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NEW YORK STATE COMMISSION ON
PROPERTY TAX RELIEF

Second Commission Meeting

New York State Museum
Madison Avenue
Albany, New York

February 12, 2008
11:00 a.m.

COMMITTEE MEMBERS:

- Thomas R. Suozzi, Chairman
- Dr. Shirley Strum Kenny
- Basil A. Paterson (not present)
- Nicholas J. Pirro
- Michael Solomon
- Merryl H. Tisch
- Paul A. Tokasz

1 throughout the State, including the counties, the
2 mayors, school boards, school superintendents, and
3 different property tax relief citizens groups throughout
4 the State.

5 Thank you very much. We will be back here in
6 15 or 20 minutes.

7 (Lunch recess.)

8 CHAIRMAN SUOZZI: Now we are going to have a
9 presentation from Frank Mauro, who is the Executive
10 Director of the Fiscal Policy Institute, and he's going
11 to be helping us by setting some of the context for our
12 commission's deliberations.

13 Frank.

14 MR. MAURO: Thank you. Thank you for
15 inviting me.

16 What I was asked by John to do was to not
17 present any policy recommendations or advocacy points at
18 this stage in the process, but to share what my thoughts
19 are on what are the important issues to have on your
20 agenda in order to answers the questions that the
21 Governor has asked you to answer.

22 The charge is interesting. I think it's
23 important to realize and recognize that as you do this
24 that I think that the pieces have to fit together, that

1 there are six assignments in the executive order, but I
2 think you have to--I don't think that very many of them
3 could be effectively addressed in isolation.

4 So I think particularly the property tax
5 relief alternatives, the cap alternatives, and the
6 causes of high property taxes, that those three really
7 have to be looked at together.

8 The first charge that the Governor gave us to
9 ask you to look at is the root causes of New York's high
10 property tax burdens including the expenditures of local
11 governments and school districts. And here what my
12 suggestion is--there are lots of small requirements that
13 bother people.

14 Bob Ward wrote a book called--something
15 dollar Light Bulb -- \$163 Light Bulb. So, there are a
16 lot of mandates that people get upset about. The big
17 picture is what your job is. Changing the state share
18 of Medicaid or the state share of school aid is the big
19 potatoes issue. You are not going to save--you are not
20 going to reduce the property tax very much by changes in
21 some of the small mandates that are irritants to people.

22 So, I think you have to keep an eye on the
23 big picture, of what is the big picture, that all states
24 create their own system of local government. All states

1 decide the division of labor between state and local.
2 It's unique among the states. All states decide how
3 much money they are going to give to local governments
4 to help finance part of their responsibilities, and then
5 it tells them what taxes they can impose to cover the
6 rest.

7 So, the state is really setting the rules
8 that determine what a school district or a town or a
9 county can do and what it has to do. There are elements
10 of both.

11 To give an example, New York State divides
12 responsibility for the financing of the non-federal
13 share of Medicaid costs between itself and its local
14 governments on what we call one size fit all basis. It
15 doesn't take the ability of counties into consideration.

16 So, in Fulton-Montgomery counties it costs
17 about \$6 per thousand of full value if they are just
18 using their property taxes, not their sales taxes. If
19 they financed it all out of property taxes it would take
20 about \$6 per thousand. In Chairman Suozzi's Nassau
21 County, it would take about a dollar per thousand. So,
22 it's sort of a one size fits all approach.

23 So, I think you have to look at what this
24 division of labor that's assigned to different units of

1 local governments, what that requires of local tax
2 basis. I think it also leads to something which is
3 where averages are misleading.

4 In a number of the Governor's speeches and in
5 other handouts, it's sometimes 61 or 62 percent of
6 outside of New York City, 61 or 62 percent of the
7 property tax levy is schools. That's an average. It's
8 a little off because it includes STAR as property taxes
9 but leave that alone for the time being. It's an
10 average. It varies incredibly.

11 If you look at Suffolk County, on the one
12 hand, it's much higher than that. If you look at
13 Montgomery and Fulton Counties, it's much lower than
14 that because Medicaid is making the county levy very
15 high and it's taking up a larger portion. So, don't
16 deal with the issue on average. You have to take those
17 variations into consideration.

