Policy makers in New York state are considering adopting a new, expanded circuit breaker program to provide more targeted property tax relief because the existing circuit breaker program does not provide adequate assistance. It currently excludes households with incomes above $18,000, and provides an average annual benefit of only $109 per claimant (Bowman et al. 2009).

The state’s primary means of providing direct property tax relief to households is the School Tax Relief program (STAR), which has three components. Basic STAR is available to all taxpayers on their primary residence, and exempts the first $30,000 in property value from school district taxes, with adjustments for municipalities where assessed values diverge from market values and for downstate counties with high real estate prices. Enhanced STAR exempts a higher value, and is available only to homeowners over age 65 with limited incomes. Middle Class STAR provided a rebate check that depended on households’ income and their other STAR benefits, but was repealed in 2009 for 2009–2010 and subsequent fiscal years.

STAR is an expensive program—the three property tax components cost about $3.9 billion in 2008–2009. However, because benefits are spread so widely, many homeowners still face excessive property tax burdens. According to the 2006 American Community Survey, even after accounting for reductions under the Basic and Enhanced STAR programs, 20.1 percent of New York homeowners paid more than 10 percent of their income in property taxes, while 52.6 percent paid less than 5 percent. By providing such generous relief to the second group, the state is not able to provide enough for the first. Also, by providing larger exemptions for counties with high house prices, STAR largely subsidizes households in property-wealthy communities, which makes the state’s property tax system more regressive (Duncombe and Yinger 2001).

To provide more targeted relief, several proposals have been introduced to establish a new circuit breaker program. During the 2005–2006 legislative session, Assemblywoman Sandy Galef and Senator Betty Little sponsored a plan with many desirable features: a multiple-threshold formula to make the distribution of tax relief more progressive; an income ceiling high enough to include all middle-income households; and a copayment requirement to discourage excessive spending by local governments. The cost would have been limited by making homeowners choose either circuit breaker benefits or Middle Class STAR.

The Omnibus Consortium put forward a proposal similar to the Galef–Little plan, but with two improvements. First, it includes renters. Second, it uses a graduated structure for the income brackets, so that a small income increase that moves a claimant from one bracket to the next does not result in a much larger decrease in circuit breaker benefits.

The consortium’s proposal was introduced in spring 2009 by Senator Liz Krueger and Assemblyman Steve Englebright; it is cosponsored by Galef, Little, and many other legislators. Once fully implemented this plan is estimated to cost $2.3 billion annually, which is 65 percent less than the cost of the 2008–2009 STAR property tax programs, even though the new plan would provide much more generous relief to households facing the largest property tax burdens.

Plans to pay for the circuit breaker have been clouded by the state’s repeal of the Middle Class STAR rebates in response to the 2009–2010 budget deficit. Governor David Paterson has also proposed a circuit breaker plan, which would tie circuit breaker benefits to a spending cap for state government. Annual spending growth would be restricted to inflation growth. When revenues exceed this limit, the surplus would be returned to homeowners via a circuit breaker. While this plan may seem attractive, it would accentuate budget cycles and result in unpredictable year-to-year fluctuations in tax relief for homeowners.

Given the state’s fiscal crisis, creating a new circuit breaker program now seems more difficult than when the Galef–Little bill was being actively debated in the 2006–2008 period. Still, it is a positive sign that many legislators and the governor are all advancing targeted and cost-effective circuit breaker proposals, and have repealed the expensive and untargeted Middle Class STAR program.