

**LOCAL TAXES IN NEW YORK STATE:
EASING THE BURDEN**

A Background Paper Prepared by the
Citizens Budget Commission

For

A Forum on Lowering the Local Tax Burden
December 6, 2007



New York's Nonpartisan Voice for Effective Government

FOREWORD

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments. A major activity of the Commission is conducting research on the financial and management practices of the State and City.

All research by the CBC is overseen by a committee of its Trustees. This report was completed under auspices of the Budget Policy Research Committee. We serve as co-chairs of that Committee. The other members of the Committee are Lawrence D. Ackman, Stephen Berger, Seth Bernstein, Larry Bettino, Lawrence B. Bittenwieser, Karen Daly, Evan A. Davis, Stephen DeGroat, Cheryl Cohen Effron, Roger Einiger, David Elliman, Laurel FitzPatrick, Bud H. Gibbs, Kenneth D. Gibbs, James F. Haddon, Jeffrey Halis, Walter Harris, Patricia Hassett, H. Dale Hemmerdinger, Fred P. Hochberg, Brian T. Horey, Eugene J. Keilin, Peter Kiernan, Peter C. Kornman, Robert Kurtter, Stephen F. Langowski, Richard A. Levine, Jeffrey Lynford, Norman N. Mintz, Lester Pollack, Carol Raphael, Heather Ruth, Edward L. Sadowsky, Teddy Selinger, Andrew Sidamon-Eristoff, Adam Solomon, Joan Steinberg, Merryl H. Tisch, Cynthia King Vance, Mark Wager, Kevin Willens, Nancy Winkler, James L. Lipscomb, ex-officio.

This paper is the final in a series of three prepared for public forums during the Fall of 2007 on the upcoming State budget for fiscal year 2008-09. These forums are a continuation of the CBC's commitment to promote reforms in the content and process of the New York State budget. Previous research reports were prepared for conferences held in Palisades, New York in November 2003 and in Armonk, New York in April 2006.

Tammy Pels, Research Associate, prepared this report with direction and editorial guidance from Charles Brecher, Executive Vice President and Research Director, and Elizabeth Lynam, Deputy Research Director, and research support from Senior Research Associate Selma Mustovic and Research Associates Darcie Harvey and Maria Doulis. The authors and the Committee are grateful to Paul Francis, Director of the New York State Division of the Budget, and members of the Division staff for their cooperation in research for the paper and for their helpful comments on a preliminary draft of this paper. We also thank the New York State Office of the Comptroller, New York City Independent Budget Office, New York City Office of Management and Budget, and New York State Senate Finance Committee for their assistance and thoughtful feedback on the paper. Corey Kunz, Communications and Public Affairs Associate at CBC, formatted the document for publication.

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TABLE OF CONTENTS

FOREWORD	1
INTRODUCTION	3
OVERVIEW OF NEW YORK’S TAXES	4
Growth in State and Local Taxes	6
New York’s Comparative Tax Burden	8
Issues with Measuring Tax Burdens	11
LOCAL TAX ISSUES	13
Inequities in School Finance	13
The Counties’ Tax Squeeze	14
High Labor Costs for Local Governments	18
WHAT HAS BEEN DONE TO ADDRESS THE LOCAL TAX BURDEN?	22
School Tax Relief (STAR)	22
Property Tax Rebates	28
Medicaid Local Growth Cap and Cost Containment	32
Foundation Aid for Schools	33
Government Consolidation Initiatives	34
LOCAL TAX RELIEF OPTIONS	36
New York State’s Current Local Tax Relief Programs	36
Limiting Tax Collections – “Tax Caps”	37
A More Equitable Tax Burden	43
Circuit Breakers	44
State Medicaid Takeover	48
Education Aid Based on Uniform School Tax Effort	50
Reducing Local Cost Drivers	52
Reduce Medicaid Expenditures	52
Pension Benefit Reforms	52
A Revised Framework for Collective Bargaining	53
Additional Consolidation Initiatives	54
APPENDIX I: PROPERTY TAX CAP MODEL	56
APPENDIX II: CIRCUIT BREAKER MODEL	59

INTRODUCTION

The months between the fall of 2007 and the adoption of New York State's next annual budget in March 2008 are a critical juncture in the efforts to "fix Albany." The process by which the next budget is prepared and debated, as well as the substantive decisions it embodies, are critical to the movement for political and fiscal reform in New York State.

In order to promote fiscal reform, the Citizens Budget Commission (CBC) is convening three separate agenda-setting conferences for key stakeholders in the state budget process. Each session will focus on one aspect of fiscal reform with a goal of identifying specific changes that are assigned high priority for the coming budget cycle by a wide range of interested parties. The expectation is that the priority measures can begin to be implemented in the course of adopting the fiscal year 2008-09 budget. The first session was held on September 20 at the Rockefeller Institute of Government in Albany; the second was held on October 17 at Milano The New School for Management and Urban Policy in New York City. The third will be held at the Rockefeller Institute on December 6.

The three dimensions of fiscal reform considered at the respective sessions are:

1. Greater accountability and transparency in fiscal decision making.
2. More effective use of state fiscal resources.
3. More equitable and affordable local tax burdens.

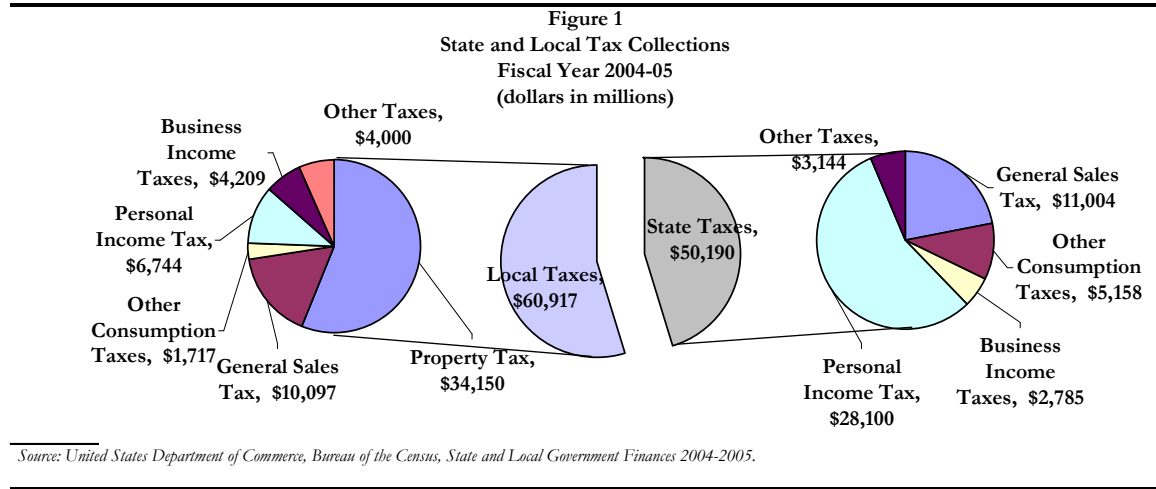
This background paper focuses on the third issue. It has been prepared to inform discussion among the participants at the third CBC agenda-setting conference on December 6.

The remainder of this paper is organized into four sections. The first describes state and local taxes in New York and compares the burden to competitor locations in the nation. This section highlights differences between New York City and the rest of the State, as well as changes in the tax burden since the mid-1990s. The second section focuses on local government taxation, with an emphasis on the property tax burden outside of New York City. This portion of the paper describes four problems facing these local governments. The third section describes recent state actions taken to lower the local tax burden and offers a critique of the School Tax Relief (STAR) program. The last section presents options for the State to address the local tax burden. It distinguishes among options meant to: 1) limit local taxation; 2) more equitably distribute the local tax burden; and 3) address the factors driving up the cost of local services.

Conference participants are asked to review these options as they will form the basis for discussion at the forum.

OVERVIEW OF NEW YORK'S TAXES

New Yorkers pay about \$111 billion annually in state and local taxes. As shown in Figure 1, taxes collected by local governments represent 55 percent of the total, and state taxes account for 45 percent.



The state government derives more than half (56 percent) its tax revenue from its personal income tax. New York levies a graduated income tax, with rates ranging from 4 to 6.85 percent across five different brackets. The state sales tax – at a current rate of 4 percent – generates 22 percent of state tax revenue. The state’s business income taxes generate 6 percent of the total. New York State generates additional tax revenue from its cigarette and tobacco product tax, alcoholic beverage tax, motor fuel tax, estate tax, real property transfer tax, mortgage recording tax and hotel tax, among others.

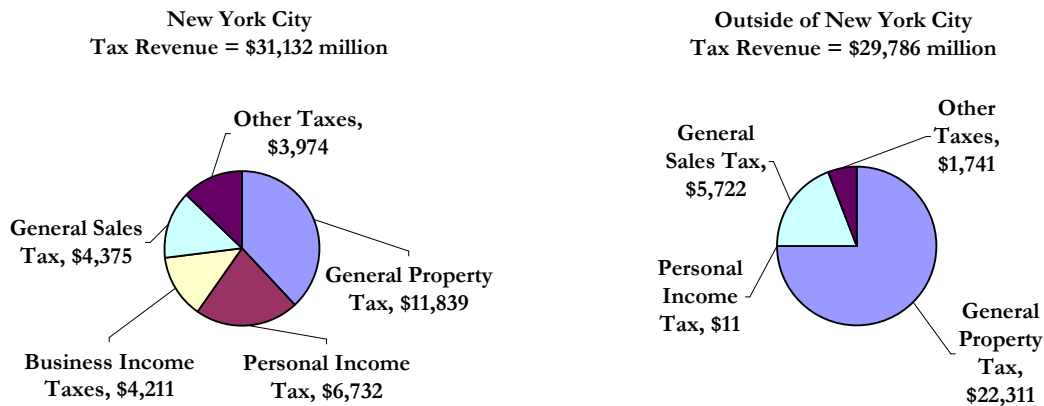
Local jurisdictions in New York collect \$61 billion in taxes. Property taxes account for 56 percent of this total. Local personal and business income taxes – almost entirely collected in New York City – add up to 18 percent of all local taxes. Local sales taxes contribute another 17 percent.

The local tax structure in New York City differs from that in local communities outside the City in three ways (see Figure 2). First, unlike almost every other locality in the State, the City levies a personal income tax on its residents; this tax generates about \$7 billion annually. Second, the City taxes businesses more heavily than other localities. Unlike other jurisdictions, the City imposes business income taxes, and its property tax places a disproportionately high burden on commercial property relative to residential property. The City’s business income taxes generate about \$4 billion annually, and commercial property accounts for about 52 percent of its total property tax levy¹ compared to about 40 percent in

¹ New York City Department of Finance, Fiscal Year 2006 Annual Property Tax Report. Includes Class 3 (utility) and Class 4 (all other non-residential) properties.

the rest of the State.² Third, New York City has a thriving tourism sector and is able to derive substantial tax revenue from these visitors. The City has a significant hotel tax and some of its sales tax revenues are derived from purchases by non-residents.

Figure 2
Composition of Local Tax Revenue
Fiscal Year 2005
 (dollars in millions)



Source: United States Department of Commerce, Bureau of the Census, State and Local Government Finances 2004-2005.

Outside of New York City, local governments are highly dependent on property and sales taxes. In these jurisdictions, property taxes comprise 77 percent of all local revenue. General sales taxes generate almost the entire remainder – about 19 percent.

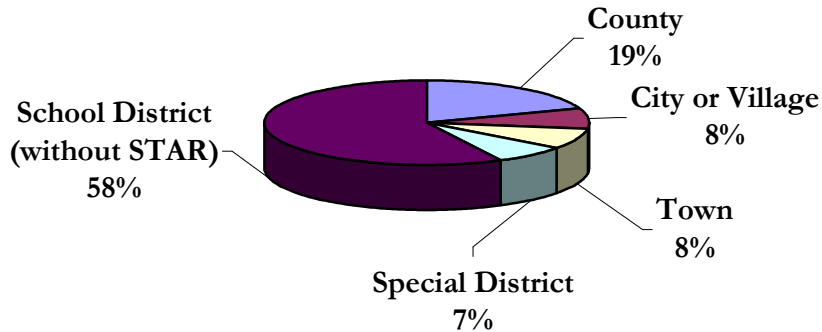
Local governments levy property taxes at five different levels – county, city or village, town, special district and school district. Special districts include fire, sanitation, sewer and library. School districts generate 58 percent of all property tax revenue (68 percent when School Tax Relief or STAR payments are included), and counties account for another 19 percent (see Figure 3).

Local sales tax rates range from 3 to 5 percent and are levied largely at the county level. State statute permits local sales tax rates up to 3 percent; rates exceeding the state limit require state legislative approval. As of July 2007, only six counties of the 57 counties outside New York City (Hamilton, St. Lawrence, Warren, Saratoga, Washington, and Westchester) levy a 3 percent local sales tax, while the rate in five counties (Nassau, Suffolk, Allegany, Erie, and Oneida) exceeds 4 percent. Oneida has the highest rate at 5 percent.³ Purchases in Suffolk, Nassau, Westchester, Rockland, Dutchess, Orange, Putnam and New York City are subject to an additional 0.375 percent sales tax that is dedicated to the Metropolitan Transportation Authority.

² Robert Ward (Business Council of New York State). New York's Property Taxes Are High, and Rising Fast. Why – And What to do About It? April 2007.

³ Office of the New York State Comptroller, Financial Report on Counties, Fiscal Years Ending 2005, July 2007.

Figure 3
New York State (Excluding New York City) Property Tax Levy
By Level of Local Government
Fiscal Year 2005
Total Property Tax Levy = \$23 Billion



Source: New York State Office of the Comptroller, Local Government Division, Summary of Financial Data for Local Governments, 2005.

Growth in State and Local Taxes

From fiscal year 1995 to 2005, state tax collections increased 46 percent, New York City tax collections grew 78 percent, and local tax collections outside New York City rose 53 percent (see Table 1). As a benchmark, during the same time inflation in the New York metropolitan region pushed up consumer prices about 30 percent and personal income in New York grew 56 percent.⁴

The relatively slow growth in state taxes is due to policy decisions during this period to lower tax rates. Beginning in fiscal year 1995, a series of state tax reductions lowered tax collections about \$13.4 billion annually, including an \$8 billion cut to the state personal income tax and a \$3.5 billion reduction in business income taxes.⁵

The relatively rapid growth in New York City taxes is due to a combination of strong economic growth and tax increases. In the wake of the 2001 terrorist attacks, the City increased the real property tax 18.5 percent, with some rebates for residential property enacted subsequently. From 2003 to 2005, the City also temporarily increased the personal income tax rate for high-income filers and raised the sales tax rate from 4 to 4.125 percent.

⁴ U.S. Department of Labor, Bureau of Labor Statistics. Calculated from “Annual Consumer Price Index – All Urban Consumers for New York-Northern New Jersey-Long Island Area.” U.S. Department of Commerce, Bureau of Economic Analysis. Personal income growth is from calendar year 1994 to calendar year 2004.

⁵ New York State Division of the Budget. 2006-07 Executive Budget Economic and Revenue Outlook, “Summary of State Tax Reduction Program.”

Table 1
New York
State and Local Tax Collection
Fiscal Years 1995 and 2005
(dollars in millions)

	Total Tax Collection		Nominal Growth
	1995¹	2005¹	1995-2005
Total State and Local Taxes	\$71,321	\$111,108	56%
State Taxes	\$34,294	\$50,190	46%
Personal Income Tax	17,589	28,100	60%
Business Income Taxes	2,815	2,785	(1%)
General Sales Tax	6,845	11,004	61%
Other Taxes	7,045	8,302	18%
New York City Taxes	\$17,533	\$31,132	78%
General Property Tax ^{2,3}	7,530	11,839	57%
Personal Income Tax ⁴	3,642	6,732	85%
Business Income Taxes	2,170	4,211	94%
General Sales Tax	2,621	4,375	67%
Other Taxes ⁵	1,569	3,974	153%
Local Taxes Outside New York City	\$19,493	\$29,786	53%
General Property Tax ³	15,252	22,311	46%
Personal Income Tax	24	11	(53%)
Business Income Taxes	0	0	NAP
General Sales Tax	3,350	5,722	71%
Other Taxes ⁵	867	1,741	101%

Note: The New York region experienced 30 percent inflation from June 1995 to June 2005. New York personal income increased 56 percent from calendar year 1994 to calendar year 2004.