18 The second charge that the Governor provides
19 is what is the impact of increased state financial
20 support and state taxpayer relief on local school
21 districts budgets and tax levies. Well, that's a
22 conceptual problem as well as an empirical one. It
23 depends how those relief mechanisms work.

24 STAR does not reduce a school district's levy

1 the way that state aid does, state aid other than STAR.
2 So, when you look at the growth in the levy without
3 subtracting STAR, it gives you a bigger picture than if
4 you look at the real property taxes that people actually
5 pay.

6 The STAR rebates are relief, but how in the
7 world do the STAR rebates reduce the growth in the levy,
8 because the STAR rebates are checks sent to people. So,
9 in terms of looking at the second charge of the
10 Governor, I think you have got a conceptual challenge as
11 well as an empirical one.

12 It's not just the numbers, but there's an
13 importance of understanding how the different relief
14 mechanisms actually relate to the levy, since that's
15 what the Governor is asking you about.

16 Third, the Governor says the extent of public
17 involvement in the development and approval of school
18 and other local government budgets. We know that
19 there's a lot of involvement in school budgets because
20 they are subject to a vote, and I think what's important
21 is what information is available to school boards and
22 voters at the times of the budget votes, and what
23 information should be available.

24 In New Jersey, which is one of the few other

1 states that has school budget votes, they are not
2 binding like ours. Local government in which the school
3 district is located can exempt them from a lost budget
4 vote, but in New Jersey, which also has votes, districts
5 get a hard and fast school aid number before they set
6 their budget.

7 In New York they don't, yet they are supposed
8 to tell their budgets to their voters in a real property
9 tax report card at the time they are getting ready for
10 the budget vote in early May what the projected levy is.
11 In order to do that you have to know what the projected
12 aid is.

13 I think the new foundation formula system, if
14 it's dovetailed very well, it's not all of the local
15 share because the foundation formula does not cover the
16 local share of capital costs, debt service,
17 transportation, special ed and a few others.

18 I think the foundation formula that the
19 Governor recommended last year and which is now in the
20 process of being implemented, could be built on to
21 provide better information to school boards and voters
22 in a more timely fashion, because one of the criteria
23 that the Governor was shooting for, hasn't quite worked
24 out that way this year, but a lot of us hoped for, we

1 thought there would be more predictability for this
2 system.

3 We thought that what was happening last year
4 was four-year lie path to the numbers that were
5 established by the adequacy study that the State
6 Education Department did, but that's not what happened.

7 I think the foundation formula still provides
8 the basis for better information if it's fine tuned to
9 restore the predictability that we thought we were
10 arguing for.

11 Number four, the fourth charge is the
12 effectiveness of the various state mechanisms to provide
13 property tax relief to different classes of taxpayers.
14 So, on the one hand, what's the impact on homeowners,
15 renters, business and other property tax owners.

16 The big new benefits, STAR and unrelated
17 ones, are only for homeowners. Well, we have some major
18 relief mechanisms that are outside the levy system and
19 outside the exemption system that are done through the
20 income tax, which are paying the property taxes of many
21 businesses now.

22 In fact, the part of the revision of the
23 Empire Zones Program in 2000 that worried Governor
24 Pataki the most after a year was this provision where

1 the State--if you could get into Empire Zones Program--
2 the State would pay, through a refundable credit item,
3 corporate or personal business income taxes a refundable
4 credit for all of your property taxes.

5 That's what lead to a lot of the creativity
6 where a lot of law firms in both Syracuse and Buffalo
7 and maybe other places, but we know about those two
8 cities because there have been studies that their
9 newspapers did, where many long established businesses
10 including long established law firms reincorporated to
11 get this benefit.

12 Farmers, except for really huge farmers or
13 their land, there's now a refundable credit that pays
14 for virtually all of it. But that's outside the levy
15 system, outside the exemption system and some through
16 the state income tax system.

