

NYS PROPERTY TAX REFORM COALITION

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TESTIMONY ON 2013-14 EXECUTIVE BUDGET (EDUCATION)
ALBANY, LOB HEARING ROOM B
JANUARY 29, 2013

Distinguished Members,

I speak on behalf of the New York State Property Tax Reform Coalition, an umbrella group of volunteers representing the interests of grassroots organizations and individuals throughout our state who urgently seek meaningful property tax relief and reform but who also appreciate the importance of quality education. I personally have worked on this issue since the early 1990's and have served as the Coalition's legislative liaison officer since its founding in 2007.

NEED FOR FUNDAMENTAL PROPERTY TAX REFORM - SCHOOL FUNDING CHANGE

The antiquated real property tax system is inherently inequitable and increasingly unworkable as a funding mechanism for our schools in the 21st century, and the state's over-reliance on this system demands fundamental change. With the advent of the property tax cap, the situation has now reached a crisis level for educators and parents as well as for property taxpayers. Long term we seek a gradual transition of most school funding from the property tax to a mix of broad-based state taxes more closely aligned with an ability to pay. For the sake of our schools as well as the taxpayers **that discussion must begin NOW**, to begin charting a new course for the future, even as the state's fiscal crisis, for the moment, may delay its implementation. Albany can no longer avoid its Constitutional responsibility for the education of all the state's children.

NEED FOR URGENT PROPERTY TAX RELIEF - CIRCUIT BREAKER

But this fundamental reform will take time, and for hundreds of thousands of our middle class residents time has all but run out. Paying unsustainable, double digit percentages of their income in property tax -- as much as 40% and more -- they face the ultimate decision to join those who have already left their homes and state in droves due to outrageous property taxes.

That is why our most urgent agenda item is a middle class circuit breaker. It is the only measure that can save the homes of these residents while waiting for the long term reform.

STAR cannot do it.

The property tax cap -- which doesn't reduce or even cap one's tax bill -- cannot do it.

WHY DOES THE CURRENT SITUATION MAKE A CIRCUIT BREAKER EVEN MORE IMPORTANT?

All indications are that there will be a greater shift in state aid to higher needs districts.

While this obviously has merit, it will nonetheless exacerbate the problem already faced by thousands of our most overwhelmed taxpayers unless a circuit breaker is enacted concurrently. There are two reasons for this:

1) The criteria for determining district “wealth” are problematic. In particular, the arbitrary 50% weighting given property values in the Combined Wealth Ratio (CWR) misrepresents the actual taxpaying capacity of district taxpayers. Districts with high poverty rates and low incomes often have high property values which may not equate to greater taxpaying capacity but effectively reduce the aid they would otherwise get, thereby undermining the state’s own expressed goal to allocate more resources to high needs districts. The weighting of the CWR’s property wealth component should be lowered. (See Attachment 1 for further details on this problem.)

2) At least equally important, school districts do not pay taxes. They **collect** taxes. Taxes are paid by individual taxpayers. Every school district, including those deemed “wealthy”, has taxpayers who cannot afford higher taxes. Such taxpayers in “wealthy” districts are just as overburdened as the rest of the overburdened around the state, as measured by their tax bill and the income available to pay it. And their burden will increase if their district overrides the tax cap due to actual or relative cuts in state aid.

In sum, the simultaneous enactment of a middle class circuit breaker is the only way a progressive allocation of state aid can be accomplished without effectively penalizing some of our most overburdened taxpayers just because they happen to live in a “wealthy” school district.

HOW CAN A CIRCUIT BREAKER BE FUNDED NOW?

We would ask that you consider new revenues that could help get a circuit breaker launched this year, which might include, for example, savings from closing corporate tax loopholes. In addition, even in our austere fiscal environment, funding for a middle class circuit breaker could be phased in by restructuring the costly STAR program, as recommended by the NYS Property Tax Relief Commission four years ago. This can be done in a way that protects STAR for current beneficiaries who wish to keep that program instead of transferring to a circuit breaker. (Attachment 2 provides our proposal for doing this.)

Thank you for this opportunity to testify. I’d be pleased to respond to any questions.

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capacity now defies reality and is seriously harming students as well as taxpayers in a significant and increasing number of districts. The meteoric rise in property values of recent years, combined with only moderate income growth within the middle class, has now created a situation where 159 school districts -- 23.5% of the 676 districts listed in 2010-11 -- now have an actual value index that is at least 50% higher than their income index (with each figure expressed as a function of the statewide per pupil average). That is up from 119 districts for the 2005-06 school year. And 82 districts, just over 12% of the total, have an actual value index more than double their income index -- up from 72 districts in 2005-06. Of the 82 districts, 29 are on Long Island, 24 are in the North Country, and 18 are in the Hudson Valley, including the Catskills and Westchester County. It's not likely a coincidence that those are precisely the areas where organized popular protest over the property tax remains at its most extreme. For 45 of the 82 districts, the property index is at least **triple** the income index.

In contrast, only 45 districts (up from 27) have an income index exceeding 50% of their actual value index, and only 4 districts (up from 0) have an income index more than double their actual value index. No one has an income index even close to triple the actual value index.

It is time to reduce the CWR's property weighting.

The argument for maintaining a property value component in the CWR is that the income component includes only the taxpaying capacity of the residents -- for whom the state has income tax data -- and excludes the taxpaying capacity of commercial property owners, non-resident homeowners, and other property owners not included in the income base. That argument has merit, but the current 50% weighting is inequitable. Consider the following points:

1) Much of the dramatic increase in property values, at least in the North Country, has come from sales of second homes to residents of higher income areas. While these new owners may logically be able to afford the taxes, the resulting revaluation of neighboring properties owned by long time local residents who want to stay does nothing to increase the taxpaying capacity of those residents. And any absolute or relative loss in state aid raises the taxes on all local property owners.