(1) Fiscal years for state and local governments do not align. Data used from fiscal years ending between July 1, 2004 and June 30, 2005. The New York State fiscal year ends March 31. The New York City fiscal year ends June 30. The fiscal year end-date for other local governments in New York State vary among March 31, June 30 and December 31. Thus, some data for local governments outside the City represent the 1994 and 2004 fiscal years.

(2) Census data for New York City property taxes in fiscal year 2005 include \$152 million from School Tax Relief (STAR) revenues.

(3) Census data for property taxes include penalties and interest on real estate taxes.

(4) Census data for the New York City personal income tax in fiscal year 2005 includes \$632 million from STAR revenues and does not include \$497 million retained for the Transitional Finance Authority. The personal income tax for fiscal year 2005 would be \$6,597 million if STAR was excluded and the TFA retention was included.

(5) Other tax revenue includes taxes on alcohol and tobacco sales, public utilities, hotel sales, and fuel, as well as the real property transfer tax and mortgage recording tax. Other tax revenue also includes fees on licenses. NAP=Not Applicable.

Source: U.S. Census Bureau, *State and Local Government Finances: 1994-1995 and 2004-2005*.

Outside of New York City, property tax collections grew 46 percent; local sales taxes rose 71 percent. The increase in sales taxes is jointly due to economic growth and rate increases. From 1995 to 2005, 33 out of 57 counties outside New York City increased their county sales tax rates.⁶ The increases varied from 0.5 base points in Allegany County to two base points in Delaware County.

New York's Comparative Tax Burden

New York State has been among the states with the highest tax burden for several decades. New York was second only to Maine or Alaska in the early 1990s and had the nation's highest burden in the late 1990s and in some recent years. In the latest year for which data are available (fiscal year 2005) New York ranked second to Wyoming.⁷ In fiscal year 2005, New York collected \$150 for every \$1,000 of personal income, 33 percent higher than the national average and well-above the nine other most populous states and neighboring competitors Connecticut, New Jersey, and Massachusetts (see Table 2). The tax burden in Connecticut and New Jersey is only 6 and 4 percent above the national average, respectively.

Table 2
State and Local Taxes per \$1,000 of Personal Income
New York and Selected Competitor States
Fiscal Year 2004-05

	Combined State and Local Taxes			State Taxes			Local Taxes		
	Per \$1,000 Personal Income	Percent of U.S. Average	Rank	Per \$1,000 Personal Income	Percent of U.S. Average	Rank	Per \$1,000 Personal Income	Percent of U.S. Average	Rank
New York	\$150	133%	2	\$68	101%	30	\$82	179%	1
Connecticut	119	106%	11	73	109%	20	46	101%	16
Ohio	118	105%	12	68	102%	28	50	110%	8
New Jersey	117	104%	15	63	94%	36	54	118%	3
California	116	103%	16	78	116%	13	38	83%	33
Pennsylvania	111	99%	25	66	99%	33	45	99%	18
Illinois	111	99%	26	60	89%	41	51	112%	6
Michigan	110	98%	27	73	110%	19	37	80%	35
North Carolina	108	96%	32	74	110%	17	34	75%	36
Massachusetts	107	95%	34	67	100%	31	40	87%	30
Florida	106	94%	36	60	90%	40	46	100%	17
Georgia	104	92%	40	59	89%	43	45	97%	22
Texas	100	89%	44	47	71%	47	53	115%	4
U.S. Average	\$113	100%	NAP	\$67	100%	NAP	\$46	100%	NAP

Note: Calculated as fiscal year taxes divided by prior year personal income.
Does not include the District of Columbia.
Competitor states are the 10 most populous states plus Connecticut, New Jersey and Massachusetts.
NAP = Not Applicable.

Sources: U.S. Census Bureau, *State and Local Government Finances: 2004-2005*; U.S. Department of Commerce, *Bureau of Economic Analysis*.

New York's high tax burden is due to unusually high local taxes. In New York, state taxes are \$68 per \$1,000 of personal income, – just 1 percent higher than the national average –

⁶ Office of the New York State Comptroller, Division of Local Government Services and Economic Development, *Local Government Sales Taxes in New York State*, March 2006.

⁷ Wyoming, like Alaska and several other states, derives significant revenues from severance taxes levied on minerals extracted in the state. The incidence of these taxes falls largely on non-residents who purchase the minerals. If severance taxes are excluded, Wyoming no longer ranks as a high-tax state.

while local taxes represent \$82 per \$1,000 of personal income – 79 percent higher than the national average. New York ranks 30th for its state tax burden but number one for the highest local tax burden.

Among New York's state taxes, the sales tax is below the national average (see Table 3). However, the state personal income tax in New York yields \$15 more for every \$1,000 of personal income than the national average. Compared to the 40 other states that levy a personal income tax on wages and salaries, New York's maximum income tax rate is higher than 23 states.⁸ Because New Yorkers reach the top income bracket at \$40,000 for joint filers, 37 percent of state taxpayers are subject to the top income rate.⁹

Table 3
State and Local Tax Collection per \$1,000 Personal Income
New York and National Average
Fiscal Year 2005

	<u>United States</u>	<u>New York State</u>	<u>New York City</u>	<u>Rest of the State</u>	<u>Difference from U.S.</u>		
					<u>New York State</u>	<u>New York City</u>	<u>Rest of the State</u>
Total	\$113	\$150	NAP	NAP	\$37	NAP	NAP
State Taxes	\$67	\$68	NAP	NAP	\$1	NAP	NAP
Property Tax	1	0	NAP	NAP	(1)	NAP	NAP
Personal Income Tax	23	38	NAP	NAP	15	NAP	NAP
Business Income Taxes	4	4	NAP	NAP	(0)	NAP	NAP
General Sales Tax	22	15	NAP	NAP	(7)	NAP	NAP
Other Taxes	17	11	NAP	NAP	(6)	NAP	NAP
Local Taxes	\$46	\$82	\$94	\$72	\$36	\$49	\$26
Property Tax	33	46	36	54	13	3	21
Personal Income Tax	2	9	20	0	7	18	(2)
Business Income Taxes	0	6	13	0	5	12	(0)
General Sales Tax	5	14	13	14	8	8	9
Other Taxes	5	8	12	4	3	7	(1)

NAP=Not Applicable.

Sources: U.S. Census Bureau, *State and Local Government Finances: 2004-2005*; U.S. Department of Commerce, Bureau of Economic Analysis.

New York's high local tax burden stems from three major sources. Its localities collect \$13 per \$1,000 of personal income more than the national average in property taxes; \$12 more in personal and business income taxes; and \$8 more in sales taxes. However, because tax structure varies between New York City and the rest of New York State, the source of the high local tax burden also varies between the City and other localities. Both locations share a relatively high sales tax burden, but the similarities end there. New York City's high tax burden is largely explained by high personal and business income taxes, while the rest of the State's high tax burden results from high property taxes. The City's personal and business income taxes yield \$30 more per \$1,000 of personal income than the national average; in the

⁸ District of Columbia, Office of the Chief Financial Officer, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison for 2005*, Issued August 2006. Two other states – New Hampshire and Tennessee – levy a personal income tax on dividend income and interest only.

⁹ New York State Department of Taxation and Finance, Office of Tax Policy Analysis, *Analysis of 2004 Personal Income Tax Returns: Profile of Income, Deductions, Credits and Tax*, June 2007. CBC staff calculation.

rest of the State, property taxes claim \$21 more per \$1,000 of personal income than the national average.

Although the local tax burden in New York City is higher than the rest of New York, if the City were excluded, New York State would still rank number one for the highest local tax burden in the nation with a burden of \$72 per \$1,000 personal income. The next highest state is Maine with a local tax burden of \$55 per \$1,000 of personal income.

Table 4
Property Taxes per \$1,000 of Personal Income
New York and Selected Competitor States
Fiscal Year 2004-05

	Amount	Percent of U.S. Average	National Rank (1 = Highest)
New York State	\$46	134%	7
New York City	\$36	104%	NAP
Outside New York City	\$54	157%	NAP
New Jersey	53	153%	4
Connecticut	45	131%	8
Texas	44	127%	10
Illinois	42	122%	11
Michigan	40	117%	13
Massachusetts	39	112%	16
Florida	36	104%	20
Ohio	34	98%	21
Pennsylvania	32	94%	24
Georgia	31	90%	28
California	27	78%	38
North Carolina	26	74%	39
U.S. Average	\$35	100%	NAP

Note: Calculated as fiscal year taxes divided by prior year personal income.

Does not include District of Columbia.

Competitor states are the 10 most populous states plus Connecticut, New Jersey and Massachusetts.

NAP=Not Applicable.

Sources: U.S. Census Bureau, State and Local Government Finances: 2004-2005; U.S. Department of Commerce, Bureau of Economic Analysis.

Outside New York City, the major source of local taxes is the property tax, and the property tax burden is especially high in these jurisdictions (see Table 4). Excluding New York City the New York burden is \$54 per \$1,000 of personal income, a figure 57 percent above the national average. Among competitor states, only New Jersey comes close to this level. Excluding the City, New York has the 4th highest property tax burden in the nation.

Changes in State and Local Tax Burdens

From fiscal year 1995 to fiscal year 2005, the combined state and local tax burden in New York remained flat at \$150 per \$1,000 of personal income, but two more subtle trends were evident (see Table 5). First, the burden shifted from the state to the local level; the state's share of the burden fell 6 percent while the localities' share rose 6 percent. As noted earlier, the cuts at the state level brought state taxes more in line with national averages. Second, the earlier part of this period saw the burden fall, while the later years experienced an increase. Perhaps the more recent increase concentrated at the local level is a partial cause of the recent concern with the local tax burden.

In both New York City and other localities, the increase in burden has occurred in the five most recent years. In New York City the increase more than offset reductions in the earlier years, while the net change was a slight decline in other jurisdictions. Nonetheless, in recent years all localities experienced a growing burden.

Issues with Measuring Tax Burdens

It is important to note that the measure of tax burden used above may overstate New York's relative burden. Although "taxes per \$1,000 of personal income" adjusts for ability to pay, it does not account for disparities in nonresident tax collections among states. Total tax collections include taxes paid by nonresidents and visitors, but personal income does not include nonresident income. Nonresident and part-time residents account for more than 16 percent of the New York State personal income tax,¹⁰ and New York City's tourism industry adds significantly to sales and other consumption tax revenue. Moreover, personal income does not include income from capital gains – a significant source of income for some New Yorkers. The measure of tax burden also does not account for the deductibility of certain state and local taxes from federal taxes. In addition, the measure does not reflect who ultimately pays the tax. While individuals pay residential property taxes and personal income taxes, taxes on businesses draw down corporate profits and may ultimately decrease income for owners, employees, or shareholders. The ultimate payers of business taxes may also be non-residents. Some analysts include business income in the definition of the tax base to adjust for greater taxable resources in localities with strong commercial sectors.¹¹ Finally, this measure of tax burden does not adjust for the progressivity of various state and local tax structures. A state with more progressive income taxes will collect relatively more taxes when the economy grows and less taxes when the economy contracts.

¹⁰ New York State Department of Taxation and Finance, Office of Tax Policy Analysis, *Analysis of 2004 Personal Income Tax Returns*.

¹¹ The New York City Independent Budget Office defines "taxable resources" as resident household income plus local business net income in, *Comparing State and Local Taxes in Large U.S. Cities*, February 2007.

Table 5
State of New York
State and Local Tax Collection per \$1,000 Personal Income
Fiscal Years 1994-95, 1999-00 and 2004-05

	<u>Amount</u>			<u>Percent Change</u>		
	<u>FY 1995</u>	<u>FY 2000</u>	<u>FY 2005</u>	<u>1995-2000</u>	<u>2000-2005</u>	<u>1995-2005</u>
Total	\$150	\$140	\$150	(6%)	7%	(0%)
State Taxes	\$72	\$67	\$68	(7%)	0%	(6%)
Personal Income Tax	\$37	\$37	\$38	1%	1%	2%
Business Income Taxes	\$6	\$4	\$4	(24%)	(16%)	(37%)
General Sales Tax	\$14	\$14	\$15	(4%)	7%	3%
Other Taxes	\$15	\$12	\$11	(21%)	(4%)	(24%)
Local Taxes	\$78	\$73	\$82	(6%)	13%	6%
Property Tax	\$48	\$41	\$46	(15%)	13%	(4%)
Personal Income Tax	\$8	\$9	\$9	15%	3%	19%
Business Income Taxes	\$5	\$5	\$6	16%	7%	24%
General Sales Tax	\$13	\$13	\$14	2%	7%	8%
Other Taxes	\$5	\$5	\$8	3%	45%	49%
New York City Taxes	\$85	\$82	\$94	(3%)	15%	12%
General Property Tax	\$36	\$29	\$36	(21%)	25%	(1%)
Personal Income Tax	\$18	\$20	\$20	12%	4%	16%
Business Income Taxes	\$10	\$12	\$13	14%	7%	22%
General Sales Tax	\$13	\$13	\$13	1%	4%	5%
Other Taxes	\$8	\$9	\$12	15%	39%	59%
Local Taxes Outside New York City	\$73	\$66	\$72	(10%)	10%	(1%)
General Property Tax	\$57	\$50	\$54	(12%)	8%	(5%)
General Sales Tax	\$12	\$13	\$14	2%	9%	11%
Other Taxes	\$3	\$3	\$4	(19%)	61%	31%

Sources: U.S. Census Bureau, State and Local Government Finances: 1994-1995, 1999-2000 and 2004-2005; U.S. Department of Commerce, Bureau of Economic Analysis.

LOCAL TAX ISSUES

New York State's high and distinctive tax burden creates problems for its local governments. Four issues are particularly important.

1. The heavy reliance on local property taxes to finance public schools creates inequities in the resources available to students and the burdens placed on school district taxpayers.
2. County governments have faced a financial squeeze due to the State's Medicaid mandate and other factors, and this has led to increases in county tax bills.
3. Fragmentation of local government responsibilities leads to unnecessarily high costs for some services.
4. Local governments do not manage their labor costs effectively, in part due to state mandates relating to collective bargaining.

Inequities in School Finance

Because property taxes are the largest single source of funding for school districts (outside of New York City), the amount each district is able to spend per pupil is largely determined by property wealth within the district. School districts that enjoy high property values are able to levy relatively low tax rates and generate high funding for their schools. Conversely, school districts with low property values are forced to levy high property tax rates yet raise little school funding. As a result, spending levels per pupil vary greatly within New York.

The New York State Education Department reports that among the 10 percent of districts that spend the least per pupil the average value of property per pupil is \$184,799. In contrast, the 10 percent of school districts that spend the most per pupil enjoy average property values of \$1,422,470 per pupil.¹² In Erie County, school districts' average spending is about \$13,000 per student while in Westchester County, average spending per student tops \$21,000. These disparities exist even after the allocation of state education aid, which partly (but only partly) counteracts the inequities of the property tax by favoring lower-income communities.

Table 6 illustrates these inequities using data from 14 selected school districts. The communities include New York City, the state's other large urban school districts (Buffalo, Rochester, Syracuse, Yonkers, Binghamton, Utica and Albany), one upstate rural district (Massena), one upstate suburban district (Saratoga Springs), two wealthy suburban districts (Great Neck and Scarsdale), and two poor downstate suburban districts (Roosevelt and Mount Vernon).

¹² New York State Education Department, Fiscal Analysis and Research Unit, *Analysis of School Finances in New York State School Districts 2004-05*, January 2007.

Table 6
Fiscal Characteristics of Selected School Districts
School Year 2004-2005

District	Pupils	Local School Tax		Local Revenue per Pupil	Total Revenue per Pupil
		Local Tax Base per Pupil	Effort (per \$1,000 Tax Base)		
New York City	1,043,816	\$603,564	\$12.03	\$7,259	\$15,025
"Big 4" Cities					
Buffalo	43,329	193,292	11.48	2,219	14,871
Rochester	36,613	192,680	16.15	3,112	15,356
Syracuse	22,957	217,072	14.19	3,081	15,028
Yonkers	24,118	789,315	7.58	5,980	18,203
Other Upstate Urban					
Binghamton	6,311	310,059	13.68	4,243	12,469
Utica	9,169	184,647	12.56	2,319	12,010
Albany	10,482	465,407	19.54	9,093	16,994
Upstate Rural					
Massena	2,875	329,183	15.26	5,023	12,970
Upstate Suburban					
Saratoga Springs	6,878	673,550	11.37	7,658	13,319
Wealthy Downstate Suburban					
Great Neck	6,262	2,395,304	8.68	20,786	23,489
Scarsdale	4,714	2,394,917	7.71	18,460	21,688
Poor Downstate Suburban					
Roosevelt	3,116	398,078	10.98	4,373	17,932
Mount Vernon	9,976	564,498	11.86	6,693	15,860
New York State	2,848,242	\$645,404	\$11.79	\$7,608	\$15,118

Note: Tax Base is an equally weighted average of personal income and real property values.

