California is close to the bottom with 54% proficiency.