

**Testimony for a Joint Hearing of the Senate Committee on Local Government and the
Assembly Committee on Real Property Taxation
June 2, 2008**

Good morning. I am Elizabeth Lynam, Deputy Research Director at the Citizens Budget Commission. Thank you for the opportunity to testify today. As you know, the Citizens Budget Commission is a nonprofit, nonpartisan watchdog group dedicated to influencing constructive change in the finances and services of the New York City and State governments. In my testimony today I will discuss some of the current problems in New York's local tax system and a few options to address these problems. First, let me review a couple of basic premises upon which our views are based.

1. Taxes in New York are high and local taxes are the problem.

- New York residents bear the second highest state and local tax burden in the nation, paying \$157 in State and local taxes for every \$1,000 of personal income – this is 35 percent more than the national average.
- It is not State taxes that drive this high burden; State taxes are in line with national averages. It is New York's local tax burden is the problem by far—number one in the nation. In New York City local taxes are more than double the national average and outside the City they are 49 percent above average.

2. New York's tax burden is not only high, it is also inequitable.

- Despite high levels of state education aid, students in property-wealthy districts enjoy significantly more resources than students in property-poor districts. In the wealthy district of Scarsdale, for example, the local school tax effort is below \$8 for every \$1,000 of income and property wealth – 35 percent below the state average – yet per pupil spending in the district is 43 percent higher than the state average. In contrast, in Rochester, the local school tax effort is twice that of Scarsdale, yet Rochester spends 29 percent less per pupil than the Westchester suburb.
- In the past decade, property values in the suburbs of New York City grew five times faster than in the upstate counties, increasing the local tax base downstate and enabling lower downstate tax efforts.

Unfortunately, the State's \$5 billion local tax relief program, School Tax Relief (STAR), has not significantly reduced the local tax burden or advanced equity in the distribution of local taxes. As STAR was phased in, school districts significantly increased spending. A recent study indicates that growth in school spending negates the savings from STAR by one-third on average. The increased spending not only negated some of the intended tax relief, but also increased the tax burden for commercial property owners, who receive no benefit from STAR. Consequently, one unintended effect of the program was the creation of a class system for property, with commercial owners paying higher tax rates. Since the property tax is the single largest tax on business in New York, increasing commercial property taxes detracts from the State's competitiveness. In addition, commercial and large residential property owners may pass along the increased taxes to their tenants in the form of increased rents. Outside of New York City, renters receive no tax relief from STAR.

In addition to being ineffective in decreasing local taxes, STAR is not targeted to residents with the highest tax efforts. STAR's exemption inflator for property-wealthy counties – and exclusion of renters and commercial property – directs more aid to low-need districts. For example, in 2005, the eight wealthy counties immediately outside New York City received 22 percent of State education aid but 41 percent of STAR aid.

On the other end of the wealth spectrum, while STAR increased State aid to school districts 20 percent on average, in Buffalo, Rochester, and Syracuse, STAR increased State aid only 4 percent. To further illustrate, if STAR were allocated through the school aid formulas instead, these three cities would receive \$136 million more.

The new “Middle-Class STAR Rebate” program takes a small step in the right direction by better targeting relief to lower-income households, yet because it is based on the STAR exemption, the rebate suffers from the same equity flaws as the original STAR program. Consequently, the maximum amount of the rebate for non-seniors varies from \$250 in Buffalo to \$327 in Saratoga Springs to \$809 in Scarsdale. The State needs to go further than limiting the rebate to households with less than \$250,000 in annual income to direct the most tax relief to the most in need.

Tomorrow the Governor will receive the report of the Local Property Tax Relief Commission. The Commission has spent six months traveling throughout the State gathering testimony. It has deliberated the issues for many hours and received numerous white papers from civic organizations on both ends of the political spectrum. Part of their mission involves the design of a tax cap on school district levies that would be effective for New York State. However, recognizing that current programs are deeply flawed and that tax relief is best targeted to the individuals most in need of it, they have also considered various options for circuit breaker programs, including the Galef-Little bill.

The Citizens Budget Commission shares the goals of the LPTR Commission and has repeatedly raised the issue of high local taxation. We convened a forum to discuss solutions last December at which we released an extensive white paper on the subject—*Local Taxes in New York State: Easing the Burden*, available at our website at www.cbcny.org.

