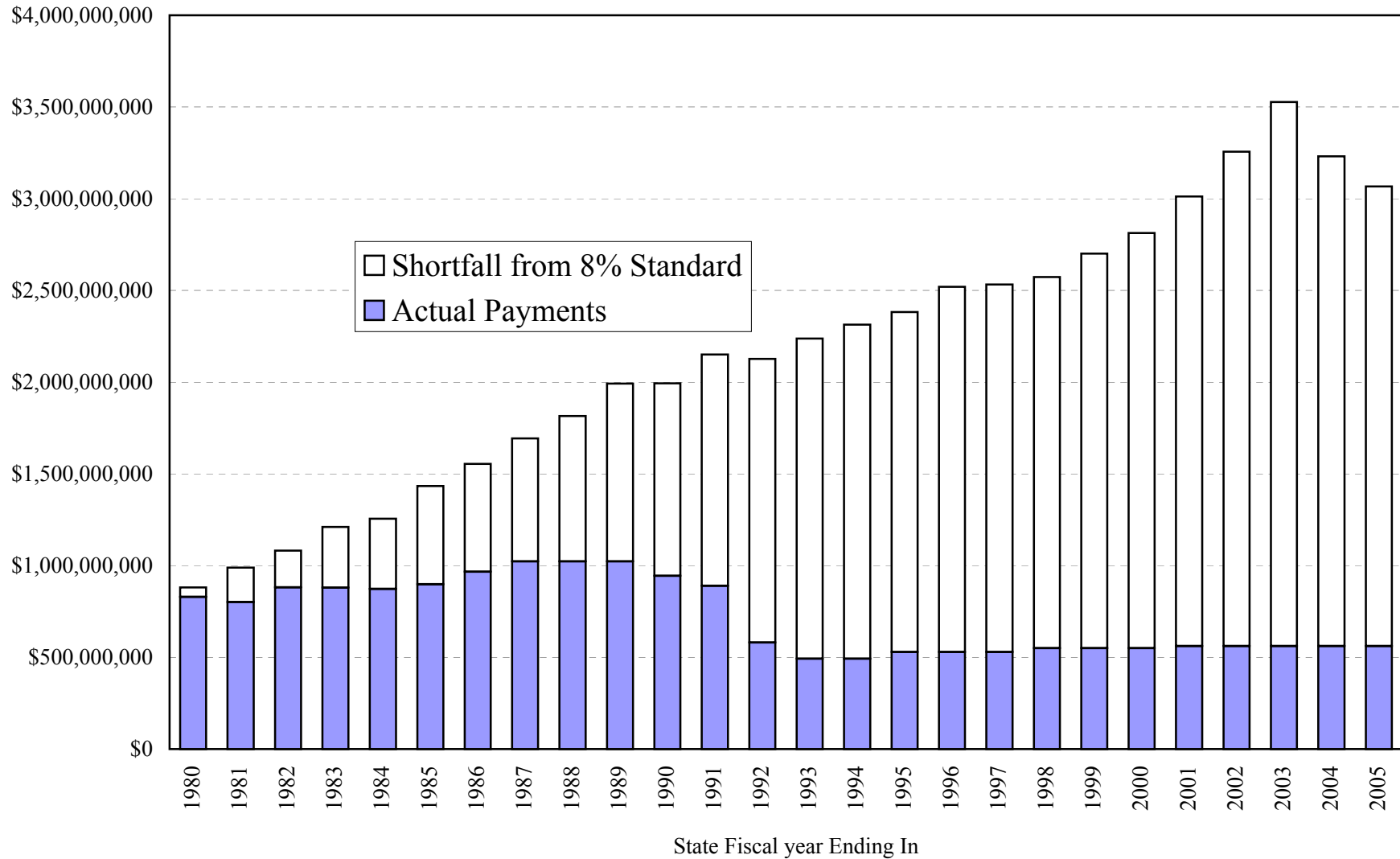
