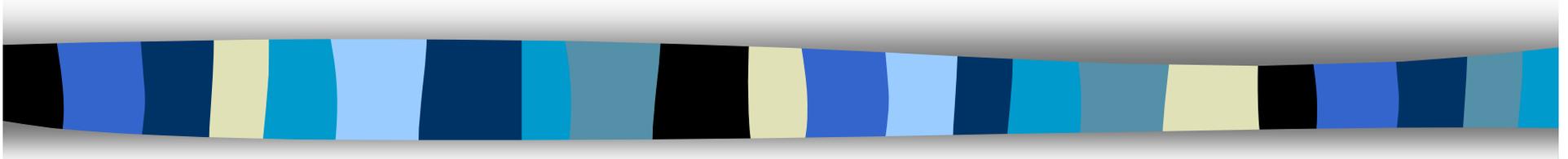
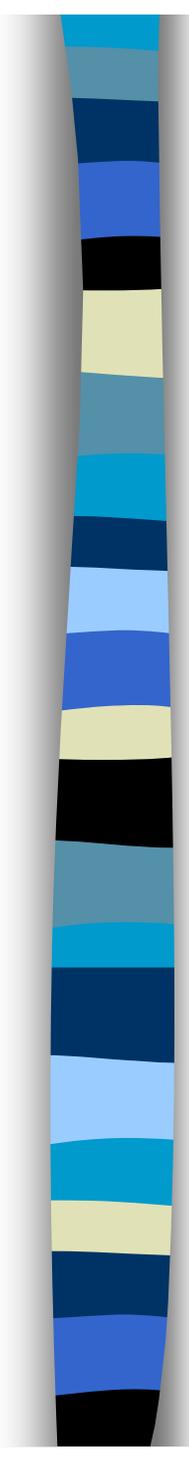


# Setting the Context for Commission Deliberations

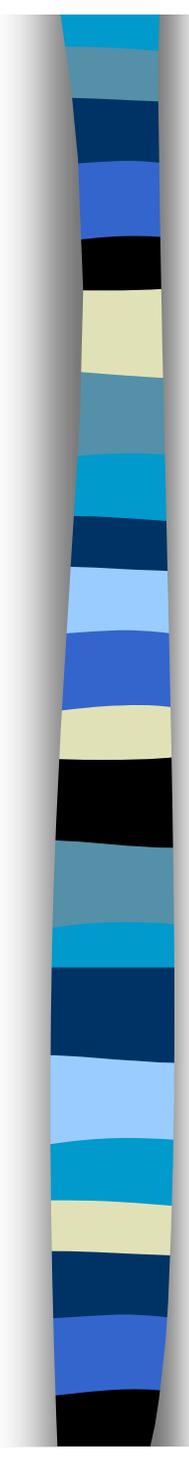


Prepared by Frank Mauro for the  
February 12, 2008, meeting of the NYS  
Commission on Property Tax Relief



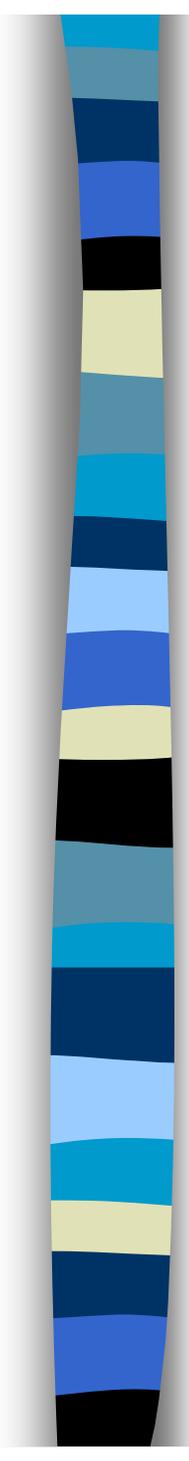
# Setting the Context for Commission Deliberations – Setting an Agenda

- Thank you for inviting me to participate
- Data and opinions will come later in the process
- Today: whatever I can contribute to your agenda setting efforts without putting the cart before the horse.