2) An argument can be made that increases in property values will eventually raise a district's income (and taxpaying capacity) since the higher values will require higher income buyers. But, even if so, that would happen only gradually as properties actually sell, while the impact of higher values on the CWR -- and the reduction it causes in state aid -- is immediate. This effectively hastens the process of income "catch-up" by driving current residents (many of whose values and assessments have been inflated by sales of vacation properties, for example) out of their homes in favor of those with higher incomes. For those who try to remain in their homes, their escalating values and assessments force them to pay taxes the CWR assumes they can afford when in fact they cannot afford them. Or, if the school board is sensitive to taxpayer concerns and moderates the annual tax increase accordingly, the kids may get less than the CWR assumes the district should be able to provide. Often there's a compromise, in which both taxpayers AND the kids lose. We should not be pitting homeowners and schools against one another. The pressure implicitly imposed upon homeowners to sell their homes to support

education is unseemly and immoral.

3) Many North Country schools, among others, have very high poverty rates which qualify them for additional aid under the needs-based formulas, only to find that aid reduced by the property wealth component of the CWR. Thus, in perpetuating the weight given to a district's property wealth, the state is actually undermining its own stated goals and objectives.

The most expeditious and effective way to alleviate this phenomenon, which is so inequitable to a sizeable and increasing number of schools, may be to gradually reduce the arbitrary 50% weight given to the CWR's property wealth component to, say, 25%, perhaps phased in over five years, while increasing the income component to 75%.

While still arbitrary, this would benefit all those districts (357 of 676, or 53%, in 2010-11) whose property index exceeded its income index as of 2010-11. These are the districts whose residents arguably are at the greatest risk of being forced from their homes and/or whose students may lack the resources needed. (A cap might appropriately be placed on additional state aid to those few districts whose income index – while lower than their property index – is still above the state average.) Those districts in the reverse situation (318) could be treated as “save harmless”. (One district had identical indices.) While we have not done a complete analysis, it is evident that far fewer of those 318 districts have a substantial disparity between the two indices compared to the disparity between the two indices in the 357 districts whose property index is higher. To put it another way, the two indices are closer to one another in those districts that would be held save harmless, mitigating the cost of the save harmless.

In addition, any future increase in property value, for state aid purposes, should be limited to those properties which have actually been sold and/or newly constructed or improved during the relevant period, and then only to the extent of the amount of the sale in excess of the pre-existing full value assessment or the value of the construction or improvement. These are the only increases which one could reasonably argue might reflect an owner's ability to pay additional taxes.

As noted earlier, we believe the whole school funding system, with its unreasonable dependence on the local property tax, is seriously flawed and should ultimately be replaced, over time, by a largely state funded system. Such a system would logically include a modest local component based on a percentage of the core amount provided by the state. We also urgently support a middle income circuit breaker to provide relief to our most overburdened homeowners. However, the existing state aid system needs to be seriously and urgently reviewed and modified to make sure the funding goes where it is needed, reflects the state's own education priorities, and reverses the trends that are driving residents out of their homes and forcing businesses out of our state.

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Attachment 2

PARTIAL RESTRUCTURING OF STAR TO FUND MIDDLE CLASS CIRCUIT BREAKER

- 1) Give all current Basic STAR and Enhanced STAR beneficiaries the opportunity to opt out of STAR as of a certain date (for example, as of June 30, 2013), and take the circuit breaker instead, with no prior residency requirement for the circuit breaker as long as the beneficiary continues to reside in the same home for which he/she now receives STAR. As of that date, beneficiaries could not take advantage of both programs.
- 2) "Grandfather" all current STAR beneficiaries who choose to keep STAR, as long as they continue to reside in their current home as their primary residence.
- 3) Eliminate STAR for owners of all property purchased or otherwise acquired on or after a certain date (for example, April 1, 2014).

FISCAL CONSIDERATIONS: (This is just one example of how the restructuring might theoretically work. Actual dates will have to be worked out carefully given the variety of time schedules that are used by different assessing units and school taxing jurisdictions.) Immediate transfers out of STAR and into the circuit breaker program would reduce the STAR budget for 2013-14. The circuit breaker would be enacted as an integral part of the option proposal, but its fiscal impact would be delayed until the 2014-15 budget due April 1, 2014 since the circuit breaker benefit is structured as a state income tax credit. The fiscal impact of STAR reductions from item (3) above would begin to kick in as part of the 2014-15 budget, helping to offset the first year of the fiscal impact of the circuit breaker.

ADDITIONAL REPROGRAMMING OF STAR REDUCTIONS: Any reductions in the STAR program not directly related to the foregoing restructuring of STAR will be reprogrammed to the circuit breaker.

ELIMINATES ISSUE OF "WINNERS AND LOSERS": A key attribute of the restructuring proposal is that it is fair both to current STAR beneficiaries who depend on STAR and to those who desperately need the relief only a targeted middle class circuit breaker can provide. It avoids the moral and political problem of "winners and losers". At the same time, by phasing in the circuit breaker while gradually reducing STAR through attrition, it recognizes that the circuit breaker is far more cost-effective than STAR, should eventually become the state's primary vehicle for property tax relief, and as such would save significant cost to the state.

BUDGET ESTIMATES: We are working on budget estimates for the coming year and the outyears. Over time we believe the proposal would provide significant revenue to help fund the circuit breaker and is consistent with other calls for a partial restructuring of STAR to fund a middle class circuit breaker as originally recommended by the NYS Commission on Property Tax Relief (the Suozzi Commission).

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