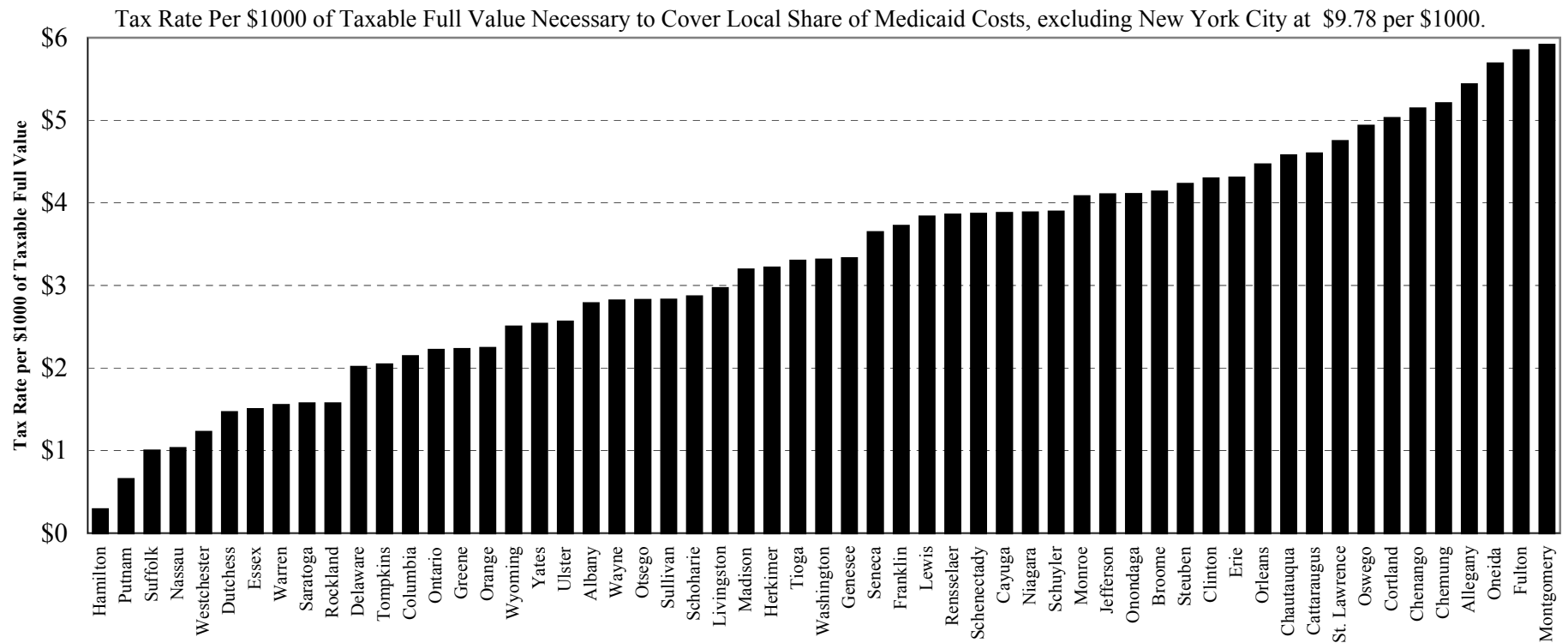