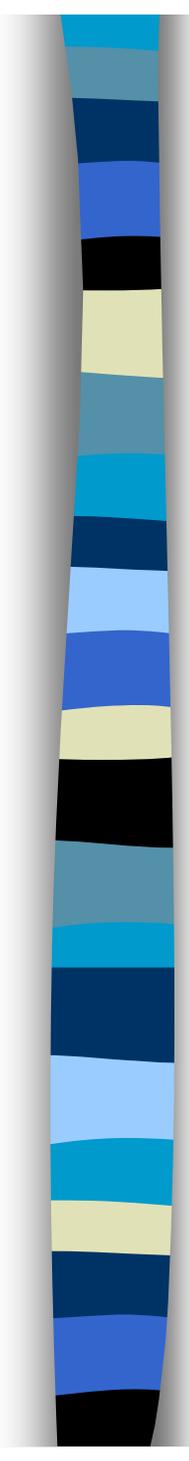
# 1. The Root Causes of New York's High Property Tax Burden

- Lots of small requirements
- But the most significant factors are:
  - State assignments of responsibilities.
  - Amount of State Aid (i.e., State share of costs).
  - The revenue sources local governments are authorized to use to pay for the share of those responsibilities that the state does not cover.



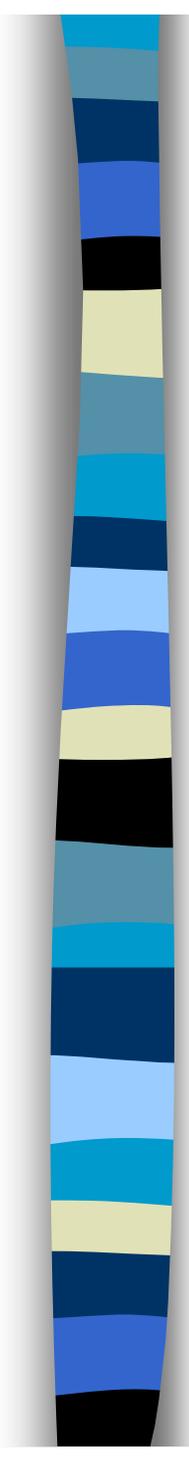
## 2. The impact of increased state financial support and state taxpayer relief and rebate programs on school district budgets and levies

- A conceptual question as well as an empirical one.
- STAR does not reduce school districts' levies. Rather it provides for the state to pay part of the levy.
- The STAR Rebates are completely outside the budget and the levy.



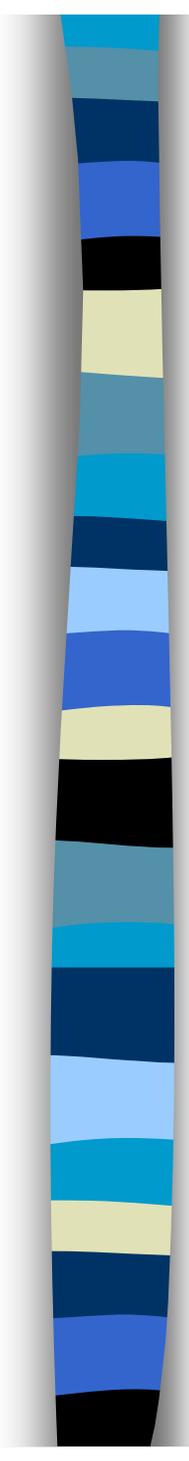
### 3. The extent of voter involvement in the development and approval of school and other local government budgets

- What information is available to school boards and voters at the time of budget votes? What information should be available?
- How does (how could) the new foundation formula system relate to school budget votes?