Source: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 2004-2005.

The selected communities with the highest tax bases – an equally weighted measure of personal income and property wealth – enjoy the lowest school tax efforts and the highest revenues per pupil. In the wealthy district of Scarsdale, the local school tax effort is \$7.71 – 35 percent below the state average – and locally-funded spending per pupil is \$18,460 – nearly two and a half times higher than the state average. In contrast, in Rochester, the local school tax effort is \$16.15, but the city generates only \$3,112 per pupil. As a result, even after state aid which strongly favors low-wealth districts, Scarsdale spends \$21,688 on each student while Rochester spends \$15,356.

The Counties' Tax Squeeze

In fiscal year 2005 New York's 57 counties (excluding New York City) spent \$18.7 billion, a sum that grew 41 percent or nearly \$5.4 billion in ten years (see Table 7). The major source of spending growth was county police services, especially in Nassau and Suffolk counties, and Medicaid. These two counties accounted for more than half the growth in county spending on police (\$781 million) over the decade.

Table 7
Drivers of County Revenue and Expenditure Growth
Excluding New York City
State Fiscal Year 1995 to 2005
(dollars in millions)

	FY 1995	FY 2005	Change	Percent of Total Change
Total Revenues	\$12,388	\$17,524	\$5,135	100%
Sales Tax	2,514	4,621	2,107	41%
Property Tax	3,165	4,385	1,220	24%
State Aid	1,916	2,687	771	15%
Federal Aid	1,538	1,885	347	7%
Other Taxes	198	323	125	2%
Other Government Aid	269	353	84	2%
Other Revenues	2,789	3,270	481	9%
Total Expenditures	\$13,329	\$18,724	\$5,395	100%
Police	1,567	2,868	1,301	24%
Medicaid	1,255	2,156	901	17%
General Government	1,585	2,482	897	17%
Economic Assistance (Excluding Medicaid)	3,170	3,696	526	10%
Transportation	873	1,333	461	9%
Education	616	998	382	7%
Utilities	378	659	281	5%
Culture-Recreation	239	353	113	2%
Fire	25	59	33	1%
Debt Service and Repayments	814	1,174	360	7%
Other Expenditures	2,807	2,946	138	3%

Note: Data is not intended to provide detailed accounting or legal information concerning county finances. In any given year, total revenues and expenditures may not add due to the exclusion of other financing sources such as borrowings or the appropriation of fund balances. The fact that changes in revenues is less than changes in expenditures does not signify operating deficits.

Source: New York State Office of the Comptroller, *Financial Data for Local Governments*; CBC Staff Calculations.

Unlike spending for police services, Medicaid is a mandate for the counties. The State requires counties to pay half the nonfederal share (or 25 percent of the total) of spending for acute services for beneficiaries in their county and 10 percent of the total cost of long-term care services for county beneficiaries. In fiscal year 2005 these Medicaid mandates required \$2.2 billion from the counties (excluding New York City), about 12 percent of the counties' total spending. These Medicaid costs grew 72 percent over the previous decade, accounting for about 17 percent of the total growth in county spending.

Counties were able to finance their growing expenses primarily in two ways. First, sales tax receipts grew significantly, increasing about 84 percent over the decade. As of 2006, New York has the fourth highest average combined state and local sales tax rate – 8.25 percent compared to a national average of 5.93 percent.¹³ Second, county property tax collections

¹³ Tennessee, Louisiana and Washington have higher average combined state and local sales tax rates. Office of the New York State Comptroller, Division of Local Government Services and Economic Development, *Local Government Sales Taxes in New York State*, March 2006.

outside the City grew 39 percent. Much of this growth was related to increasing property values, but the growth in property values was uneven among the counties.

Table 8
Full Value Tax Rate and Property Tax Burden Growth
By Region and by All Local Governments and County Only
Fiscal Years 1995 to 2005
(dollars in millions, unless otherwise noted)

Full Property Value	All Local Governments			County Only		
	FY 1995	FY 2005	Percent Growth	FY 1995	FY 2005	Percent Growth
New York State	\$806,458	\$1,433,393	78%	\$806,458	\$1,433,393	78%
New York City	279,791	490,816	75%	279,791	490,816	75%
NYC Suburbs ¹	308,454	673,741	118%	308,454	673,741	118%
All Other Counties	218,213	268,836	23%	218,213	268,836	23%
Personal Income						
New York State	\$475,979	\$742,209	56%	\$475,979	\$742,209	56%
New York City	207,456	329,583	59%	207,456	329,583	59%
NYC Suburbs ¹	142,502	231,255	62%	142,502	231,255	62%
All Other Counties	126,020	181,371	44%	126,020	181,371	44%
Property Tax Levy						
New York State	\$23,616	\$35,261	49%	\$11,055	\$16,953	53%
New York City	7,890	12,568	59%	7,890	12,568	59%
NYC Suburbs ¹	9,200	14,358	56%	1,568	2,420	54%
All Other Counties	6,526	8,334	28%	1,597	1,965	23%
Full Value Tax Rate (per \$1,000 value)						
New York State	\$29	\$25	(16%)	\$14	\$12	(14%)
New York City	28	26	(9%)	28	26	(9%)
NYC Suburbs ¹	30	21	(29%)	5	4	(29%)
All Other Counties	30	31	4%	7	7	(0%)
Tax Burden (per \$1,000 income)						
New York State	\$50	\$48	(4%)	\$23	\$23	(2%)
New York City	38	38	0%	38	38	0%
NYC Suburbs ¹	65	62	(4%)	11	10	(5%)
All Other Counties	52	46	(11%)	13	11	(15%)

Note: Property tax levy does not include School Tax Relief (STAR) reimbursements to the school districts.

(1) Includes: Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Ulster and Westchester Counties.

Sources: Office of the New York State Comptroller, *Local Government Issues in Focus, Vol 2 No 2, Property Taxes in New York State, April 2006*. STAR values from New York State Education Department, Office of Management Services, *Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 2004-2005*.

Aggregate property values in the state grew 78 percent from fiscal year 1995 to 2005 (see Table 8). Due to this rapid rise, the full value or effective property tax rate in the State in fact decreased 14 percent at the county level. However, downstate counties that experienced large growth in property values – including Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Ulster and Westchester – greatly distort the average. For these counties, property values rose 118 percent and their effective county property tax rate fell 29 percent. In contrast, in counties outside of the downstate suburbs, property values increased only 23 percent and the effective county property tax rate remained stagnant.

However, it is important to note that, measured as a share of personal income, the total property tax burden – including school district, town, village and special district taxes – is significantly higher downstate than upstate. In fiscal year 2005, the property tax burden in New York City’s suburbs was 35 percent higher than in the upstate counties. In these wealthier downstate counties, strong property value growth has enabled the counties to lower rates, yet the magnitude of their levies still results in extraordinarily high property tax burdens. Consequently, although all counties in New York bear high property tax burdens, as a result of divergent economies upstate and downstate, the state’s counties have had dissimilar experiences with changing property values, levies, rates and burdens.

Local Governments Fragmentation

Nationally, the United States is known for its multiple levels of government and highly decentralized and fragmented network of local governments. While sometimes defended for its greater accountability, this fragmented system is also seen as a source of inefficiency and high costs.

The U.S. Census counts 3,421 units of local government in New York State, with only three of those units in New York City.¹⁴ Excluding New York City, New York has 3.12 units of government per 10,000 residents, 10 percent less than the national average (see Table 9). Out of 50 states, New York has the 34th highest number of local governments per capita if New York City is included and 28th highest if the City is excluded. Despite New York’s average ranking, excluding New York City, the State has nearly 84 percent more local governments than Connecticut and New Jersey, adjusted for population. Out of 12 competitor states, New York has a higher ratio of government units to population than eight other states. Compared to these selected states, New York has the third highest proportion of school districts to population and the fifth highest proportion of special districts to population. Moreover, local governments have expressed strong opposition to consolidation efforts. Local backlash against consolidation of government units poses a significant challenge to state efforts to reduce fragmentation.

¹⁴ The New York State Commission on Local Government Efficiency and Competitiveness counts over 800 more units of local government than the U.S. Census. The units in the Commission count but not in the Census count are: dependent school districts including districts in the “Big Five” cities, community colleges, boards of cooperative education services (BOCES), housing authorities, industrial development agencies (IDAs), soil and water conservation districts, urban renewal or community development authorities, county health districts, certain water and sewer authorities, parking authorities, and off-track betting corporations. To ensure uniformity, in this paper Census data is utilized to compare New York to other states in the nation.

Table 9
Number of Local Governments Per 10,000 Residents
New York and Selected Competitor States
Fiscal Year 2001-2002

State	County General Purpose	Sub-County General Purpose	School Districts	Special Districts	All Units	50-State Rank ¹
New York	0.03	0.81	0.36	0.60	1.80	34
New York (excluding New York City)	0.05	1.41	0.62	1.03	3.12	28
Illinois	0.08	2.19	0.75	2.53	5.56	15
Pennsylvania	0.05	2.09	0.42	1.53	4.10	23
Ohio	0.08	1.98	0.59	0.56	3.20	27
Michigan	0.08	1.79	0.58	0.37	2.82	29
Texas	0.12	0.57	0.52	1.08	2.29	33
Georgia	0.19	0.65	0.22	0.71	1.77	35
Connecticut	0.00	0.53	0.05	1.13	1.70	37
New Jersey	0.02	0.67	0.65	0.33	1.68	38
Massachusetts	0.01	0.55	0.13	0.63	1.32	40
California	0.02	0.14	0.31	0.84	1.30	41
North Carolina	0.12	0.67	0.00	0.40	1.19	43
Florida	0.04	0.25	0.06	0.39	0.75	47
U.S. Average	0.12	1.43	0.54	1.39	3.47	NAP

Note: Population as of April 1, 2000.

Competitor states are the 10 most populous states plus Connecticut, New Jersey and Massachusetts.

(1) 50-State Rank outside New York does not include "New York State (excluding New York City)."

NAP = Not Applicable.

Source: U.S. Census Bureau, 2002 Census of Governments: Organization Phase.

High Labor Costs for Local Governments

A major reason for the high cost of local government in New York is the relatively high cost of labor. New York's local governments have relatively more workers than do jurisdictions in other states, and they pay their workers more than do other localities.

Excluding New York City, New York localities employ 459 workers for every 10,000 residents compared to an average of 395 nationwide (see Table 10). Wyoming is the only state that employs more local workers per capita than New York. Neighboring New Jersey and Connecticut employ 392 and 329 local government employees per 10,000 residents, respectively, placing them well below New York.

Local governments in New York also pay workers higher wages than other jurisdictions. If New York City is included, the average wage in New York among local governments is the highest in the nation, exceeding the national average by 30 percent. If New York City is excluded, the average falls notably, but that average is still 8.5 percent more than the national average, \$44,536 versus \$41,040. However, competitor states California, New Jersey, Connecticut and Massachusetts pay higher local government employee wages than New York State excluding New York City.

Table 10
Number of State and Local Full-Time Equivalent Employees Per 10,000 Residents
New York and Selected Competitor States
Fiscal Year 2001-2002

State	Total	State	Local	50-State Rank - Average Annual		50-State Rank -
				Local FTEs ¹	Local Pay ²	Average Local Pay ¹
New York	621	132	489	2	\$53,520	1
New York (excluding local NYC employees)	NA	NA	459	2	\$44,536	10
Texas	573	124	450	3	33,732	33
Ohio	533	121	412	4	39,444	20
Georgia	554	144	411	5	33,996	32
California	506	108	398	8	52,680	2
Illinois	510	116	394	10	43,392	12
New Jersey	565	172	392	11	50,952	3
Michigan	504	142	362	16	44,304	11
Florida	472	111	361	17	37,908	22
Massachusetts	510	148	361	18	44,700	10
Connecticut	522	193	329	20	47,580	7
Pennsylvania	449	127	321	22	42,360	13
North Carolina	296	62	233	41	35,088	29
U.S. Average	541	146	395	NAP	\$41,040	NAP

Note: Population as of April 1, 2000.

Competitor states are the 10 most populous states plus Connecticut, New Jersey and Massachusetts.

(1) 50-State Rank outside New York does not include "New York State (excluding local New York City employees)."

(2) Based on average March 2002 full-time monthly payroll for local government employees.

NA = Not Available.

NAP = Not Applicable.

Source: U.S. Census Bureau, 2002 Census of Governments: Employment Phase.

Among school districts, by far the most significant driver of expenditure growth is teacher compensation. From school year 1995 to 2005, district expenditures increased 72 percent or \$18 billion, including New York City.¹⁵ During this period, salaries per teacher increased only 29 percent from \$63,233 to \$81,822;¹⁶ however, health insurance, pensions, social security and other benefits for teachers grew 97 percent.

The connection between the high labor costs among localities and state-level policy is the New York State Taylor Law, which sets the legal framework for collective bargaining between local governments and their workers. For close to 40 years, the Taylor Law has protected the rights of public employees to bargain collectively with their employers, while simultaneously guarding the public against work stoppages and strikes. The Taylor Law prohibits state and local government employees from striking,¹⁷ yet also provides employees with formal rights of organization and requires state and local governments to negotiate with recognized public employee organizations in good faith.

The Taylor Law created the Public Employment Relations Board (PERB) to administer the law and to assist in collective bargaining negotiations. PERB's general functions are to

¹⁵ New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, *School District Fiscal Profiles*, Masterfiles for 1994-1995 and 2004-2005.

¹⁶ CBC calculation using data from the National Center for Educational Statistics.

¹⁷ If public employees strike, they are fined twice their daily wages per day for going on strike but cannot lose their jobs.

determine and resolve disputes concerning representation status for employee organizations; to determine procedures for prevention of improper practices; to serve as a clearinghouse of labor information; to assist in collective bargaining; and to provide services for impasse resolution during the course of collective bargaining. Local government can also create “mini-PERBS;” for example, New York City created the Office of Collective Bargaining (OCB).

A case may be brought before PERB, if PERB determines an impasse exists. PERB will then provide mediation for the impasse; if that fails, then parties proceed to one of two steps: (1) interest arbitration, in the case of police, fire, district attorneys and the Metropolitan Transit Authority (MTA) unions, or (2) fact-finding, in all other cases. In fact-finding, the board chooses a panel of three people to make a non-binding recommendation based on evidentiary hearings. In arbitration proceedings, a panel makes a **binding** determination to settle the case. The Taylor Law provides only a loosely structured timetable for either negotiation process, resulting in settlements that take many months to reach. In spite of this, there is a set two-year, statutory limit on settlement awards, regardless of how long expired a contract may be.

Of 2,327 state and local contracts negotiated in New York in 2006-2007, 333 cases, or 14 percent, were brought before PERB.¹⁸ Typically, approximately three-quarters of impasses resolved by PERB are done so through mediation. Over the past four fiscal years, 12 percent of cases have been settled through fact-finding or negotiations resulting from fact-finding. Seventeen cases, or 5 percent, were handled through arbitration in fiscal year 2007; this represents a rise in the number of cases since fiscal year 2003, in which there were eight cases and fiscal year 2004, in which there were 12. Since arbitration is only available to select groups, the number of cases that can be resolved through arbitration is inherently limited. However, these select unions have a significant impact on local budgets. In New York City, police, firefighters and district attorneys represent 24 percent of all local government employees.¹⁹

An arbitration panel determines the settlement award by considering a number of factors: wages, hours, and conditions of similar-skilled or similarly-functioning employees (and with other employees generally) in public and private employment in comparable communities; the interests and welfare of the public; the financial ability of the public employer to pay; unique professional characteristics; and past collective bargaining agreements.²⁰

These criteria have been criticized for three reasons. First, arbitration procedures do not sufficiently emphasize the ability of the employer to pay. For many localities, a PERB settlement reverberates through the budget beyond wage increases for one union – which may alone suffice to place fiscal stress upon local government – through bargaining patterns and parity provisions. In many cases, wage and salary increases for one police or fire union result in comparable settlements for other unions. Second, comparison to similar communities may mean that “leapfrogging” occurs between unions in adjacent jurisdictions,

¹⁸ NYS Public Employment Relations Board, “PERB News,” volume 40, number 2, May 2007.