Cutting and freezing revenue sharing puts pressure on the local property tax base - particularly hurting Upstate cities.



Basing the local share of Medicaid costs on the kinds of services provided rather than on the basis of "ability to pay" places great pressure on communities with weak tax bases relative to their concentrations of needy individuals. Capping the growth in the local share of Medicaid costs institutionalizes that inequity.



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

Local tax revenue per capita is much higher in the New York City Metro Area than in the rest of the state. Within the New York City Metro Area, the suburbs rely more heavily on the property tax than does New York City.

Area	Local Government revenue Per Capita						
	General Sales Tax	Selective Excise and Gross Receipts Taxes	Property Taxes	Individual Income Tax	Corporate Income Tax	Other taxes	Total
New York City	\$421	\$138	\$1,111	\$578	\$352	\$177	\$2,777
All Local Governments in the 5 NYC Metro Area Suburban Counties	\$531	\$22	\$2,461	\$2	\$0	\$71	\$3,086
All Local Governments in the 52 Counties Outside the New York City Metro Area	\$361	\$22	\$1,149	\$0	\$0	\$38	\$1,571

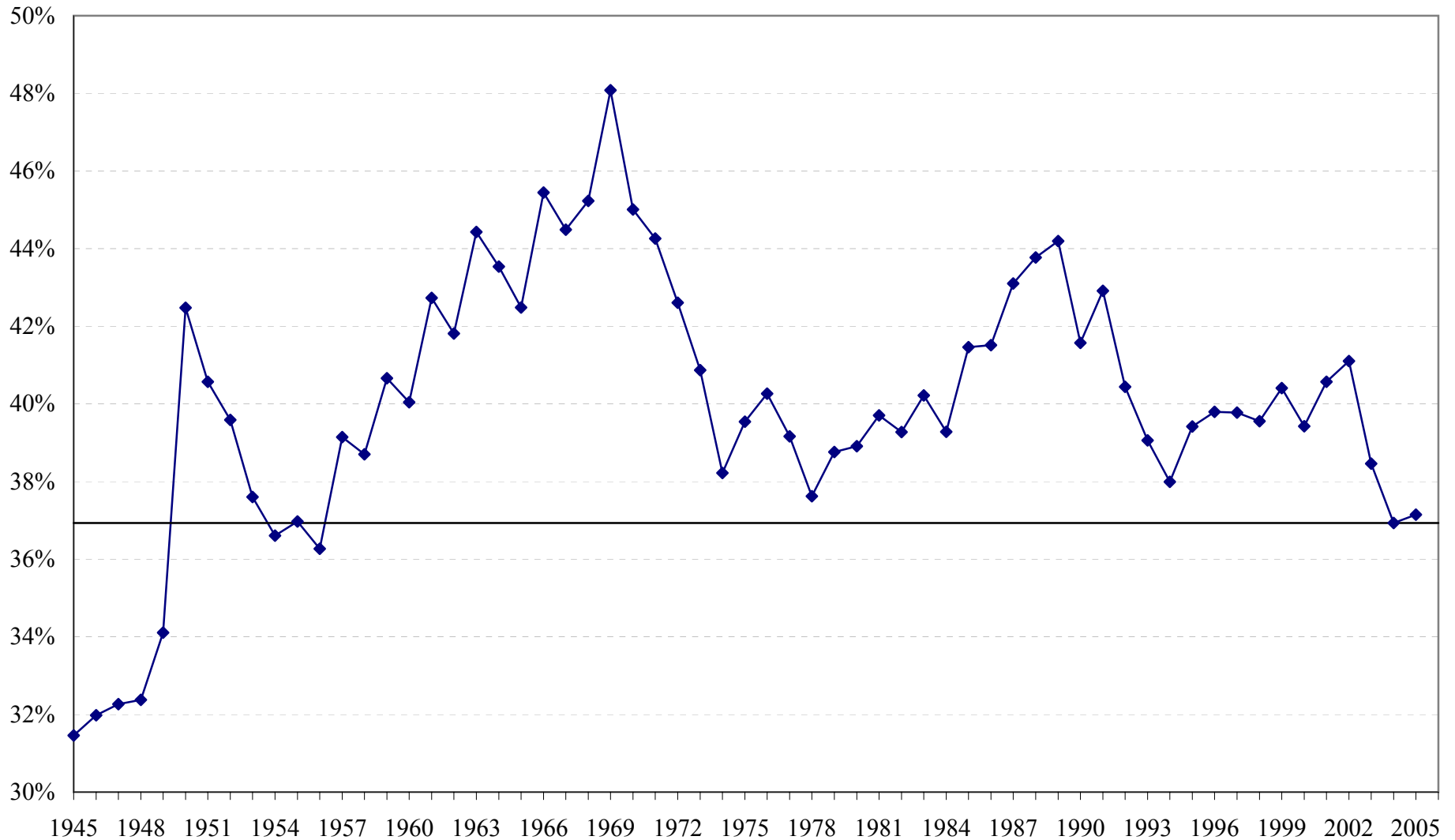
Source: Fiscal Policy Institute analysis of data from the U.S. Bureau of the Census, 2002 Census of Governments.

Property taxes are much lower in New York City than in the New York City suburbs since New York City has a much more diverse tax system.