17 So I think you have to look at those relief
18 mechanisms and how they affect what appears to be the
19 levy.

20 In terms of looking at how it impacts on
21 people by income ranges, I think it's a step in the
22 right direction that the Governor brought income into
23 consideration, but the real test of a property tax
24 relief mechanism is not just how it relates to you based

1 on your income, but how it relates to you based on your
2 property taxes as a share of your income.

3 In framing this, I didn't present any data,
4 we will do that in a white paper later, but I will just
5 give one example. The data that you have in your book
6 from the Tax Foundation comes from something called the
7 American Community Survey. It's replacing the long form
8 on the census that's done every year. The 2006 American
9 Community Survey did a sample of 79,000 households in
10 New York. Not bad.

11 Let's take Onondaga County. The average
12 effective tax rate in Onondaga County, by comparing the
13 median home value in Onondaga County to the median
14 property tax bill, which might be two very different
15 houses, is 2.5 percent, but when you look at the micro
16 data, the Census Bureau makes the sample available.

17 You look at the City of Syracuse, which you
18 can look at, because it's one what they call public use
19 micro data area, it's 300 or so cases with weights.

20 This either means that when people are asked
21 how much property taxes they paid last year they either
22 don't know or they are making something up or we have
23 something real bad with our tax system. Because just in
24 the City of Syracuse where the tax rates should be the

1 same on everyone, there is a incredible variations in
2 the tax rates. There is no clustering around any median
3 or mean. It's almost randomly distributed, but then you
4 can also compare it to income.

5 And what you see then is the real problem
6 with the property tax is when you compare--when you take
7 the actual cases of the micro data, actual cases, not
8 the averages or medians, the property taxes as a
9 percentage of income in Syracuse for what is in that
10 data that the American Community Survey of the Census
11 Bureau publishes, and what people like us and the Tax
12 Foundation use, it varies from less than one percent of
13 income to hundreds of percents.

14 And those are unusual cases. Must be elderly
15 people who are paying their property taxes out of their
16 savings, but even if you leave out the extreme cases you
17 have lots of homeowners in the City of Syracuse who are
18 reporting that they pay above 10 percent, above
19 15 percent, of their income in property taxes.

20 So, I think the important criteria is
21 property taxes as a percentage of income, not income by
22 itself, because in order for income by itself to be
23 valid, there would have to be a relationship between
24 income and property taxes. That's the problem. There

1 isn't.

2 Five, the fifth charge the Governor gives you
3 is the effectiveness of property tax caps as a mechanism
4 to control growth in school district levies, the
5 experience of other states in implementing caps, and the
6 potential impact of such caps on educational
7 achievement.

8 I think the important thing here, which a lot
9 of people have said, is school budgets are composed
10 primarily of two sources of revenue: Local property
11 taxes and state aid.

12 If you cap the property tax portion, then
13 what becomes very important is what happens to the
14 school aid portion of the rest of the budget.

15 Let's take a year like 2003 where the
16 Governor proposed an actual year to year reduction in
17 school aid. After a lot of advocacy it got restored to
18 about even, about the same as the previous year, but
19 that same year school districts were having to increase
20 substantially their pension contributions because the
21 contribution rate had gone down to about zero a few
22 years before that when the stock market was doing very
23 well.

24 So, in 2003 they were getting hit with big

1 increases on both their teaching and their non-teaching
2 personnel on their pension contributions, and no
3 increase in state aid, so there would be property tax
4 increases that year.

5 If they were not allowed to have those
6 property tax increases we would have something which
7 doesn't contribute to educational quality, which is a
8 yo-yo type effect of bouncing up and down from year to
9 year school staffing.

10 I don't think that reaching a sound basic
11 education from school districts in New York can involve
12 laying off teachers one year and hiring them back
13 another year. So, I think that you have to look at both
14 what the responsibilities are the school districts are
15 assigned, the charges that are laid on them that they
16 can't avoid, and what happens to the portion of their
17 budget that's not financed by property taxes.

18 The sixth charge the Governor gave, he wants
19 to know the most effective approach to imposing a limit
20 on local school property tax growth in New York State
21 without adversely impacting the ability of school
22 districts to provide a quality education to all.