¹⁹ Actual full-time employee data for May 2007. New York City Office of Management and Budget, Financial Plan for New York City, Fiscal Years 2007-2011, *Full-Time and Full-Time Equivalent Staffing Levels*, July 2007.

²⁰ New York State Civil Service Law, Article 14, Section 209.

pushing salaries up rapidly. A notable example is the wage increases for police unions in Nassau and Suffolk. Third, the rules have resulted in forum-shopping by some unions, who eschew direct negotiations with management in favor of returning to PERB to settle their contracts. In New York City, for example, five out of the past six police contracts have been settled by PERB in binding arbitration. Other critics have argued that local governments themselves prefer this modus operandi, since it can allow governments to avoid direct responsibility for large settlements while appeasing unions.²¹

In 1982, the state amended the Taylor Law to include the “Triborough Amendment,” which stipulates that the terms of an expired contract must continue until a new agreement is reached. The Triborough Amendment is a key reason that the Taylor Law has been effective in minimizing the number and duration of strikes, since a preservation of the status quo eases workers’ fears of unilaterally imposed management conditions.²² As a result, until the Metropolitan Transit Authority (MTA) strike in December 2005, no union in New York City had organized a large-scale strike in the past quarter century.²³

However, the Triborough Amendment is also criticized as working to favor unions over management in collective bargaining. Managers cannot impose innovative practices without union approval, while workers benefit from longevity (and similar “step” increases for teachers) during impasse proceedings. Teachers and other workers are often willing to work under expired contracts for long periods because these pay increases are available under the expired contract. As of the beginning of the 2007-08 school year, 54 school districts in New York were at an impasse with their teacher unions.²⁴ Of these impasses, 36 involve contracts that expired prior to the beginning of the 2006-07 school year, and five districts were entering a fourth year without a contract.²⁵ Since 1990, the average number of school districts starting the year at impasse is 70.

²¹ Terry O’Neil and E.J. McMahon (Empire Center for New York State Policy), *Taylor Made: the Cost and Consequences of New York’s Public-Sector Labor Laws*, October 2007.

²² McFadden, Robert. “Giuliani Says Some in Union Were Misled About Law on Penalties for Strikes.” *The New York Times*. 13 December 1999, pg. B5.

²³ United Federation of Teachers. “UFT – The History of the Taylor Law.” Accessed 13 July 2005, updated 9 June 2005, available at http://www.uft.org/news/teacher/labor/taylor_law/print.html.

²⁴ Paul Heiser (New York State School Board Association), “Relative Calm on Teacher Contract Front,” *On Board Online*, Vol 8, No 16, September 17, 2007.

²⁵ School districts entering a fourth year without a new labor agreement are Buffalo, Canton, Norwood-Norfolk, Potsdam and Herkimer-Fulton-Hamilton-Otsego BOCES.

WHAT HAS BEEN DONE TO ADDRESS THE LOCAL TAX BURDEN?

State officials have not ignored their constituents' high and inequitable local tax burden. In recent years they enacted two significant measures intended to lower local taxes: the School Tax Relief (STAR) program and an assumption by the State of part of localities' responsibility for funding Medicaid. In addition, in the 2007 legislative session, they initiated a foundation-based school funding approach to increase and better target state aid to more needy districts. Some efforts have also been made to lower local government costs by consolidating some units of government and sharing services.

School Tax Relief (STAR)

In 1998, at Governor George Pataki's initiative, the State began the School Tax Relief (STAR) program, which offers a partial school property tax exemption to owner-occupied homes through increased state aid. The initial program was subsequently expanded and is funded at \$3.7 billion in the current fiscal year. In fiscal year 2006-07, New York created a property tax rebate program linked to the initial STAR design but reaching taxpayers with direct rebates rather than through aid to school districts. In fiscal year 2007-08, the rebate program was redesigned to be partially based on household income. This new program – called the Middle-Class STAR Rebate Program – is currently funded at slightly more than \$1 billion annually.

Original STAR Program

The original STAR program provides an exemption to homeowners against their school property tax liability. Commercial and rental property and vacation homes are not eligible for the exemption. The property value exemption is \$56,800 for low-income senior citizens (enhanced STAR) and \$30,000 for other homeowners (basic STAR).²⁶ In ten wealthier counties – Dutchess, Nassau, Orange, Putnam, Rockland, Saratoga, Suffolk, Ulster, Westchester and New York City – the exemption is increased by the degree to which the county's median home sales price exceeds the state median home sales price. Table 11 displays the home sales price differential used to calculate the STAR exemption in 2007. For example, an eligible homeowner in Dutchess would receive a market value exemption of \$45,600 (\$30,000 times 1.5201) rather than \$30,000. The exemption is not decreased for less property-wealthy counties.

The STAR program operates as a form of state education aid. The State reimburses local school districts for lost tax revenue due to STAR exemptions. Thus, residents have lower property tax bills and school districts do not lose funding. The State finances STAR reimbursements through its personal income tax.

²⁶ Buffalo, Rochester, Syracuse, Yonkers and New York City have fiscally-dependent school districts and levy property taxes for both municipal and school purposes. To account for the inclusion of school taxes within city taxes, the STAR homestead exemptions for these cities are adjusted by multiplying the exemption amount that would have otherwise been determined for Buffalo, Rochester, Syracuse and Yonkers by 67 percent and for New York City by 50 percent. The homestead exemption is also adjusted by an equalization rate for all school districts. The equalization rate is essentially the state's measure of a municipality's level of assessment, or the ratio of total assessed value over total market value.

Table 11
2007 STAR Median Home Sales Price Differentials

County	Differential	Home Value Exemption	
		Basic STAR (Non-Senior)	Enhanced STAR (Low-Income Senior Citizen)
Dutchess	1.5201	\$45,600	\$86,340
Nassau	2.2565	\$67,690	\$128,170
Orange	1.3961	\$41,880	\$79,300
Putnam	1.9213	\$57,640	\$109,130
Rockland	2.3036	\$69,110	\$130,840
Saratoga	1.0617	\$31,850	\$60,300
Suffolk	1.9237	\$57,710	\$109,270
Ulster	1.1006	\$33,020	\$62,510
Westchester	2.9748	\$89,240	\$168,970
New York City ¹	2.0954	\$31,430	\$59,510

Note: Exemption is rounded to the nearest multiple of 10 dollars.

(1) Exemptions for New York City are reduced 50 percent to account for inclusion of school property taxes within city property taxes.

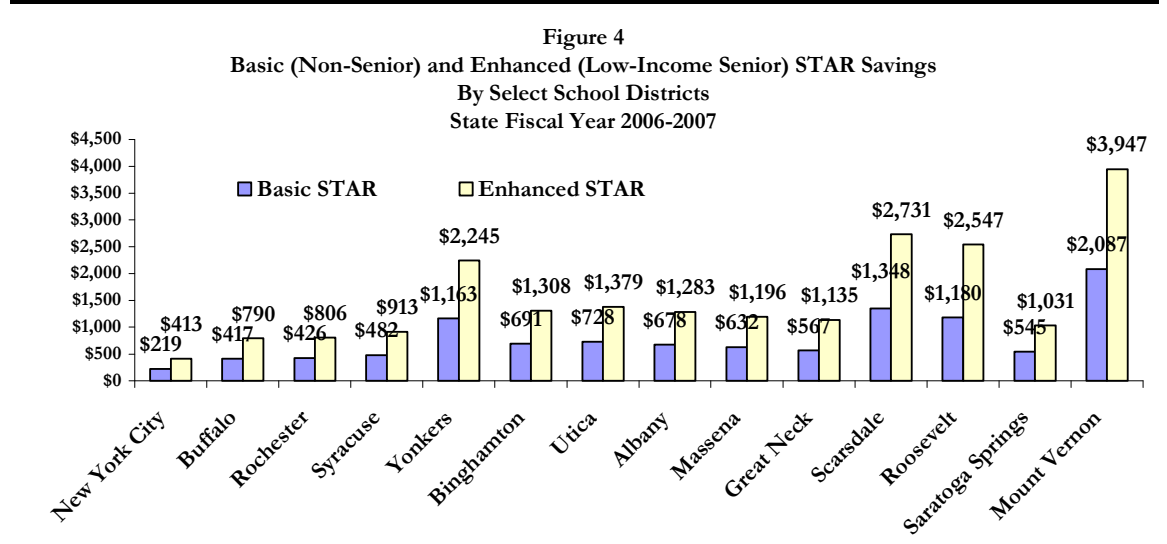
Source: New York State Office of Real Property Services. CBC staff calculations.

In New York City, where many residents are renters, all residents – homeowners and renters – receive a 5.9 percent personal income tax rate reduction and a flat refundable income tax credit. The 5.9 percent rate cut translates to a 0.23 base point reduction for the top income bracket in the City, from 3.88 percent to 3.65 percent. The rate reduction saves the median homeowner in the City about \$132 in personal income tax liability.²⁷ The flat refundable personal income tax credit is \$290 for joint tax filers and \$145 for single filers in state fiscal year 2008. Homeowners in New York City also receive the STAR homestead exemption from city property taxes. The STAR homestead exemption savings for a non-senior homeowner in the City was \$219 in city fiscal year 2007. Thus, the median-income, non-senior homeowner in the City would receive \$641 in total local tax relief from STAR (\$641 = \$132 + \$290 + \$219).

New York City receives an income tax reduction from STAR because property taxes on homeowners in the City are relatively low – due to the City’s diverse tax base – and the City has a high share of renters. No other locality in New York State receives personal income tax reductions from the STAR program. Consequently, renters in other New York municipalities do not enjoy any benefit from STAR.

²⁷ According to U.S. Census data, the median household income for homeowners in New York City in 2006 was \$74,500. Calculation uses 2007 personal income tax brackets and rates and assumes household files jointly and claims the standard deduction and one exemption for a child.

Property tax relief from STAR’s homestead exemption varies significantly within the state and even within counties. In three of New York’s “Big 5” cities – Buffalo, Rochester and Syracuse – STAR savings for non-seniors fall below \$500. The savings in Yonkers is much higher due to the high median home sales price in Westchester County. Figure 4 illustrates the range of property tax relief from STAR’s exemption program, from \$632 in Massena, St. Lawrence County to \$2,087 in Mount Vernon, Westchester County for non-senior homeowners.



Note: New York City STAR savings does not include savings from the personal income tax reduction.

Source: New York State Department of Taxation and Finance.

STAR as State Aid

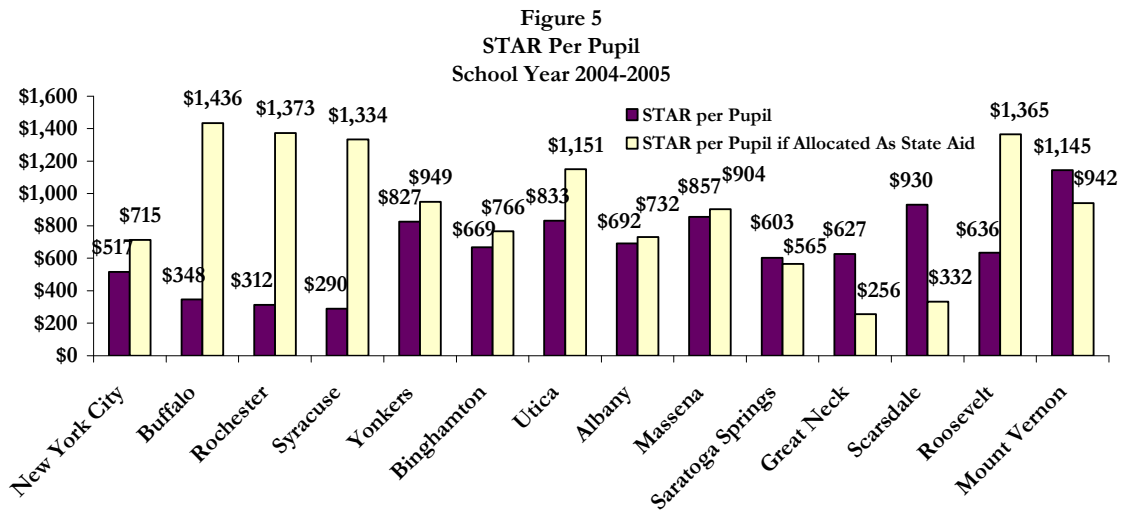
STAR reimbursements to school districts are a form of state aid. However, New York distributes STAR aid on a different basis from most other forms of school aid. The State allocates conventional school aid through formulas that favor districts with more pupils, more pupils with special needs, and lower than average property tax bases. In contrast, the State distributes STAR based on the value of homes in the county (homeowners in wealthier counties get more) and the property tax rate in the district (the exemption is worth more where the tax rate is higher).²⁸

The net result of the unusual STAR distribution factors is that payments strongly favor wealthier districts. On average, STAR increased state aid to school districts \$713 per pupil or 20 percent. However, Scarsdale received \$930 per pupil in STAR aid. This payment increased Scarsdale’s total state aid per pupil 84 percent, from \$1,102 per pupil to \$2,032 per pupil. In contrast, the STAR program increased total state aid per pupil in Utica 13 percent,

²⁸ A classic homestead exemption reduces property values subject to taxation by a set amount, thus providing lower-valued homes with a greater percent reduction in property taxes. Due to New York’s diverse housing market, STAR includes exemption inflators (differentials) for counties with high property values. These inflators drive more tax relief to higher-income homeowners and distort the policy goal of the program.

from \$6,211 to \$7,044 per pupil. In Buffalo, Rochester, and Syracuse, STAR increased state aid only 4 percent. In fact, the three wealthiest counties in New York State received 42 percent of STAR aid in 2005.²⁹

If New York utilized the same funding formula for STAR as for other education aid, STAR would be allocated to school districts very differently. As shown in Figure 5, if STAR were distributed as state school aid, New York City would receive \$715 per pupil instead of \$517 per pupil. Buffalo would receive \$1,436 per pupil instead of \$348, while Scarsdale would receive \$332 per pupil rather than \$930 per pupil.



Source: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 2004-2005.

Moreover, STAR does not provide property tax relief to businesses, even though the property tax is the single largest tax on businesses in New York State.³⁰ Outside of New York City, residential property accounted for 71 percent of the school property tax levy in 2005; the remaining 29 percent was primarily commercial and other uses such as agriculture and industrial.³¹ If New York distributed STAR aid to all types of owners in proportion to their share of the levy, then nonresidential property owners outside of New York City would have received \$581 million in property tax relief in 2005 and their property tax burden would have fallen 12 percent.

STAR as Local Tax Reduction Policy

A major goal of the STAR program is to reduce the local tax burden in New York State. However, the mechanism of reimbursing school districts for exemptions has proved to be an ineffective tool for lowering tax burdens.

²⁹ Douglas Lee Adams. "The Dark Side of New York State's STAR Exemption Program."

³⁰ Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2006 (Joint Project of Ernst and Young, LLP and the Council on State Taxation), February 2007. Posted on the New York State Business Council Website.

³¹ New York State Office of Real Property Services. CBC staff calculations.

First, STAR is a tax shift, not a tax cut. Through the STAR program, a portion of the local tax burden is shifted to the State. Without STAR, New York would have \$4.7 billion more available for expenditures, such as state education aid or tax reductions. Thus, New York State funds STAR either through lower levels of public service, cost reductions or higher state taxes. While shifting the tax burden to the state level promotes equity, the shift does not reduce total tax collections in the State.