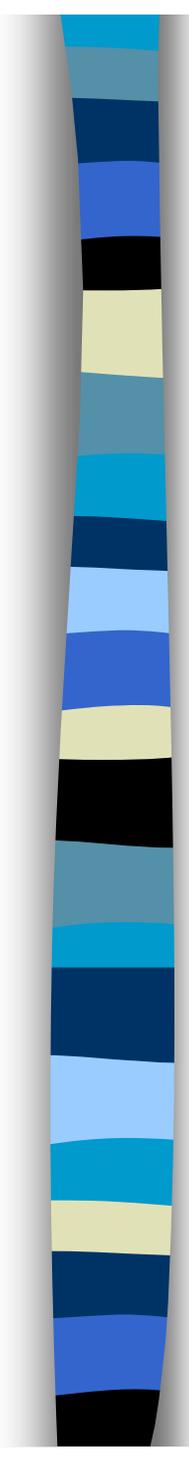
## 4. The effectiveness of various state mechanisms to provide property tax relief to different classes of taxpayers

- What is the impact on Homeowners? Renters? Businesses? Other Property Owners?
- Income Ranges
- Property Taxes as a Percentage of Income



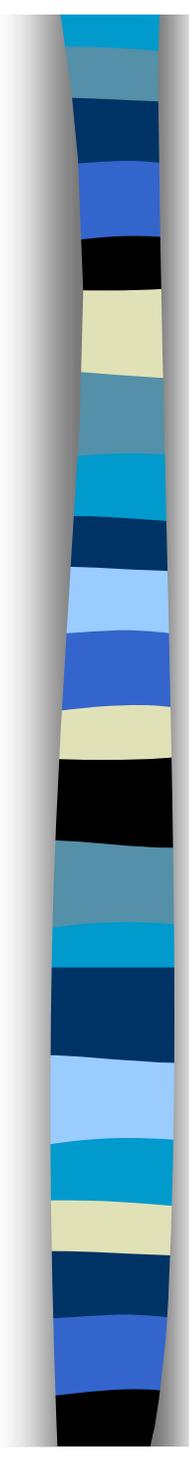
## 5. The effectiveness of property tax caps and their potential impact on educational attainment.

- School budgets are composed primarily of
  - A. Local property tax revenues
  - B. State aid
- Impact of tax caps on educational attainment would depend on what happens to state aid each year



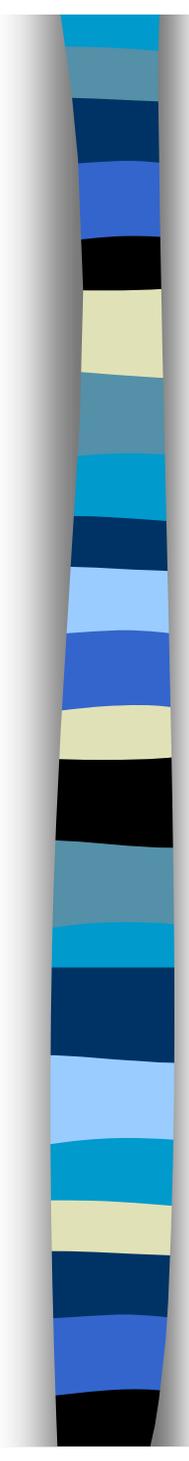
## 6. Can a limit be placed on local school property tax growth without adversely impacting the ability of school districts to provide a quality education to all students?

- Look at other Northeastern states with large economic disparities like New York State
- Study the New York experience
  - HURD Aid
  - Small Cities Aid



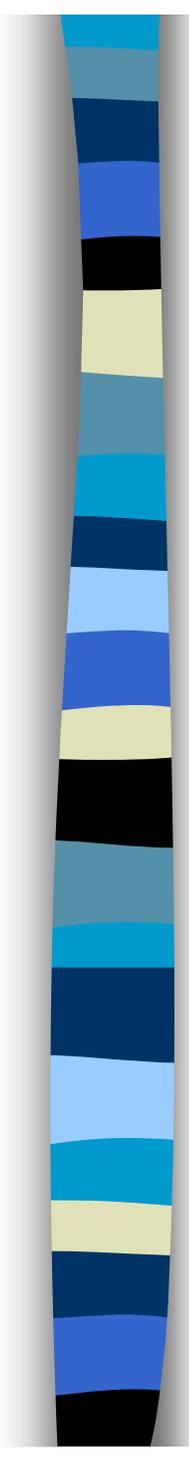
# The Property Tax – Strengths and Weaknesses