	Percent Distribution of Local Tax Revenue by Source						
Area	General Sales Tax	Selective Excise and Gross Receipts Taxes	Property Taxes	Individual Income Tax	Corporate Income Tax	Other taxes	Total
New York City	15.2%	5.0%	40.0%	20.8%	12.7%	6.4%	100%
All Local Governments in the 5 NYC Metro Area Suburban Counties	17.2%	0.7%	79.7%	0.1%	0.0%	2.3%	100%
All Local Governments in the 52 Counties Outside the New York City Metro Area	23.0%	1.4%	73.2%	0.0%	0.0%	2.5%	100%

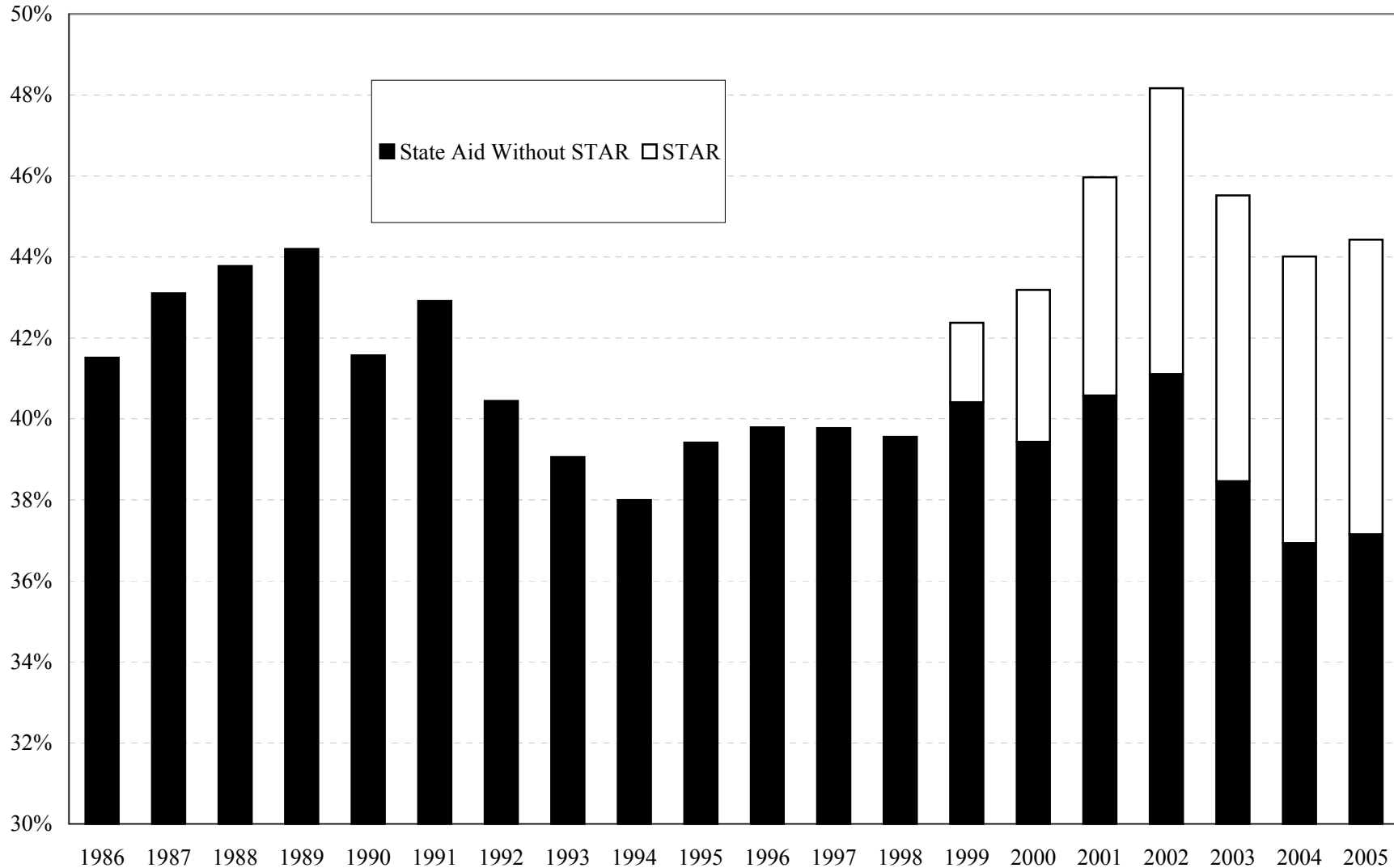
Source: Fiscal Policy Institute analysis of data from the U.S. Bureau of the Census, 2002 Census of Governments.