The CBC supports the enhancement of New York State's woefully inadequate circuit breaker and respectfully acknowledges your leadership in this area, Assemblywoman Galef and Senator Little. Because the income and wealth criteria for New York's circuit breaker program have not been modified since 1985, the program continues to shrink and to provide relief to fewer residents. In 2006, according to the *American Community Survey* by the U.S. Census Bureau, the median household income in New York was \$51,384, far above the circuit breaker's income ceiling of \$18,000. Similarly, the median home value and median rent in the State were \$303,400 and \$875—well above the program's value and rent ceilings of \$85,000 and \$450, respectively.

Circuit breakers have many advantages. The underlying logic behind levying property taxes is property wealth contributes to an individual's overall ability to pay taxes. However, although property wealth is an important dimension of one's economic standing, home values often increase at different rates than personal income. During a strong housing market, home

values may increase much more rapidly than one's salary and wages. Thus, property taxes may consume a growing share of income. Similarly, senior citizens or others on fixed incomes may face growing property tax bills. Although a home may be sold and converted into cash, the expense and inconvenience of relocating may make this option unfeasible or undesirable for lower-income households. Thus, circuit breakers provide assistance to taxpayers whose property taxes are burdensome relative to current income.

Circuit breakers target property tax relief to lower-income individuals, who tend to spend a greater share of income on housing. According to the U.S. Census Bureau's 2005 American Household Survey, median monthly *housing* costs for homeowners and renters with incomes below the federal poverty line amount to 45 percent of income. By comparison, the national median for all homeowners and renters is 22 percent.

Data from the U.S. Census Bureau show that nationally, *property taxes* represent about 14 percent of housing costs for the median homeowner. However, in New York State, the burden of property taxes here was much higher, closer to 22 percent of median owner housing costs.

The Galef-Little legislation would provide significant relief to the public via a much expanded circuit breaker program. However, as you advance the legislation I would like to share some thoughts for your consideration at this time.

- *Affordability and targeting benefits are obviously interrelated.* Better targeted benefits make for a more affordable program. Although the Middle Class STAR program uses an income level of \$250,000 as its upper limit, the circuit breaker program could use a different and lower threshold, to allow for greater relief at lower income levels. Other features that could be added include home value thresholds or absolute benefit caps that also have the advantage of reducing costs and allowing for benefits to be enriched for the neediest New Yorkers. Or the percent reimbursed above the circuit breaker could be reduced from 70 percent to something lower at the middle to higher income levels in the range.

Making the program more affordable is a key issue for two reasons. First, the State's financial position in the coming year is precarious and State leaders are facing a \$5 billion budget gap. Keeping the program, at least initially, to the \$1 billion amount currently allocated for Middle Class STAR rebates is advisable. Second, it is important to make it affordable—even in this year's context—to include a segment of the population that is left out of your bill altogether, renters.

- *Including renters is advisable.* Landlords pass on a portion of their property taxes through increased rents, yet currently renters outside of New York City receive no benefit from the state's largest property tax relief program. In addition, including renters would ensure that some relief flows to large cities around the State, where renters can represent a majority of residents. A reasonable assumption for a "property tax rent equivalent"—that many other state circuit

breaker programs make—is that renters pay 20 to 25 percent of annual rental payments toward property taxes. New York’s current assumption is 25 percent.

- *Implement a tax cap at the same time.* A tax cap could prevent one possible unintended consequence that could be caused by a much-expanded circuit breaker—local tax hikes. By subsidizing local taxes with very deep relief, particularly in high wealth areas, absent any new form of fiscal discipline local residents might see a “STAR-like” effect on their local tax bills.

In conclusion, let me reiterate that to fund more appropriate taxpayer relief mechanisms the Middle Class STAR program should be replaced with an improved circuit breaker. Redistributing these funds would serve the dual purpose of not adding to what is already a \$5 billion budget gap next year while at the same time allowing for a good start directing help to the most severely strapped local taxpayers. Raising taxes at this time to pay for the expansion is simply not advisable, given New York’s noncompetitive tax burden ranking among states.

Thank you for your time. I am happy to answer any questions.