- The primary source of local tax revenue for school districts in New York State and in the rest of the nation.
- While the property tax is lauded for its stability and the breadth of its base, it raises two major equity concerns:
  - **Equity among and between school districts.**
  - **Equity among and between individuals.**



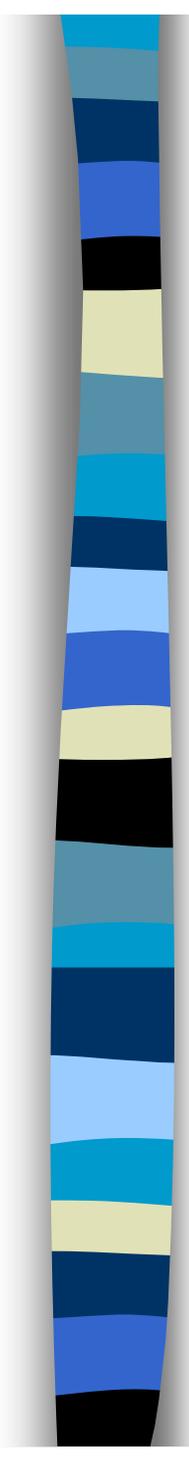
# Inequities Among and Between School Districts

- Great differences among school districts in the size of the property tax base relative to the number of children to be educated and their educational needs.
- Result: Some districts can generate a lot of revenue per pupil with relatively low tax rates while other districts can generate very little revenue per pupil even with relatively high tax rates.



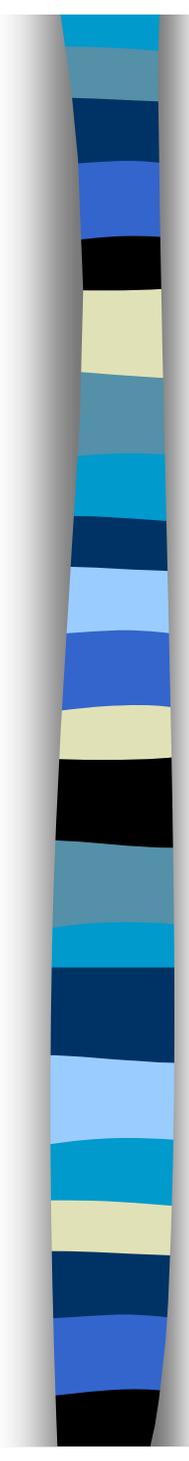
# Inequities Among and Between School Districts

- One of the major purposes of state aid is to make up for the uneven distribution of needs and resources among school districts.
- While the current school aid system serves this purpose pretty well, NYS could do much better job on this front.



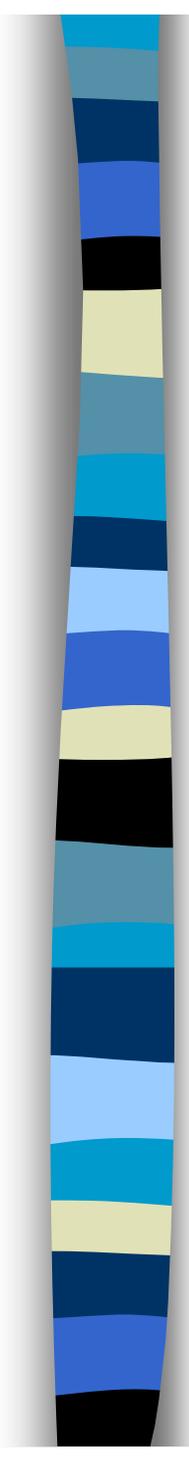
# Inequities Among and Between Individuals

- Some inequities among individuals are attributable to the assessment process.
- State-calculated “Equalization Rates,” if done well, can make up for differences among and between assessing units in terms of their average assessment ratios. But “Equalization Rates” can **not** make up for differences in intra-jurisdiction, intra-property-class variations in these ratios.