Second, research suggests that STAR actually motivates districts to **increase** their tax collections. The STAR program motivates local school districts to spend more in two ways: lowering the cost of services to the district and reducing monitoring and effectiveness of spending. In effect, STAR reimbursements lower the local “tax price” of education. Economists argue that tax prices have a significant impact on demand for local public services,³² and that lowering the cost of public services increases demand for public services. Consequently, STAR increases public demand for education spending. One study finds that replacing 10 percent of school taxes with STAR funds increases school spending 1.6 percent.³³

STAR also impacts school spending by diminishing voter pressure on cost containment. Residents directly observe the impact of increased school spending on their property tax bill. In districts with high local taxes, voters put more pressure on school officials to lower costs and operate schools more efficiently.³⁴ Efficiency measures for schools determine how much is spent to achieve stated student achievement goals, such as pass rates on standardized exams. An increase in school spending that does not increase student achievement is inefficient.

One study based on the full implementation of STAR finds that a 1 percent increase in STAR funds reduces education spending efficiency 12 percent.³⁵ Another study estimates that STAR results in a 6.14 percent efficiency loss for the average school district in New York.³⁶ The researchers hypothesize that STAR leads voters to call for spending on

³² Daniel Rubinfeld, Local Public Economics: A Methodological Review. *Handbook of Public Economics*, Vol. 2, A.J. Aurbach and M. Feldstein, eds, 1987, 87-161; Helen Ladd and John Yinger, *America's Ailing Cities: Fiscal Health and the Design of Urban Policy*, Baltimore, MD: The Johns Hopkins University Press, 1991; William Duncombe, Public Expenditure Research: What Have We Learned? *Public Budgeting and Finance*, 1996, Vol. 16, No. 2, 26-58; Ronald Fisher and Leslie Papke, Local Government Response to Education Grants, *National Tax Journal* 53, March 2000, 153-168.

³³ Jonah Rockoff, Community Heterogeneity and Local Response to Fiscal Incentives, Working paper, Harvard University.

³⁴ William Duncombe and John Yinger. Alternative Paths to Property Tax Relief. *Property Taxation and Local Government Finance*, ed. W.E. Oates, Cambridge, MA: Lincoln Institute of Land Policy, 2001, 243-294.; William Duncombe and John Yinger. An Analysis of Two Educational Policies in New York State. *Educational Finance to Support Higher Learning Standards*, ed. J.H. Wyckoff, Albany: New York State Board of Regents, 1998, 98-137.

³⁵ Tae Ho Eom and Ross Rubenstein. Do State-Funded Property Tax Exemptions Increase Local Government Inefficiency? An Analysis of New York State's STAR Program. *Public Budgeting and Finance*, Spring 2006, Vol 26, No 1. The study develops an efficiency index that captures spending significantly related to measurable outcomes, such as test scores and drop-out rates.

³⁶ Tae Ho Eom, William Duncombe and John Yinger, Unintended Consequences of Property Tax Relief: New York's STAR Program, Center for Policy Research, Maxwell School of Citizenship and Public Affairs, Syracuse University, October 2005.

objectives outside of the ones captured in the student achievement measures. Thus, school districts spend more on programs not directly linked to the state's standard measures of student achievement.

The latter study also finds that STAR raised student performance 4.45 percent on average due to heightened public demand for educational services. Combined with the above mentioned efficiency loss, the average school district increased spending per pupil 8.14 percent. Consequently, the average district increased the property tax rate 21.33 percent. Important to note, this property tax increase applies to all property, including commercial property that does not benefit from STAR. Overall, increases in property tax rates offset one-third of the savings from STAR exemptions (see Table 12).

The study also finds that the impacts of STAR are largest in upstate rural districts, upstate small cities and the upstate "Big 3" cities, where property values tend to be low. While these districts witnessed large increases in student performance, they also experienced large declines in efficiency and increased tax rates. In upstate rural districts, the unintended consequences of STAR offset intended taxpayer savings 50.7 percent.

Since the aforementioned studies analyzed STAR as the program was being phased in, it is possible that STAR's negative impact on school spending was strongest in its initial years. The State has taken steps to alert taxpayers to how much benefit they should receive from STAR, in order to promote transparency and prevent school districts from offsetting these benefits with spending increases. Since taxpayers should now receive more constant annual property tax reductions from STAR, they may be more likely to notice on their property tax bills if district spending increases significantly offset their STAR payments.

Table 12
Unintended Consequences of STAR
The Findings of Ho Eom, Duncombe and Yinger 2005 Study

Estimated Percentage Impact of STAR on...

Region	Student Performance Index ¹	School District Efficiency	School Spending Per Pupil	School Property Tax Rate	Offset of STAR Savings
New York City	2.34	(3.25)	4.13	6.97	24.82
Yonkers	3.73	(4.99)	6.49	15.08	30.80
Downstate Small Cities	3.24	(4.51)	5.85	9.60	16.09
Downstate Suburbs	2.45	(3.56)	4.51	6.09	22.19
Upstate Big 3	6.04	(7.58)	10.25	28.36	30.78
Upstate Small Cities	5.44	(7.36)	9.86	21.87	27.93
Upstate Suburbs	4.27	(5.96)	7.81	15.33	27.02
Upstate Rural	6.06	(8.19)	11.10	41.15	50.70
Average District	4.45	(6.14)	8.14	21.33	32.96

(1) Includes pass rate of fourth and eighth grade standard exams for English and math and the non-dropout rate (percent of students who have not dropped out by their scheduled graduation date).

Source: Tae Ho Eom, William Duncombe and John Yinger, Unintended Consequences of Property Tax Relief: New York's STAR Program, Center for Policy Research, Maxwell School of Citizenship and Public Affairs, Syracuse University, October 2005.

Property Tax Rebates

In fiscal year 2006-2007 New York implemented a property tax rebate program to increase property tax relief to homeowners. In fiscal year 2007-2008, this program is being replaced by a “Middle-Class Rebate Program,” which directs property tax rebates to lower-income homeowners. (The homestead exemption from the original STAR program remains the same; the rebates are added relief.)

2006-2007 Property Tax Rebate Program

In State fiscal year 2006-07, the State initiated a property tax rebate program to augment the original STAR program. Homeowners received a check in the mail from the State Department of Tax and Finance for the appropriate amount. Unlike STAR, the money was not paid to school districts but to individuals. However, the amount of the rebate was linked to certain STAR rules – the rebate was greater for low-income seniors than all others, and the rebate was indexed by the STAR home value differentials to give greater rebates in the wealthier counties. The rebate increased total STAR relief for non-seniors 30 percent and increased relief for low-income senior citizens 27 percent.³⁷

2007-2008 Middle-Class Rebate Program

In 2007, the State replaced the initial rebate program with a “Middle-Class Rebate Program.”³⁸ The new rebate program provides checks only to homeowners earning less than \$250,000, in varying amounts based on a sliding scale (see Table 13). The rebate amount is based upon the homeowner’s STAR savings from the property value exemption in fiscal year 2006-07. For example, homeowners earning less than \$90,000 in Buffalo will receive rebates worth 60 percent of their STAR homestead exemption savings in the prior year. For low-income seniors, the rebate equals 25 percent of their STAR homestead exemption savings in fiscal year 2006-2007.

³⁷ The basic property tax rebate for non-seniors equaled \$9,000 multiplied by the full school property tax rate in 2004-2005 multiplied by the county home sales price differential multiplied by the adjustment for the “Big 5” cities. The enhanced property tax rebate for low-income senior citizens equaled 1.67 multiplied by the basic property tax rebate.

³⁸ The Governor’s original “Middle-Class STAR” proposal did not include rebates. Instead, the increased tax relief would have been allocated through STAR exemptions.

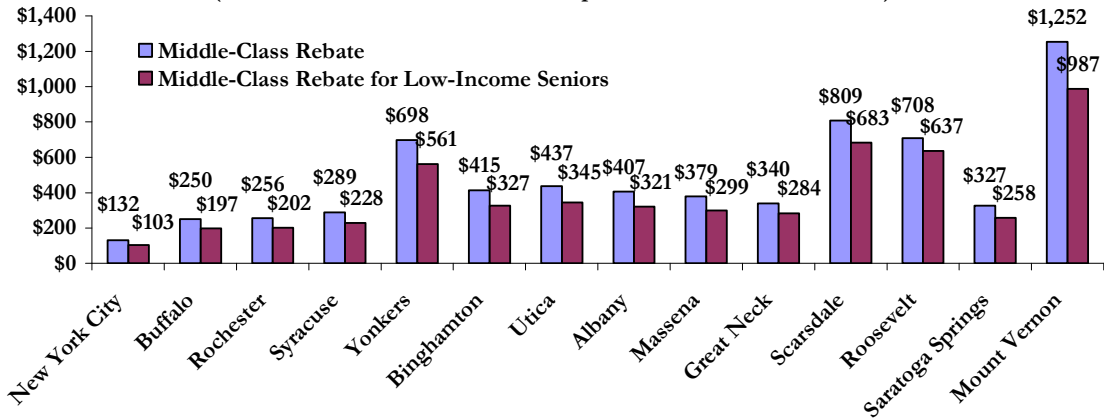
Table 13
Structure of Middle-Class STAR Rebate
Fiscal Year 2007-2008
(Percent of 2006-2007 Original STAR Homestead Exemption Savings)

Type of Homeowner	Income Level			
	\$0 - \$90,000	\$90,000 - \$150,000	\$150,000 - \$250,000	\$250,000 +
Non-senior Upstate	60%	45%	30%	0%
Non-Senior Downstate	60%	45%	30%	0%
Senior Citizen	Below \$67,850			
	25%			

Source: New York State Division of the Budget.

The amount of the new rebate varies significantly by county and by school district, since it is based on a homeowner’s property tax relief from the original STAR exemption program. A non-senior homeowner in New York City will receive a rebate worth \$132 while homeowners in Buffalo, Rochester and Syracuse will receive rebates in the \$250 to \$300 range. Homeowners in more property-wealthy counties will receive greater rebates. An owner in Mount Vernon, Westchester County will receive a \$1,252 rebate while an owner in Saratoga Springs will get a check for \$327. Figure 6 illustrates the variation in rebate amounts for selected school districts.

Figure 6
2007-08 Middle-Class Property Tax Rebate Program
(Household Income Below \$90,000 Upstate and \$120,000 Downstate)



Source: New York State Department of Taxation and Finance.

Change in Property Tax Rebates from 2006-07 to 2007-08

The impact of this year's changes in the rebate program can be assessed by comparing the amounts received by different types of taxpayers (see Table 14). Assuming that school tax rates and the median county home sales price differential factors remain constant, property tax rebates for non-senior homeowners in the lowest income bracket – household income below \$90,000 upstate and below \$120,000 downstate – will double from fiscal year 2006-07 to 2007-08. Homeowners in the second lowest income bracket will receive 50 percent more, while rebates for the second highest income group will remain the same. The wealthiest homeowners – household income above \$250,000 – will no longer receive rebates. The property tax rebate for all low-income seniors will decrease 6 percent statewide.

Table 14
Change in STAR Property Tax Relief by Income and Location
State fiscal year 2006-07 to 2007-08
Assumption: School Tax Rates and Median Home Values Remained Constant

	Property Tax Rebate Only (percent change)	Total STAR Savings - Exemption Plus Rebate (percent change)
Income Bracket		
Downstate		
\$0-\$90K	100%	23%
\$90K-\$150K	50%	12%
\$150K-\$250K	0%	0%
\$250K +	(100%)	(23%)
Upstate		
\$0-\$120K	100%	23%
\$120K-\$175K	50%	12%
\$175K-\$250K	0%	0%
\$250K +	(100%)	(23%)
Senior Citizen		
Below \$67,850	(6%)	(1%)

Note: Change will be higher in school districts with increasing school property tax rates and in property-wealthy counties whose median home sales prices grow faster than the State median.

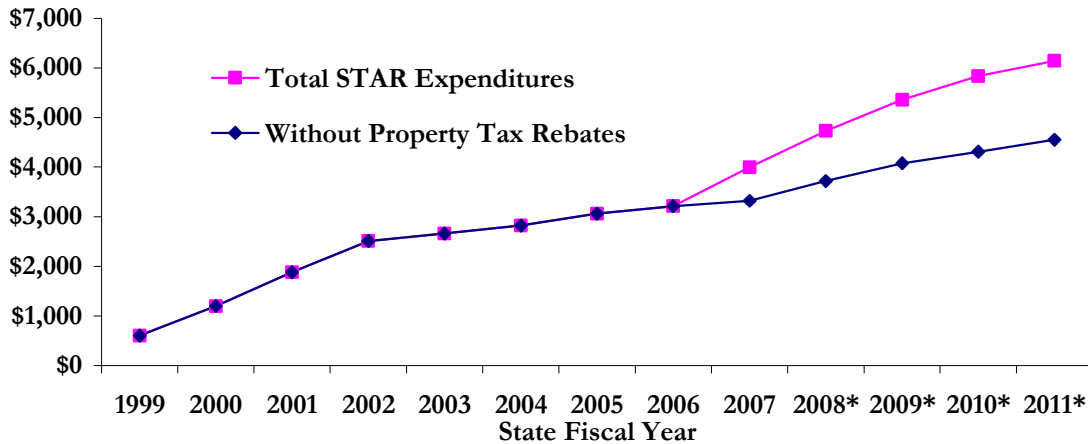
Source: Office of the New York State Comptroller; New York State Division of the Budget; CBC Staff Calculations.

Table 14 also shows the change in tax relief from the STAR exemption program and the rebate program combined. A non-senior homeowner earning less than \$250,000 will have his or her total property tax relief increase zero to 23 percent, depending on household income. Households earning more than \$250,000 will have their total property tax relief decrease 23 percent. Because the initial rebate program was generous to low-income senior citizens, total property tax relief for low-income seniors will actually decrease 1 percent. This decrease will slightly narrow the differential benefit between low-income senior citizen and all other homeowners. However, it is important to note that the year-to-year change in property tax relief will be greater in districts in which school tax rates have been rising and lower in districts in which the school tax rates have been decreasing. Similarly, STAR property tax relief will be greater in property-wealthy counties whose median home sales prices are increasing more rapidly than the state median home sales price. As discussed previously, property values in downstate New York – excluding New York City – increased five times faster than in upstate over the last decade.

Growth in STAR Expenditures

As shown in Figure 7, from fiscal year 1998-99 to 2007-08, school property tax relief spending increased from \$600 million to \$4.7 billion. The initial exemption program was fully implemented at a cost of \$2.5 billion in fiscal year 2001-02 and then was enriched to cost \$3.7 billion in the current year. The newer rebate program cost \$670 million in its first year and \$1 billion in the current year.

Figure 7
Growth of School Tax Relief (STAR) Program
With and Without Property Tax Rebates
State Fiscal Years 1999 to 2011
(dollars in millions)



* Projected as of April 2007.

Sources: New York State Office of the Comptroller, Cash Reports, Fiscal Years 1999 to 2007; New York State Division of the Budget, Enacted Budget Report, Fiscal Year 2008.

Medicaid Local Growth Cap and Cost Containment

Medicaid is a joint federal-state program that pays for medical care for low-income families and individuals. In New York, the federal government pays for half the cost of the program. The State divides the non-federal share of the program costs between the State government and local governments, specifically the counties and the City of New York. Localities pay 25 percent of acute care expenditures and 10 percent of long-term care costs. As a result, New York City finances about 17 percent of Medicaid expenditures for its residents, and all other counties pay an average of 18 percent.³⁹ This relatively large share of local funding is unusual; 30 states do not mandate any local Medicaid funding, and the 19 others require a much smaller share of local financing.

Due to multiple state level policy decisions (including expanded eligibility and high provider payment rates), Medicaid has become an increasing burden on New York's counties. From 1993 to 2003, county Medicaid expenditures more than doubled, from \$1.1 billion to \$2.3 billion. In some counties, Medicaid expenditures experienced average annual growth rates in the double digits. In 1993 Medicaid expenses comprised 13.5 percent of counties' general fund spending and 40.2 percent of their property tax levy; in 2003 Medicaid represented 19.1 percent of general fund spending and 73.2 percent of the property tax.⁴⁰

State officials have responded to the fiscal pressures on localities in two ways: 1) state assumption of the local share of the cost of the Family Health Plus Program (FHP); and 2) a state-funded cap on the growth in localities share of Medicaid spending.

The FHP is a component of the larger Medicaid program that covers adults who do not qualify for other Medicaid coverage due to their incomes and family status. In 2004, state legislation authorized a phased-in assumption by the State of the localities share of this program. Beginning January 1, 2005, the State paid for 50 percent of previously local FHP costs, and effective January 1, 2006 the State assumed the entire non-federal share of the program. The program had about 658,000 enrollees in fiscal year 2007. In local fiscal years ending in 2008, the FHP state takeover will save New York City \$363 million and all other counties \$130 million.