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



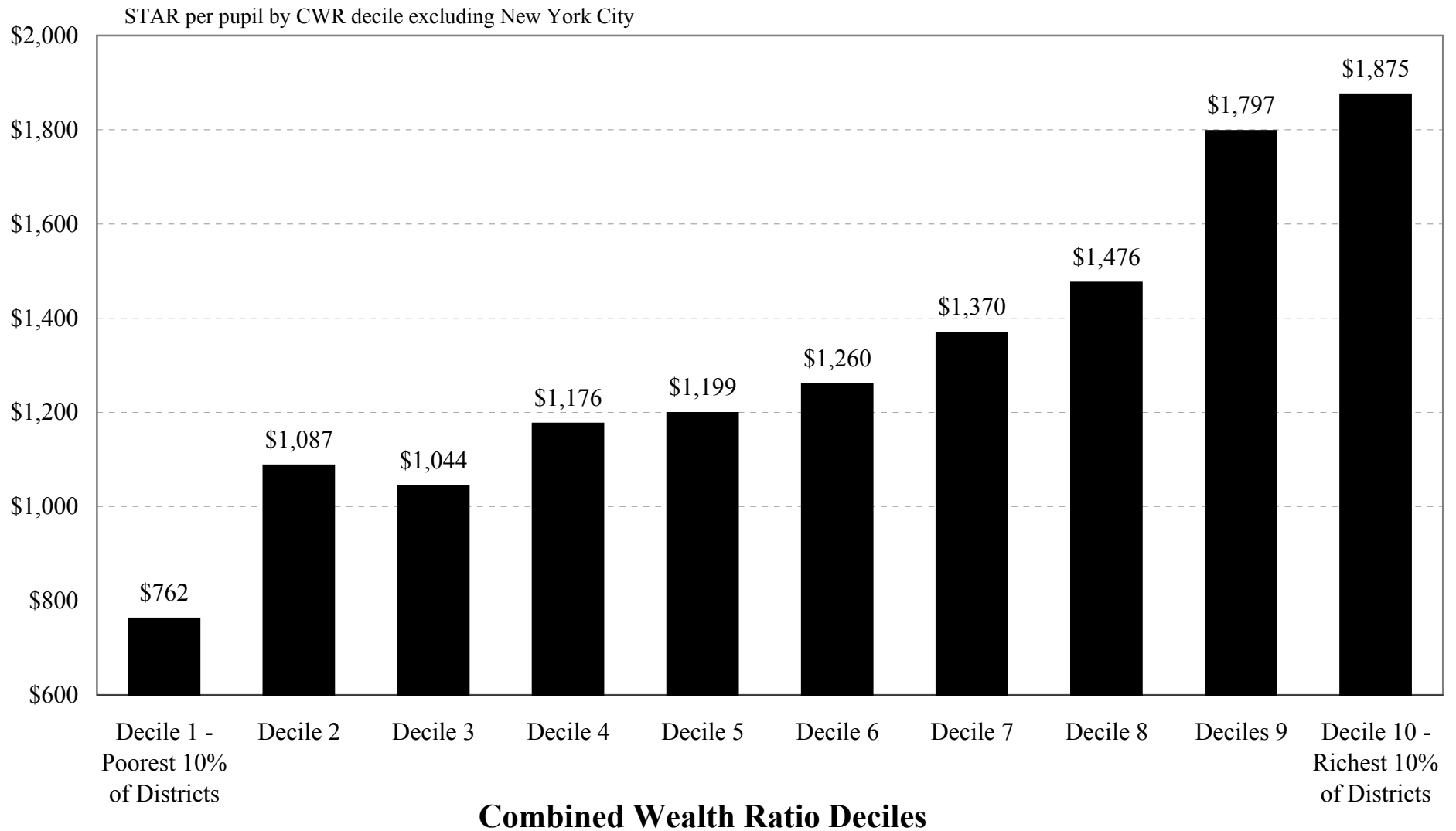
Source: State Education Department, Analysis of School District Finances in NYS School Districts, December 2004.

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



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

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



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 this 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.