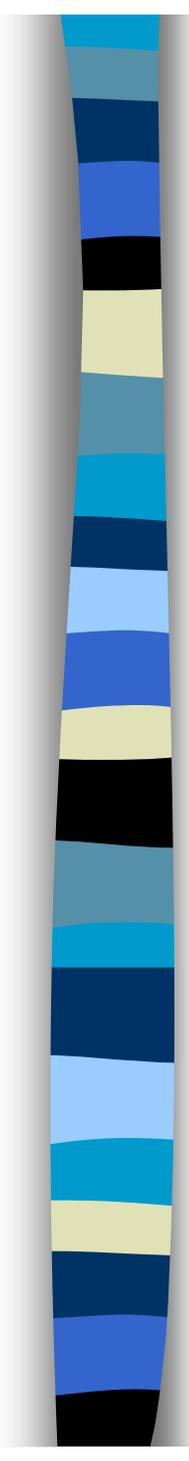
# Inequities Among and Between Individuals

- Unless all properties in a community (particularly all properties of a particular type) are assessed at a uniform percentage of full value, taxpayers with homes of the same value can have very different tax bills.
- But even with fair and equitable assessment, the property tax still raises questions about equity among individuals since there are people who are “property-rich and income-poor.”



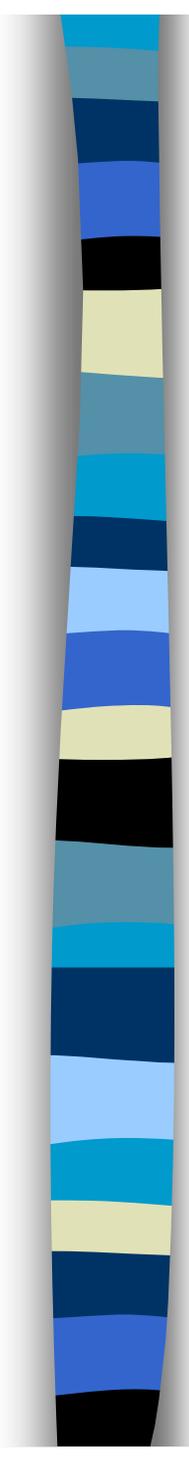
# The Property Tax is Burdensome for People Who are “Property-Rich and Income-Poor”

- The property tax is particularly burdensome for people with above average home values and below average incomes.
- In this regard, we frequently think of the elderly and farmers, but even within these categories there are some people with lots of income relative to their taxable property values and others with limited incomes and high taxable property values.
- In the current economy, there are an increasing number of displaced workers who are also in this situation – sometimes for a short period of time but sometimes for years.



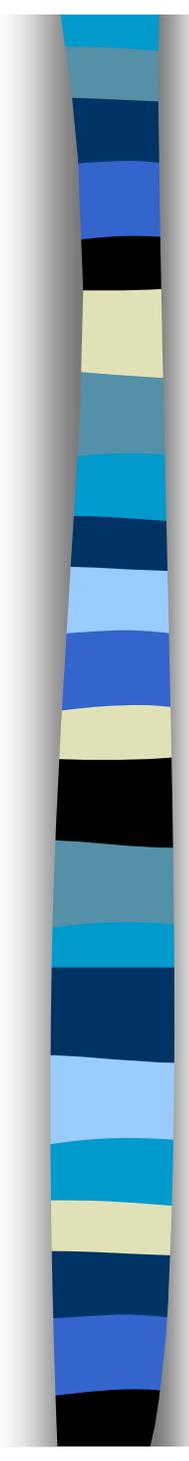
# NYS has Implemented Many Responses to this Property/Income Mismatch

- Since 1966, NYS has authorized school districts (and other local taxing jurisdictions) to provide a locally-financed sliding scale exemption for elderly homeowners.
- Since 1978, NYS has provided low income households with a refundable real property tax “circuit breaker” credit for the portion of their property taxes (or the portion of their rent that is attributable to property taxes) that exceeds a specified (sliding scale) portion of their income.
- Since 1980, NYS has taken the Adjusted Gross Income of each district’s full-time residents (relative to its pupil count) into consideration in allocating state aid to education.