23 Now, what I think you need to do to reach
24 this assignment is you have to take into consideration

1 the kind of state New York is. New York has the
2 greatest income inequality of any state in the nation,
3 both between the top quintile of the income distribution
4 and the bottom, and between the top and the middle. We
5 have great differences in income.

6 We also, as some of the speakers said this
7 morning, the Educational Trust--which is a national
8 organization, which is not a liberal organization by any
9 means, it's a big supporter of No Child Left
10 Behind--they have been doing for the last three or four
11 years something they call the education gap study, and
12 New York, a northeastern state with a high poverty rate,
13 has the greatest gap in the country between what's spent
14 per weighted pupil in high poverty and low property
15 districts, and our neighbor in New Jersey has the lowest
16 gap in the country. Our property rate is twice New
17 Jersey's.

18 So, I think if we are going to do this we
19 would have find a needle that doesn't exist in a
20 haystack. We would have to compare New York to other
21 northeastern states with large economic disparities.
22 There aren't any.

23 So, to think that what might work in much
24 more homogeneous states with low poverty rates, like New

1 Jersey, or even lower poverty rates, like Massachusetts,
2 is transferrable to New York I think would be making a
3 mistake. So, I think you have to take that into
4 consideration.

5 I think you also have to study the New York
6 experience with caps.

7 CHAIRMAN SUOZZI: I have to limit you to five
8 minutes more.

9 MR. MAURO: Okay. I am on the last of the
10 six points.

11 I think you should study the New York
12 experience. In the mid-'70s there was something called
13 Hurd aid, which was a perennial problem of the
14 legislature. It was a lawsuit. The plaintiff was named
15 Hurd, I think it was against Buffalo, but it dealt with
16 a number of the cities which were at their
17 constitutional tax limits and the legislature had done
18 various things which the court found not too acceptable
19 to help them with that by increasing the number of
20 things that didn't count toward the cap.

21 I think you have to look at the experience
22 with small cities aid, which started in the late 1970s
23 when many of the small city school districts used to
24 have their own constitutional tax cap. And the small

1 city school districts were in a terrible situation.

2 So, I think you have to look at that
3 experience with small cities aid. I think you also have
4 to look at what happens to the expenditure patterns in
5 those counties that are near their constitutional tax
6 limits, what can counties that aren't near their
7 constitutional tax limits do for their residents that
8 those counties can't, and what room is there for school
9 districts to do more in counties where the county tax
10 burden is low, than there is in counties where the
11 county tax burden is high. And I think all of that
12 contributes to the differential educational situation we
13 have in New York.

14 I leave with this slide, that the primary
15 source of local tax revenue for school districts in New
16 York State and the rest of the nation is the property
17 tax. While the property tax is lauded by a lot of
18 people for its strengths, such as its stability and its
19 breadth of income, it has two very important equity
20 considerations. Equity among and between school
21 districts, as was referred to earlier, and equity among
22 and between individuals.

23 I think there is just loads of ways that can
24 be understood, and I think what I have done the last few

1 days is look at the micro data from Syracuse, the
2 variation within one taxing jurisdiction in terms of
3 equity among and between individuals is just incredible.

4 If we are concerned with where the property
5 tax is forcing people out of their homes, it has to be
6 on the relationship between a particular household's
7 property taxes and a tax particular household's income.

8 If a household is paying less than a percent
9 of its income in property taxes, even if that amount is
10 large, they are not in danger of being forced out of
11 their house, but if it's 18 percent they are.

12 Thank you.

13 CHAIRMAN SUOZZI: As usual, I understood
14 about one of every three words. You point to the
15 complexity of the issues that exist and, again, bringing
16 up the issues that we currently have with the inequities
17 and the burdens that are placed on school districts and
18 individuals is an important thing for us to consider.

19 Thank you very much.

20 E.J.

21 MR. MCMAHON: Thank you. Like Frank, I would
22 like to begin by thanking you for this opportunity. I
23 too was specifically asked to talk about setting the
24 context for your work and not to get into specific