In 2005 the State authorized a cap on the growth in localities share of total Medicaid spending. Beginning January 1, 2006, the cap limited annual local spending growth to 3.5 percent in 2006, 3.25 percent in 2007, and 3 percent in 2008 and beyond. The State will finance all expenditure growth above the cap. In 2008, county governments will choose to either continue to pay a local share of Medicaid with an annual growth cap of 3 percent or allow the State to receive a portion of their local sales tax revenue in return for entirely financing Medicaid expenditures. The Medicaid cap will save New York City \$343 million and all other counties \$297 million in local fiscal years ending in 2008. Table 15 shows the total local savings from the Family Health Plus takeover and Medicaid cap.

³⁹ Based on fiscal year 2006. Calculation uses data from the New York State Department of Health, Medicaid Quarterly Expenditure Reports; New York City Office of the Comptroller, 2006 Comprehensive Annual Financial Report; and New York State Office of the Comptroller.

⁴⁰ Office of the New York State Comptroller, Local Government Finance Division.

Table 15
Local Savings from State Takeover of County Healthcare Costs
(dollars in millions)

	Local Fiscal Year Ending in...					
	2005	2006	2007	2008	2009	2010
Family Health Plus	\$60.0	\$289.0	\$452.8	\$492.8	\$522.5	\$536.3
Medicaid Cap		\$113.0	\$412.3	\$640.3	\$1,068.0	\$1,610.5
Total	\$60.0	\$402.0	\$865.1	\$1,133.1	\$1,590.5	\$2,146.8

Note: Includes New York City.

Actual data for 2005 and 2006. All other years projected.

Source: New York State Division of the Budget.

Although the FHP takeover and the Medicaid cap enable counties to lower their tax collections, passing the costs to the State necessitates increased state taxes. Thus, the combined state and local tax burden is transferred from one source to another but not lowered. The new financing arrangement is more equitable, but other measures are required to lower the combined state and local tax burden.

Foundation Aid for Schools

In 2007, at Governor Spitzer's initiative, the Legislature enacted a foundation approach to allocate school aid based on need and ability to pay. The improvements included: movement away from the "shares" method that divvied up aid based more on politics than rationality; the consolidation of many arcane categorical aid categories; and the creation of a special education component that allows greater flexibility of services. The new approach is part of the Governor's Four-Year Education Investment Plan, which will increase total school aid by \$7.6 billion when fully phased-in in 2010-11; in the current school year, the school aid increment is \$1.8 billion.

Unfortunately, last-minute political compromises weakened the initially proposed reform in two ways. First, the original proposal derived state aid based on the amount districts could raise on their own by applying the state median tax effort to their taxable resources. State aid would then enable districts to reach a predetermined level of per pupil spending.⁴¹ A compromise ultimately allowed an alternative method for calculating the state aid. The alternative calculation – which includes four possible variations – relies on an approach used in prior years called the "local sharing aid ratio." Districts may select the method most favorable to them to calculate the amount of aid they are eligible to receive. Most districts found that the alternative calculation lowered the amount of local revenue that the State presumed the districts would raise on their own. The "local sharing aid ratio" approach

⁴¹ School districts would not have been required to impose the median tax effort. Districts could opt to impose higher or local tax efforts. The State defines tax effort as the ratio of local school taxes to district property values.

dilutes the intended tax equalizing effects of the foundation approach and allocates aid to less needy districts.

Second, a compromise increased the aid amounts for the wealthiest districts in the State. In the Executive Budget, the Governor proposed a “hold harmless” provision for 304 districts that would otherwise not qualify for state aid increases under the foundation formula. These districts would have received a minimum aid increase of 3 percent, costing the State a combined total of \$149 million. Due to the creation of additional formulas for determining state aid, during enactment of the budget state leaders increased aid for these 304 wealthy districts to \$329 million.⁴²

Base grants and enhancements for the wealthiest districts work against equity, exacerbating a pattern of inequitable per pupil spending. The new foundation approach makes significant progress in raising spending among poorer districts but leaves much unachieved in promoting greater equity and better targeted use of state aid.

Government Consolidation Initiatives

The costs related to the fragmented structure of local governments have been addressed in two state efforts and an initiative in Nassau County.

In 2006 New York created the Shared Municipal Service Incentive program (SMSI) to encourage cooperative cost-saving ventures between municipalities. The State initially funded the program, which provides grants to localities that implement shared services programs, at \$2.75 million. Examples of shared services include fire, water, utilities, roads and highways (for example snow removal), garbage and refuse, sewage, parks, playgrounds, recreation centers, libraries, ambulance and hospital, public health, and mental health. In fiscal year 2007 the State expanded SMSI to include special purpose units of government and to target particular municipal services and expenditures. The program’s current funding is \$25 million, \$10 million of which is specifically dedicated to the consolidation of local government units. According to the New York State Comptroller, at least 3,332 cooperative agreements between local governments exist in New York.⁴³

Governor Spitzer established the Commission on Local Government Efficiency and Competitiveness in April 2007 to identify potential partnerships between the State and local governments to improve efficiency and effectiveness. The Commission will examine the potential for consolidation and other shared services agreements and will report its recommendations by April 15, 2008. The Commission held four public hearings throughout the State in 2007 and has already issued a list of 150 model projects to receive assistance from state agencies. These projects include village-town consolidations, school district

⁴² Calculation based on data from State of New York, State Education Department, *2007-08 Enacted Budget State Aid*, July 2007.

⁴³ Office of the State Comptroller, Division of Local Government Services and Economic Development, “Intermunicipal Cooperation and Consolidation: Exploring Opportunities for Savings and Improved Service Delivery,” September 3, 2004.

consolidations, and fire district consolidations, as well shared services agreements, such as employee health insurance and policing.⁴⁴

Nassau County is currently pursuing several consolidation initiatives. In September 2007 Nassau County Executive Tom Suozzi announced a plan for four municipalities in the county to consolidate their sewage treatment operations with the County's Sewer and Storm Water Authority.⁴⁵ The agreements guarantee that no jobs will be lost. In addition, the county is funding a study to create a blueprint for consolidation in the county by identifying and estimating potential areas for cost savings.⁴⁶ The initiative is a public-private partnership between the county and the Hagedorn Foundation, at a cost of \$500,000 to the county.

⁴⁴ New York State Commission on Local Government Efficiency and Competitiveness, <http://www.nyslocalgov.org/news.asp> accessed on October 3, 2007.

⁴⁵ Nassau County, News Releases, September 25, 2007, <http://www.nassaucountyny.gov/agencies/countyexecutive/NewsRelease/2007/9-25-2007-2.html> accessed on October 3, 2007. The municipalities are Cedarhurst Village, Lawrence Village, Glen Cove, and Long Beach.

⁴⁶ Nassau County, News Releases, March 13, 2007, <http://www.nassaucountyny.gov/agencies/CountyExecutive/NewsRelease/2007/03-13-2007.html> accessed on October 12, 2007.

LOCAL TAX RELIEF OPTIONS

This section identifies and assesses options for New York to amend and expand upon its current tax relief programs. The options to be considered fall into three categories: measures to cap the local tax burden, measures to make the local tax burden more equitable, and measures to reduce the cost drivers of the local tax burden. The first category includes various forms of a property tax cap; the second category includes circuit breakers and improving on STAR, implementing a full state takeover of Medicaid, and equalizing local school tax efforts; the last category includes local government consolidation, containing Medicaid costs, and reforming pension benefit and labor negotiations.

New York State's Current Local Tax Relief Programs

As previously discussed, New York's STAR program offers partial homestead exemptions from school property taxes, as well as property tax rebates. The State also assumed a portion of locally-financed Medicaid expenditures, increased state education aid and improved methods to better target aid to needy districts, and offered incentives for shared local services and local government consolidation.

In addition to these efforts, New York offers a smaller – and less well-known – “circuit breaker” program. Circuit breaker programs are tax refunds given to households based on property taxes as a share of income. New York's program is available to households with less than \$18,000 in income and less than \$85,000 in property value. In State fiscal year 2004-05, the program provided an average credit of \$106 to 279,000 residents at a cost of \$30 million.⁴⁷ Of these recipients, 91 percent were renters and 65 percent were under 65 years old. At the program's peak in 1990, the circuit breaker paid \$51 million to 544,000 residents. Eligibility criteria have not changed since 1985. (The merits of the circuit breaker program and options to expand it will be discussed later in this section.)

New York's State Constitution also limits the amount of property taxes to be raised by local governments for all purposes excluding debt service and repayments.⁴⁸ Counties cannot levy more than 1.5 percent of the average full valuation of taxable real estate in the county; cities (excluding New York City) and villages cannot collect more than 2 percent of full value within their jurisdiction. The constitution permits New York City to levy 2.5 percent of its full property value. Counties may receive permission to raise their limit to 2 percent. As of 2006, five counties had exhausted more than 89 percent of their constitutional tax limit.⁴⁹ Because the constitutional limit only applies to property taxes, the law does not prevent municipalities from increasing other tax sources, such as the sales tax. As discussed previously, growth in county sales taxes outpaced growth in county property taxes in the past decade.

⁴⁷ New York State Department of Taxation and Finance, Office of Tax Policy Analysis, *Real Property Circuit Breaker Tax Credit: 2005 Credit Use by County*, July 2007.

⁴⁸ New York State Constitution, Article VIII, Section 10a – 10e.

⁴⁹ New York State Office of the Comptroller, 2007 Financial Report on Counties. The five counties are: Allegany, Chenango, Cortland, Fulton and Montgomery.

Lastly, New York allows state personal income tax filers who itemize deductions to deduct property taxes paid in the State from their adjusted gross income. In 2004, 1.6 million filers claimed this deduction.⁵⁰

Limiting Tax Collections – “Tax Caps”

As shown in Table 16, more than a dozen states cap the annual growth of property tax collections. Probably the best known of these measures are California’s Proposition 13, enacted in 1978, and Massachusetts’ Proposition 2 ½ enacted in 1980. California’s measure limits assessed value growth to 2 percent and the full value tax rate to 1 percent; Massachusetts limits property tax growth to 2.5 percent and the local property tax levy cannot exceed 2.5 percent of aggregate property values. In both California and Massachusetts, capital expenditures and voter-approved initiatives are exempted from the limit. In addition, new property development is not subject to the cap.

Some other states’ caps are structured as a fixed percentage; others equal the lesser of a fixed percentage or inflation. In states that cap assessed value growth, a limit on property tax rates is also necessary to contain levy growth. Annual property tax growth limits range from 4 percent in Kentucky to one percent in Washington. Colorado limits state government spending to inflation plus the rate of population growth and refunds all excess tax revenue to taxpayers. Most states with an assessed value cap include an "acquisition value" rule which resets the assessed value of property to market value at time of sale.⁵¹ Consequently, the actual property tax burden can vary significantly among similar homes, depending on the year of purchase.

With soaring home values in recent years, more states have explored a property tax cap. South Carolina’s legislature recently approved a tax-assessment cap that would partially replace property taxes with sales taxes, but it is awaiting a ballot referendum. Georgia lawmakers have been pushing for a 3 percent cap.⁵² New Jersey’s fiscal year 2008 budget includes a measure to limit property tax growth to 4 percent annually, as well as distribute means-tested property tax rebates. Connecticut Governor Jodi Rell pushed for a 3 percent annual property tax cap for the State’s 2008 budget, to be supplemented by an increase in the State’s income tax rates. The cap was defeated by the Legislature.

Benefits of Caps

A property tax cap seeks to keep property tax increases at a reasonable pace. When the real estate market is strong, homeowners may witness a rapid increase in home values but no commensurate increase in incomes. A cap offers a degree of predictability and allows homeowners to more accurately plan their finances. In addition, by allowing residents to vote on any spending initiatives above the cap, residents have more power to evaluate how

⁵⁰ New York State Department of Taxation and Finance, Office of Tax Policy Analysis, *Analysis of 2004 Personal Income Tax Returns: Profile of Income, Deductions, Credits and Tax*, June 2007.

⁵¹ Institute on Taxation and Economic Policy, *Capping Assessed Valuation Growth: A Primer*, 2005.

⁵² Patrik Jonsson, Several States Eye Moves to Cap Tax Growth After Property Boom, *The Christian Science Monitor*, March 8, 2006.

much spending is affordable and practical. Furthermore, under a cap, local governments – typically school districts – are forced to control spending and focus on programs and initiatives targeted to meet specified goals. Consequently, increased fiscal pressure on local governments may result in efficiency gains. Lastly, property tax caps provide broad relief to all taxpayers.⁵³ Commercial and industrial property owners – in addition to single family homeowners – benefit from caps. Lowering the property tax burden on business may promote economic development, and over time, some of the tax savings for businesses may be passed on to tenants, employees and consumers.

Table 16
Property Tax Caps in Other States

State	Cap Equals...		
	Fixed Percentage	Inflation	Lesser of Fixed Percentage or Inflation
Arizona	2%		
California			(1)
Colorado ⁽²⁾		Inflation plus population growth	
Idaho	3%		
Illinois			Lesser of 5 percent or inflation
Kentucky	4%		
Massachusetts	2.5% ⁽³⁾		
Michigan			Lesser of 5 percent or inflation
Missouri			Lesser of 5 percent or inflation
Montana		One-half average inflation rate for prior 3 years	
New Mexico			Lesser of 5 percent or inflation
South Dakota			Lesser of 3 percent or inflation
Washington ⁽⁴⁾			Lesser of 1 percent or inflation
West Virginia	3%		

(1) Assessed property values cannot grow more than 2 percent or the inflation rate, whichever is less. Property tax rates also cannot exceed 1 percent of assessed value.

(2) Applies to all taxes.

(3) Municipalities cannot levy more than 2.5 percent of total full value of taxable real and personal property.

(4) Only applies to non-school taxing districts.

Source: Karen Lyons and Iris J. Lav. *The Problems with Property Tax Revenue Caps*, Center on Budget and Policy Priorities, June 2007.

California and Massachusetts illustrate lowered tax burdens under caps. In 1977, Massachusetts ranked number three for the highest combined state and local tax burden per \$1,000 of personal income, directly behind New York in the number two spot.⁵⁴ At the time, the Massachusetts tax burden was 22 percent higher than the national average. By 1992 Massachusetts ranked number 23 with a state and local tax burden one percent below

⁵³ This benefit is not true for caps that do not apply to all property. For example, New York City caps assessed value growth for only one-, two- and three-family homes. The design of this cap in effect shifts the property tax burden to other classes of property.

⁵⁴ Urban Institute-Brookings Institution Tax Policy Center, *State and Local Tax Revenue as a Percentage of Personal Income*, June 2007. Data from the U.S. Census Bureau, Annual Survey of State and Local Government Finances.

the national average. As of 2005, Massachusetts had the 33rd highest state and local tax burden in the nation. From 1985 to 2006, Massachusetts property tax levy increased 219 percent despite an increase of 520 percent in assessed property values.⁵⁵ In 1977, California had the fifth highest state and local tax burden, 15 percent above the national average.⁵⁶ By 1992, the state fell to number 19 with a tax burden just one percent above the average. In 2005, California's tax burden ranked number 17 in the nation.

Disadvantages of Caps

Property tax caps have their critics. Based on a combination of logic and empirical study of the experience with caps, they make three important points:

1. *Caps are undemocratic and artificially limit residents' demand for public services.* Revenue limits may prevent residents from being able to fund service improvements they desire. Perhaps more importantly, the limits may prevent communities from even sustaining existing levels of service, because the cost factors for some services are not controlled locally and may increase at rates above the cap. Recently, the costs of healthcare, pensions, and fuel have grown faster than inflation. Local governments have limited control over such cost increases. Similarly, caps do not account for federal and state mandates, such as requirements under the federal No Child Left Behind Act. Unfunded mandates pose an additional, and uncontrollable, cost for local governments.