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

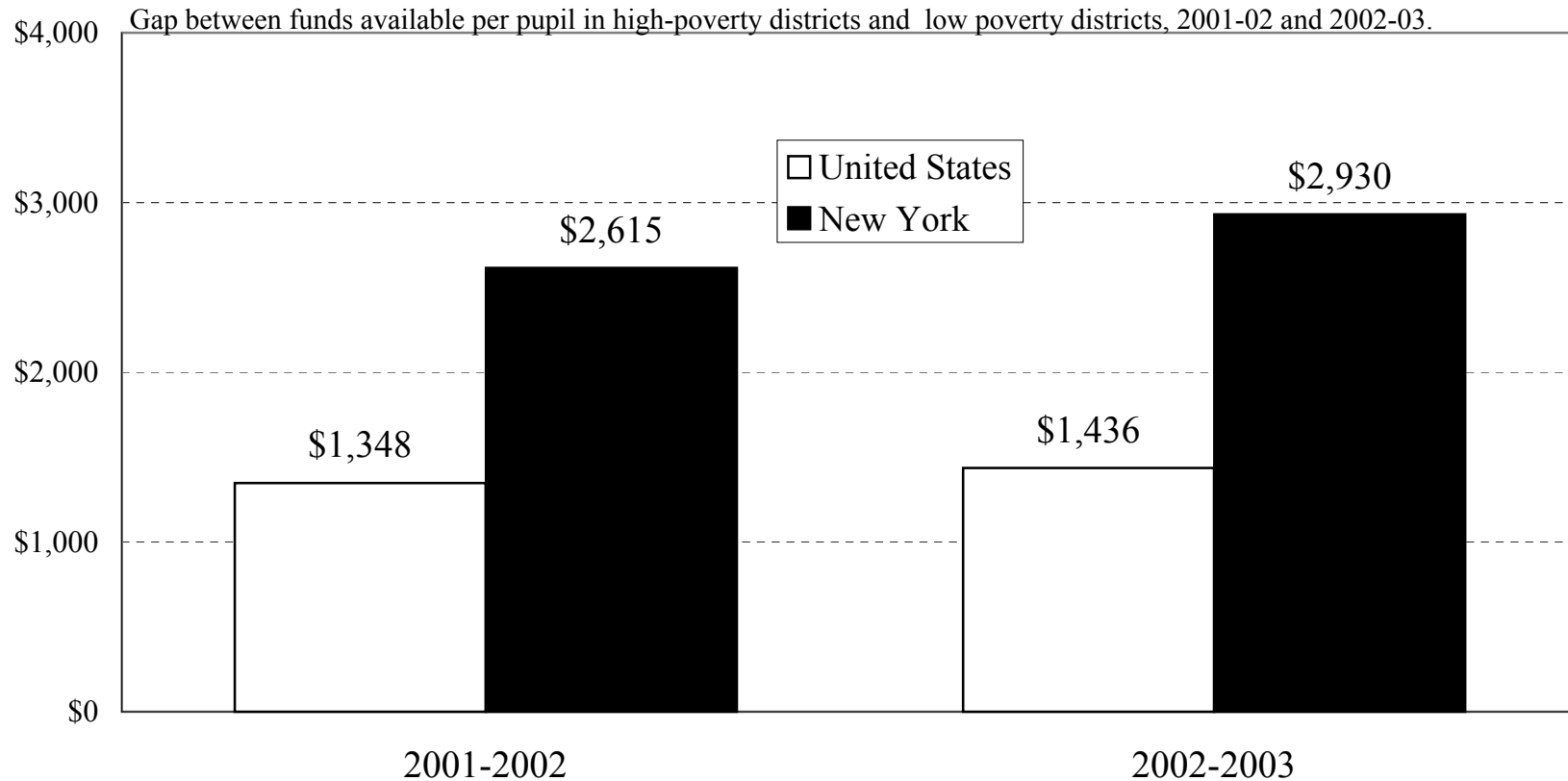
- A second basic flaw of the current program is that similarly situated taxpayers are treated very differently depending on where they live. Two taxpayers with the same incomes and the same property tax bills will get very different amounts of relief through STAR if one of those taxpayers lives in one 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 is 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 provide \$400 property tax rebate checks to residents in districts that limit their spending increases to the lesser of 4% or 120% of the increase in the Consumer Price Index.
- Under the proposal advanced by the Governor 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 CPI²) 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 the Governor would exempt from this cap "court ordered spending to provide a sound basic education" even though the Governor and the legislative leaders have 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.

² 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.

If the Governor'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.