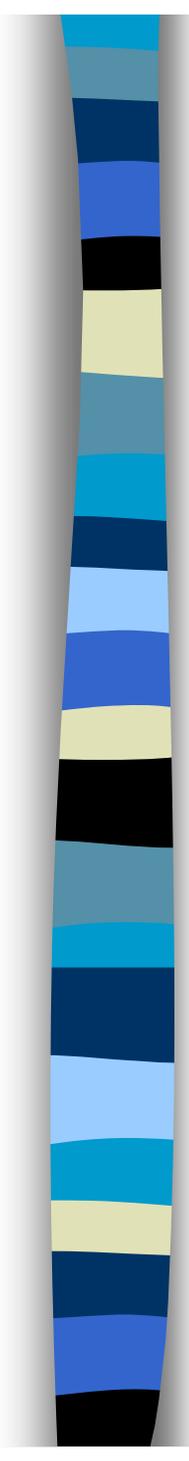
# More NYS Responses to the Property/Income Mismatch

- Since 1981, NYS has authorized (a) school districts and other local taxing jurisdictions outside NYC and Nassau County to use a 2-rate system that applies a lower rate to homestead parcels (1, 2 and 3 family homes) than to other (non-homestead) parcels, and (b) NYC and Nassau County to use a “class shares” system for allocating property tax levies among four property classes.
- Since 1997, NYS has provided farmers with a refundable state income tax credit for all or a portion of their school property taxes paid.



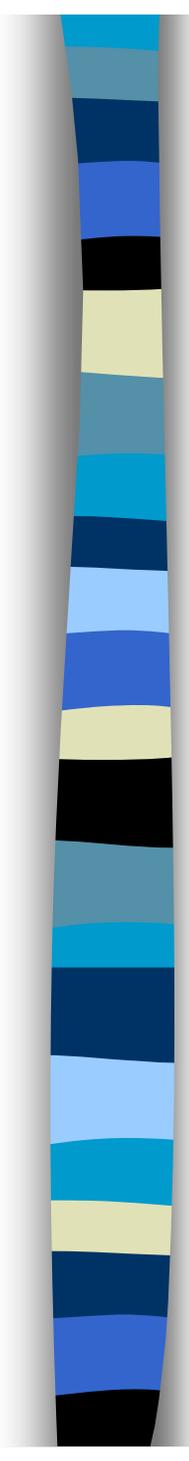
## More NYS Responses to the Property/Income Mismatch

- In 1978, NYS began a program of Small Cities Aid for small city school districts that were close to their constitutional tax limits. Over time, this program was expanded to include some small city school districts that had substantial tax bases relative to their student population and which were not near their constitutional tax limits.
- In the 1980s, and again during the last two years, NYS has had a special aid program called “High Tax Aid.”



# More NYS Responses to the Property/Income Mismatch

- Under the STAR program (which was phased in between 1998 and 2001), NYS now pays a portion of the school property tax bills for all owner-occupied dwellings regardless of a homeowner's income, and a higher portion of the bills of elderly homeowners with incomes below.
- In 2006 and 2007, NYS sent rebate checks to STAR beneficiaries. The 2007 checks varied in size for based on income. There were also other significant differences between the two years' programs.



# How Effective and How Cost-Effective are New York's Property Tax Relief Mechanisms?

- How effective and how cost-effective are New York's various property tax relief mechanisms?
- How well do New York's various property tax relief mechanisms fit together?
- Do other aspects of the tax system work at cross purposes with these property tax relief mechanisms?
- What are the pros and cons of the various current property tax relief mechanisms?