This phenomenon is evident in the provision of educational services in California since Proposition 13. Adjusting for inflation, in 1978 spending per pupil in California was \$600 above the national average but fell to \$600 below average in 2000.⁵⁷ As of fiscal year 2005, California raised 9 percent less revenue per pupil than the national average and ranked number 30 in the nation for revenue per pupil compared to number 22 in 1990.⁵⁸ As of 2005, California had the second-highest ratio of students per teacher in any state, 20.9 students per teacher. Using an average state composite score for 4th graders and 8th graders from 1990 through 2003 for reading and math exams, California scored number 48th in the nation, above only Louisiana and Mississippi.⁵⁹

2. *Caps affect lower income communities more adversely than wealthier ones.* Assessed property value caps (as in California) are most valuable in areas where home values are appreciating rapidly, but they provide little or no relief in areas where home values are stagnant or declining. Moreover, property tax caps on the aggregate levy (as in Massachusetts) may exacerbate education and other public service provision

⁵⁵ Massachusetts Department of Revenue, Division of Local Services, Municipal Databank/Local Aid Section.

⁵⁶ Urban Institute-Brookings Institution Tax Policy Center, *State and Local Tax Revenue as a Percentage of Personal Income*, June 2007. Data from the U.S. Census Bureau, Annual Survey of State and Local Government Finances.

⁵⁷ Karen Lyons and Iris J. Lav, *The Problems With Property Tax Revenue Caps*, Center on Budget and Policy Priorities, June 2007.

⁵⁸ National Center of Education Statistics.

⁵⁹ Karen Lyons and Iris J. Lav, *The Problems With Property Tax Revenue Caps*, Center on Budget and Policy Priorities, June 2007.

inequities between wealthy and poor areas. If the limit allows for voter-approved overrides, wealthy communities are more likely to pass spending initiatives that exceed the cap.⁶⁰ Communities with stronger commercial or hospitality sectors and a more diverse tax base will also be less constrained by limits to the property tax. Consequently, spending caps disproportionately constrain the ability of lower-income communities to improve or expand public services.

Massachusetts' Proposition 2 ½ was characterized by such inequities. From 1981 to 1984, the poorest 20 percent of communities in the State were forced to cut their property tax levy 9 percent annually; in contrast, the richest fifth had to reduce their collections only 3 percent annually. From 1983 to 2004, the poorest fifth passed 133 overrides worth a total of \$32 million, while the richest fifth passed 388 overrides worth \$162 million.⁶¹

3. *Caps may be circumvented, putting other problematic burdens on taxpayers.* Communities constrained by a property tax cap may increase other revenue sources, such as the sales tax and fees and fines. These other financing sources tend to be regressive and are not deductible from federal or state income taxes. In addition, shifting reliance on the sales tax may promote the “fiscalization of land use” and increase dependence on new property developments.⁶² Communities may be more likely to seek large commercial developments and less likely to develop more affordable housing. Competition with other communities for large businesses may also promote the use of discretionary tax reduction incentive packages and lead to a “race to the bottom.”

California provides an example of the shift to alternative forms of revenue – developer fees. A study of one county in the State found that developer fees accounted for discrepancies in home sale prices between \$7,000 and \$8,000 per residential unit in low- and high-fee cities.⁶³ Similarly, a study in Massachusetts concludes that the police in towns and cities fiscally constrained by Proposition 2 ½ are 28 percent more likely to issue a speeding ticket than a warning, reflecting the pressure on the police to raise alternative forms of revenue.⁶⁴

Another critical point relates to the cyclical impacts of tax caps. During a declining housing market, a lowered level of allowable property tax collections is set, creating a “ratchet effect.”⁶⁵ The lower level is then the new basis for allowable growth. Thus, an economic downturn will continue to constrain communities long after the economy recovers.

⁶⁰ Karen Lyons and Iris J. Lav, *The Problems With Property Tax Revenue Caps*, Center on Budget and Policy Priorities, June 2007.

⁶¹ Municipal Finance Task Force, *Local Communities at Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns*, September 2005.

⁶² Jeffrey I. Chapman, *Proposition 13: Some Unintended Consequences*, Public Policy Institute of California, September 1998.

⁶³ Karen Lyons and Iris J. Lav, *The Problems With Property Tax Revenue Caps*, Center on Budget and Policy Priorities, June 2007.

⁶⁴ Michael Makowsky and Thomas Stratmann, Political Economy at Any Speed: What Determines Traffic Citations, January 2007. Referenced in September 2, 2007 *New York Times* article by Judith Chevalier, “Welcome, Stranger. Here’s a Speeding Ticket.”

⁶⁵ David H. Bradley, Nicholas Johnson, and Iris J. Lav, *The Flawed “Population Plus Inflation” Formula: Why TABOR’s Growth Formula Doesn’t Work*, Center on Budget Policy and Priorities, January 2005.

Some of the above concerns may be offset with sufficient increases in state aid. Targeted state aid to general governments and school districts constrained by a cap may prevent harmful service reductions or the imposition of alternative revenue sources.

School Property Tax Caps in New York State

Due to the recent increase in education aid, the most constructive way to envision a property tax cap in New York is at the school district level. School districts represent 58 percent of the property tax levy outside of New York City, and the objects and pace of their expenditure growth have been questioned by some. Furthermore, state officials had considered a cap on school district spending when STAR was enacted. As previously discussed, in the absence of a cap, STAR contributes to growth in school district expenditures. In fact, at the time STAR was enacted, the State imposed a spending cap equal to 4 percent or 120 percent of inflation for school districts that fail to pass a school budget. Because the vast majority of school budgets pass, few districts have been subject to this cap.⁶⁶

The tables below and in Appendix I present the result of a simulation of three different types of caps for school districts in New York (excluding New York City). The data show the consequences of a cap on individual school districts if a cap had been implemented in fiscal year 1998, the year prior to the implementation of the STAR program. Each option assumes that STAR did not occur. The first option assumes that New York capped the full value school property tax rate by school district at their fiscal year 1998 levels. The second assumes that the State capped the growth rate of the property tax levy per total weighted pupil units (TWPU) at 3 percent annually.⁶⁷ The third option assumes that the State capped the growth rate of the property tax levy per pupil (not weighted) at 3 percent annually. Due to data limitations, none of the models could be adjusted for new property developments. See Appendix I for detailed data by county.

Under the first option, in fiscal year 2005, 465 out of 676 school districts would be fiscally constrained by the cap (see Table 17). As a result, the total school property tax levy would be \$1.2 billion less in the State, and constrained schools would spend an average of \$1,087 less per pupil. Districts outside of Long Island and the Hudson Valley, where property values have risen the slowest, would be most constrained by this type of cap.

⁶⁶ For the 2007-08 school year, 11 districts – including Albany – did not pass a school budget and were thus subject to a cap. New York State Education Department, *Statewide Annual School District Budget Voting Results*, as of June 2007.

⁶⁷ The measure, TWPU, is a weighted count based on the adjusted average daily attendance of elementary and secondary school students plus weightings for certain characteristics of the student population, such as percent special education, low-income, or low-English language proficiency. Half-day kindergarten pupils are weighted at 0.5.

Table 17
Impact in 2005 of Property Tax Cap Model 1
By Region

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	Levy Capped at 1998 Full Value Rate			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	55	74	69	213,722,489	149,013	1,434
Central New York	51	39	39	148,546,825	120,328	1,235
Finger Lakes	52	70	69	242,020,405	191,804	1,262
Hudson Valley	44	101	40	138,543,079	139,699	992
Long Island	48	121	8	45,390,927	25,248	1,798
Mohawk Valley	51	54	50	84,209,129	83,508	1,008
North Country	56	63	50	40,550,799	62,851	645
Southern Tier	51	74	71	110,629,268	116,954	946
Western New York	44	80	69	153,373,205	193,577	792
Total	\$48	676	465	\$1,176,986,124	1,082,982	\$1,087

Sources: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 1997-1998 and 2004-2005. New York State Office of the Comptroller, Local Government Division, Finances for Local Governments. CBC Staff Calculations.

Under option two, in fiscal year 2005, 389 school districts would be fiscally constrained by the cap (see Table 18). The total school property tax levy would be \$599 million less, and constrained schools would spend an average of \$856 less per pupil. Once again, districts outside of Long Island and the Hudson Valley would be most constrained by this type of cap. On the whole, the TWPU measure increased 28 percent from fiscal year 1998 to 2005 in the State. However, during this time, the TWPU increased 56 percent in Nassau County; 67 percent in Suffolk County; and 65 percent in Westchester County.

Table 18
Impact in 2005 of Property Tax Cap Model 2
By Region

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	If Levy per Total Wealth Pupil Unit (TWPU) Capped at 3 Percent			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	55	74	50	77,827,090	92,410	842
Central New York	51	39	34	62,428,687	101,526	615
Finger Lakes	52	70	62	135,142,954	134,770	1,003
Hudson Valley	44	101	20	52,686,139	51,053	1,032
Long Island	48	121	6	40,338,140	13,062	3,088
Mohawk Valley	51	54	48	52,993,944	66,925	792
North Country	56	63	50	40,950,578	59,955	683
Southern Tier	51	74	62	62,482,631	98,316	636
Western New York	44	80	57	73,829,543	81,451	906
Total	\$48	676	389	\$598,679,706	699,468	\$856

Sources: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 1997-1998 and 2004-2005. New York State Office of the Comptroller, Local Government Division, Finances for Local Governments. CBC Staff Calculations.

Interestingly, if New York implemented a 3 percent annual growth cap on the school property tax levy per pupil (not per TWPU), the results are very different. If such a cap were implemented in 1998, as of 2005 634 school districts would be fiscally constrained and schools would have to reduce spending \$2.5 billion from current levels (see Table 19). The reduction would translate to \$1,591 less per pupil. This type of cap would significantly impact school districts all across the State. Designing a cap based on pupils rather than TWPU impacts more school districts because the TWPU measure has increased faster than the number of pupils. This occurrence is a result of more pupils being classified in weighted categories, such as special education. As mentioned above, the TWPU measure has increased most rapidly in downstate counties.

Table 19
Impact in 2005 of Property Tax Cap Model 3
By Region

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	If Levy per Pupil Capped at 3 Percent			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	55	74	71	195,244,965	153,354	1,273
Central New York	51	39	37	108,212,215	114,888	942
Finger Lakes	52	70	69	229,488,057	156,960	1,462
Hudson Valley	44	101	98	691,044,815	327,489	2,110
Long Island	48	121	114	881,840,780	435,313	2,026
Mohawk Valley	51	54	50	66,647,066	71,475	932
North Country	56	63	55	66,915,365	58,733	1,139
Southern Tier	51	74	70	116,885,551	110,596	1,057
Western New York	44	80	70	132,494,361	134,991	982
Total	\$48	676	634	\$2,488,773,174	1,563,800	\$1,591

Sources: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 1997-1998 and 2004-2005. New York State Office of the Comptroller, Local Government Division, Finances for Local Governments. CBC Staff Calculations.

Important to note, the imposition of a school property tax cap would need to adequately address the three disadvantages of a cap listed above. The design and provisions of the cap would have to ensure that the cap does not artificially constrain necessary spending, create inequities between poor and wealthy districts, or lead to increases in other taxes or fees. The three simulations above of a school property tax cap in New York highlight the importance of a cap's design on the ultimate outcomes of the program.

A More Equitable Tax Burden

An alternative strategy to limiting growth in local taxes is to promote more equitable local tax burdens. In this context, equity is defined by a more progressive tax structure, shifting the burden away from lower-income residents onto higher-income residents. Three broad options would promote that goal – income tax circuit breakers, a state assumption of Medicaid costs, and equalizing local school tax burdens through more targeted distribution of state education aid.

Circuit Breakers

A popular form of property tax relief is the circuit breaker. A circuit breaker “shuts off” an individual’s or household’s property tax liability when it exceeds a predetermined share of income. The excess property tax liability is refunded to the taxpayer through a credit on the state income tax or the local property tax. As shown in Table 20, currently, 18 states – including New York – offer some form of circuit breaker program.⁶⁸ These programs vary in terms of magnitude and eligibility criteria. In eight of the states with a program, only senior citizens and disabled residents are eligible. Most states offer the credit to both homeowners and renters. The circuit breaker credits for renters assume a “property tax rent equivalent” which equals a percent of annual rental payments and varies from 6 to 25 percent by state. Oklahoma is the only state with a circuit breaker that does not extend the credit to renters; Oregon offers the credit to renters but not to homeowners.

Circuit breaker programs also vary in terms of income eligibility and magnitude of the credit. Income ceilings range from \$10,000 for an individual in Oregon to \$200,000 in New Jersey. Only six of the states that offer circuit breakers have income ceilings above \$45,000; New York has an income ceiling of \$18,000. Maximum benefits range from \$200 in Oklahoma to \$2,000 in Maine. In New York, senior citizens can be paid up to \$375 while residents under 65 years old receive a credit up to only \$75.

States also differ in how they administer the programs. Nine states offer their circuit breaker through a separate tax rebate; the other nine administer the program through the personal income tax. In general, using a separate rebate leads to lower participation rates, yet using the personal income tax weakens the connection between the credit and property tax relief. Rebates may also add to a household’s taxable income and be offset by a slight increase in personal income tax liability, yet personal income tax credits often provide relief to taxpayers many months after the payment of property taxes.

As a consequence of the varying criteria, states expend a varying share of resources on their circuit breaker programs. For instance, in Oklahoma, Oregon and New York, lost revenue from the circuit breaker credits equals less than 0.1 percent of all property tax collections. However, Michigan, Minnesota, and Vermont allocate over 6 percent of property tax collections to their circuit breaker programs.

⁶⁸ Karen Lyons, Sarah Farkas and Nicholas Johnson (Center of Budget and Policy Priorities), *The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs*, March 2007.

Table 20
Property Tax Circuit Breakers in New York and Other States

Eligibility and Benefits					
State	Senior Citizens		Homeowners and Renters	Income Ceiling (single filer)	Maximum Benefit
	or Disabled Only	Homeowners Only			
District of Columbia			X	\$20,000	\$750
Illinois	X		X	\$21,218	\$700
Maine			X	\$77,000	\$2,000
Maryland			X ⁽¹⁾	⁽²⁾	
Michigan	X		X	\$45,000	\$840
				\$87,780	\$1,640
Minnesota			X	(homeowner); \$47,350 (renter)	(homeowner); \$1,350 (renter)
Missouri	X		X	\$25,000	\$750
Montana	X		X	\$45,000	\$1,000
				\$200,000	\$1,200
New Jersey	⁽³⁾		X	(homeowner); \$100,000 (renter)	(homeowner); \$825 (renter)
New Mexico	X		X	\$16,000	\$250
New York			X	\$18,000	\$375 (\$75 if under age 65)
Oklahoma	X	X		\$12,000	\$200
Oregon	X		⁽⁴⁾	\$10,000	\$2,100
Pennsylvania	X		X	\$15,000	\$500
Rhode Island			X	\$30,000	\$250
South Dakota			X	\$30,000	\$250
Vermont ⁽⁵⁾			X	\$47,000	None
Wisconsin			X	\$24,500	\$1,160

(1) Renters under age 60 must have at least one dependent under 18 living with them.

(2) Income ceiling equals net worth excluding home. Ceiling is \$60,000 for homeowners; \$38,659 for renters under 60; and \$30,000 for renters over 60.

(3) Available to renters over 65.

(4) Renters only.

(5) Vermont has a separate school property tax circuit breaker available to homeowners with income less than \$110,000.

Source: Karen Lyons, Sarah Farkas, and Nicholas Johnson. The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs, Center on Budget and Policy Priorities, March 2007.

Benefits

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 have growing property tax bills and zero income growth. 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. Median monthly housing costs for homeowners and renters with incomes below the federal poverty line amount to 45 percent of income; the national median for all homeowners and renters is 22 percent.⁶⁹ Nationally, property taxes represent about 14 percent of housing costs for the median homeowner.⁷⁰ However, in New York, property taxes contribute closer to 22 percent of median owner housing costs. In New York the poorest 20 percent of households lose 4 percent of income to property taxes, while the richest 1 percent pays only 0.7 percent of their income to property taxes.⁷¹

Disadvantages

Circuit breaker programs are limited to residential households; no existing circuit breaker offers relief to commercial property. Since local governments may need to increase taxes on all other property to offset the lost revenue, circuit breakers may increase the burden for non-residential property.

Similarly, state-funded local property tax relief programs are a tax shift, not a tax reduction. To fund the relief program, states need to raise taxes or reduce services. Absent caps on the program's benefits, the shift may even have the effect of encouraging localities to raise taxes and pass some of the burden onto the state.

Expanding New York's Existing Circuit Breaker

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, the median household income in New York was \$51,384, far above the circuit breaker's income ceiling of \$18,000.⁷² Similarly, the median home value and median rent in the State were \$303,400 and \$875, respectively, also well-above the program's value and rent ceilings of \$85,000 and \$450, respectively.

In the latest legislative session, representatives sponsored 10 separate bills to expand the circuit breaker program. Recommended changes included: increasing the income ceiling to \$80,000; increasing the monthly rent ceiling to \$1,000; increasing the maximum credit to \$800; increasing the home value ceiling to \$150,000; increasing the home value ceiling to the median county home value; offering enhanced credits to disabled taxpayers; and including municipal fees in the calculation of property taxes.⁷³

⁶⁹ 2005 American Household Survey, U.S. Census Bureau, Housing and Household Economic Statistics Division.

⁷⁰ 2006 American Community Survey, U.S. Census Bureau.

⁷¹ Institute on Taxation and Economic Policy, *New York Taxes Hit Poor and Middle Class Far Harder than the Wealthy*, January 2003.

⁷² 2006 American Community Survey, U.S. Census Bureau.

⁷³ Refers to New York State bills: A100, A443, A522, A1406, A1593, A2239, A2730, A5214, A5541, A6624, S297, S338, S3088, S3820, S4605, S4774, and S4917.

All of the above amendments would expand the number of residents receiving assistance and the amount of relief given to each recipient. Simply adjusting for inflation, the new income ceiling would be \$38,000; the new home value ceiling would be \$179,000; and the new rent ceiling would be \$949. A provision to automatically adjust these criteria for inflation would further ensure that the circuit breaker program remains effective.

Converting STAR into a Circuit Breaker

As described earlier in the section on STAR rebates, beginning in State fiscal year 2008 New York will distribute property tax rebates to households earning less than \$250,000 annually. The rebate amount will vary based on location in the State and household income (refer to Table 13). The rebate calculation is confusing and steers more relief downstate, where home values and property taxes are higher yet local school tax efforts are lower.

An easy – and transparent – way to improve upon the STAR rebate program is to base a household’s rebate on property taxes as a share of income. The rebate program could retain or lower the income ceiling of \$250,000 and add a ceiling for home value. To target most relief to poorer residents, the threshold to receive the rebate – property taxes as a share of income – could be lower for lower income brackets. A bill sponsored by New York Assembly Member Teresa Sayward presents an example of how STAR could be structured as a circuit breaker (the proposal is entitled “Twenty-First Century STAR”):

Household Income	Percent of Household Income Above Which Property Taxes Will Be Refunded
Less than \$50,000	3
\$50,000 to \$100,000	5
\$100,000 to \$150,000	6
\$150,000 to \$200,000	7
More than \$200,000	No credit available

To limit costs of the program (and to prevent local governments from excessively increasing the local property tax), the new STAR rebate should also be capped. In addition, deeper credits can be created for low-income senior citizens. If the STAR rebate is limited to the most heavily burdened taxpayers, with more relief going to lower-income households, the saved money can be used to include renters and commercial property owners. Renters can easily be included by calculating a property tax equivalent amount – perhaps in the range of 20 percent of annual rent. A rebate for commercial property owners might take the form of a flat credit for owners falling below a specified net income and property value ceiling.

Over time, a STAR circuit breaker could replace the STAR homestead exemption program, which (as described above) is fraught with problems. In fiscal year 2008-09 spending for the STAR homestead exemption program and the property tax rebate program is expected to reach \$5.4 billion. This money could fund a much expanded circuit breaker program. As shown in Table 21, a circuit breaker that refunded property taxes above 5 percent of New York Adjusted Gross Income (NYAGI) for homeowners earning less than \$20,000 and above 7 percent of NYAGI for all others would cost \$2.6 billion. A circuit breaker program

for renters that refunded property taxes in excess of 6 percent of NYAGI would cost \$2.7 billion.⁷⁴ The combined cost of the program for owners and renters is about equal to the projected annual cost of the STAR program. (See Appendix II for methodology and detailed data.)

Due to data limitations, the circuit breaker option in Table 21 does not cap individual credits nor place a ceiling on rent or home value. Including such criteria would significantly lower the cost of the program and further target relief to the most heavily burdened taxpayers.

Table 21
Impact of Expanded Circuit Breaker Program
(dollars in millions)

Income Class	Owners			Renters			Total		
	Number Receiving Credit	Average Credit	Cost	Number Receiving Credit	Average Credit	Cost	Number Receiving Credit	Average Credit	Cost
Under \$5,000	218,487	3,640	795	951,937	1,278	1217	1,170,424	2,012	
\$5,000 - 9,999	155,305	1,117	174	668,063	948	633	823,368	807	
10,000 - 19,999	446,578	1,774	792	817,545	754	617	1,264,123	1,409	
20,000 - 29,999	488,377	984	481	501,847	459	230	990,224	711	
30,000 - 39,999	470,910	657	309	-	-	-	470,910	309	
40,000 - 49,999	405,725	240	97	-	-	-	405,725	97	
50,000 - 59,999	-	-	-	-	-	-	-	-	
60,000 - 74,999	-	-	-	-	-	-	-	-	
75,000 - 99,999	-	-	-	-	-	-	-	-	
100,000 - 199,999	-	-	-	-	-	-	-	-	
200,000 and over	-	-	-	-	-	-	-	-	
Total	2,185,381	\$635	\$2,648	2,939,392	\$693	\$2,697	5,124,773	\$5,345	

Note: Credit equals property taxes exceeding 5 percent of New York Adjusted Gross Income for owners with less than \$20,000; 7 percent of New York Adjusted Gross Income for owners above \$20,000; and 6 percent of New York Adjusted Gross Income for renters. See Appendix II for methodology.

Sources: New York State Department of Taxation and Finance, *Analysis of 2004 Personal Income Tax Returns*; U.S. Bureau of the Census; CBC Staff Calculations.

State Medicaid Takeover

New York State's unusual practice of requiring counties to pay a significant share of Medicaid costs is widely criticized. Economists and policymakers generally agree that redistributive payments, such as Medicaid, should be funded at the broadest level possible. Under the current system, counties with disproportionate shares of low-income residents bear a greater fiscal burden and are thus forced to maintain a higher rate of taxation than wealthier counties. Local financing for Medicaid also reduces accountability; the State controls the policy, but localities administer some of the services and bear the fiscal consequences of decisions by the state officials.

A complete state takeover of local Medicaid expenses would ameliorate these problems. By shifting financing of Medicaid to the State, wealthier individuals would shoulder a higher share of Medicaid costs because State revenues, notably the personal income tax, are more progressive than local property and sales taxes.

⁷⁴ It is assumed that 20 percent of annual rent equals total property taxes paid. Consequently, refunding property taxes over 6 percent of income is equivalent to refunding annual rent exceeding 30 percent of income (if rent/income = 0.3, then 0.2 * rent = 0.06 * income).

Table 22
Impact of State Takeover of County Medicaid Expenditures
If Funded by Across-the-Board Personal Income Tax Increase

County of Residence	2005 Local Medicaid Expenditure (\$000s)	State Takeover of County Medicaid, Excluding NYC			State Takeover of County Medicaid, Including NYC		
		Added State PIT Liability (\$000s)	Net Impact on Tax Burden (\$000s)	Per Capita Impact	Added State PIT Liability (\$000s)	Net Impact on Tax Burden (\$000s)	Per Capita Impact
New York City	\$4,906,000				\$2,918,158	(1,987,842)	(242)
Albany	63,685	50,654	(13,030)	(44)	96,854	33,170	111
Allegany	8,120	2,921	(5,199)	(103)	5,585	(2,535)	(50)
Broome	36,211	18,991	(17,220)	(88)	36,311	101	1
Cattaraugus	17,039	5,833	(11,206)	(137)	11,153	(5,886)	(72)
Cayuga	13,746	6,823	(6,923)	(85)	13,046	(700)	(9)
Chautauqua	33,027	9,302	(23,725)	(175)	17,785	(15,241)	(113)
Chemung	25,866	8,402	(17,465)	(197)	16,065	(9,802)	(111)
Chenango	10,167	3,764	(6,403)	(124)	7,197	(2,970)	(57)
Clinton	17,330	7,445	(9,885)	(120)	14,235	(3,095)	(38)
Columbia	11,564	8,900	(2,664)	(42)	17,017	5,453	87
Cortland	9,414	4,066	(5,348)	(110)	7,775	(1,639)	(34)
Delaware	8,995	3,884	(5,112)	(109)	7,426	(1,570)	(33)
Dutchess	46,655	51,477	4,821	16	98,426	51,771	175
Erie	186,850	122,357	(64,492)	(70)	233,954	47,104	51
Essex	9,539	3,696	(5,843)	(151)	7,068	(2,472)	(64)
Franklin	10,348	3,101	(7,247)	(142)	5,930	(4,418)	(87)
Fulton	16,127	4,522	(11,605)	(209)	8,646	(7,481)	(135)
Genesee	10,154	5,433	(4,721)	(80)	10,389	235	4
Greene	9,702	4,831	(4,871)	(98)	9,238	(465)	(9)
Hamilton	594	470	(124)	(24)	898	304	59
Herkimer	13,331	4,471	(8,860)	(140)	8,549	(4,782)	(76)
Jefferson	19,129	7,195	(11,934)	(104)	13,757	(5,371)	(47)
Lewis	5,178	1,594	(3,584)	(134)	3,048	(2,130)	(80)
Livingston	8,740	6,200	(2,540)	(40)	11,856	3,115	49
Madison	10,934	7,079	(3,855)	(55)	13,535	2,601	37
Monroe	174,993	107,684	(67,309)	(92)	205,897	30,904	42
Montgomery	12,566	3,941	(8,625)	(176)	7,536	(5,030)	(102)
Nassau	280,201	452,307	172,106	130	864,835	584,634	441
Niagara	42,125	21,567	(20,558)	(95)	41,237	(888)	(4)
Oneida	55,617	21,300	(34,316)	(147)	40,727	(14,889)	(64)
Onondaga	87,931	60,910	(27,021)	(59)	116,464	28,533	62
Ontario	17,675	13,892	(3,783)	(36)	26,562	8,887	85
Orange	65,127	51,867	(13,261)	(35)	99,172	34,044	90
Orleans	8,051	3,064	(4,986)	(115)	5,859	(2,192)	(51)
Oswego	23,090	10,532	(12,558)	(102)	20,137	(2,953)	(24)
Otsego	11,860	6,007	(5,853)	(94)	11,486	(374)	(6)
Putnam	11,872	23,577	11,704	116	45,080	33,207	330
Rensselaer	27,581	19,080	(8,501)	(55)	36,483	8,902	57
Rockland	63,933	61,249	(2,684)	(9)	117,112	53,179	180
St. Lawrence	23,065	7,444	(15,622)	(140)	14,233	(8,832)	(79)
Saratoga	24,388	37,385	12,997	60	71,482	47,094	219
Schenectady	34,032	20,945	(13,087)	(87)	40,048	6,016	40
Schoharie	5,706	2,824	(2,882)	(90)	5,400	(306)	(10)
Schuyler	3,699	1,448	(2,250)	(116)	2,769	(929)	(48)
Seneca	6,518	2,606	(3,911)	(113)	4,984	(1,534)	(44)
Steuben	18,442	9,203	(9,239)	(94)	17,596	(846)	(9)
Suffolk	232,011	340,161	108,151	74	650,406	418,396	285
Sullivan	23,068	8,192	(14,876)	(194)	15,663	(7,405)	(97)
Tioga	7,614	4,732	(2,882)	(56)	9,048	1,434	28
Tompkins	12,345	12,603	258	3	24,097	11,753	117
Ulster	36,173	23,190	(12,983)	(71)	44,340	8,167	45
Warren	11,795	8,659	(3,135)	(47)	16,557	4,762	72
Washington	10,951	4,991	(5,960)	(94)	9,543	(1,408)	(22)
Wayne	13,837	9,741	(4,095)	(44)	18,626	4,789	52
Westchester	198,246	446,715	248,469	262	854,143	655,897	691
Wyoming	5,239	3,248	(1,991)	(47)	6,211	972	23
Yates	3,967	1,686	(2,281)	(92)	3,225	(743)	(30)
Total, Counties Outside of New York City	\$2,156,163	\$2,156,163	\$0	\$0	\$4,122,699	\$1,966,536	\$177
Total	\$7,062,163				\$7,062,163	\$0	\$0

Sources: New York State Office of the Comptroller; New York State Department of Taxation and Finance, Office of Tax Policy Analysis, 2004 New York Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence, May 2007. CBC Staff Calculations.

A state Medicaid takeover should also consider the disproportionate share of Medicaid expenditures (about 65 percent) in New York City.⁷⁵ A state takeover that included the City would shift substantial costs from the City's taxpayers to taxpayers in virtually every other jurisdiction in the State. For example, as shown in Table 22, if an across-the-board increase in the state personal income tax financed the higher state expenditures, the per capita tax burden would rise in 27 counties, with the per capita tax burden in nine counties increasing more than \$100.

If a state Medicaid takeover excluded New York City, only seven counties would be net losers. The most adversely impacted county would be Westchester, whose state and local tax burden would increase \$262 per capita. This calculation assumes that the State increases the personal income tax across-the-board for all counties outside the City. Potentially, the State could levy a personal income tax surcharge on residents except those in the City.

Variations of the state Medicaid takeover are being considered in the Legislature. In the 2007 session, former Assembly Member Paul Tonko sponsored the "Medicaid Reform and Tax Equity Act of 2007."⁷⁶ The bill would have refunded county Medicaid expenses exceeding 6.5 percent of all locally-generated county revenue in 2002. New York City would have received a flat reimbursement of \$1 billion. To fund increased state expenditures, the bill proposed restoring the personal income tax structure in effect from 2003 to 2005, which added two high-income tax brackets and raised the highest marginal rate to 7.7 percent. Counties would have to use at least 80 percent of the refund to lower the local tax burden. Senator Vincent Leibell and Assembly Member Adam Bradley cosponsored a bill that would establish a zero percent annual growth rate in county Medicaid expenses.⁷⁷

Education Aid Based on Uniform School Tax Effort

One way to promote equity in both the local tax burden and spending per pupil is to distribute state education aid using an equalization or uniform tax effort approach. This is similar to the foundation aid strategy proposed by Governor Spitzer, but it puts even more emphasis on equal tax effort. Under this approach, the State would apply a rate equal to the median local school tax effort to a school district's wealth (an equally weighted average of property value and personal income). Any district that cannot meet the median per pupil spending level with this tax effort would be eligible for state aid to make up the difference. Districts that can raise sufficient funds from their own local tax bases at the median tax effort would receive no state aid. If higher spending is desired in districts that are spending above the median per pupil and taxing above the median tax effort, they can raise the tax rate above the state mandated minimum effort and spend the additional funds on their schools.

Figure 8 summarizes the results of a simulation using the 2007-08 data for a uniform tax effort policy with the targeted average per pupil spending set at this year's median for all

⁷⁵ New York State Department of Health, 2006 Medicaid Quarterly Expenditure Reports.

⁷⁶ Bill number A5283.

⁷⁷ Bill number S2384 and A1419.

districts. Under the new policy, total spending for public schools would increase from the current \$46 billion to \$48 billion. The 428 districts currently spending below the state median per pupil would receive \$2.8 billion more state aid, and the 249 districts currently spending above the median would receive \$813 million less state aid.

Figure 8
School District Spending per Pupil and Local Tax Effort
Impacts of Uniform Tax Effort Policy
School Year 2007-08

		School Tax Effort	
		Low or Average	High
Spending per Pupil	Below or At Adequacy (Median) Level	<p align="center">324 Districts Policy Impact: \$1,602 million state aid increase \$156 million local tax increase</p>	<p align="center">104 Districts Policy Impact: \$1.2 billion state aid increase \$489 million local tax decrease</p>
	Above Adequacy (Median) Level	<p align="center">249 Districts Policy Impact: \$813 million decrease in state aid \$47 million local tax increase</p>	<p align="center">0 Districts No Policy Impact</p>

Note: School tax effort equals local school taxes divided by an equally weighted measure of personal income and property values.

Source: New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit (August 14, 2007). CBC staff calculations.

Among the 428 districts that would be able to increase spending per pupil, fully 104 would also be able to lower their tax effort. These districts could lower local taxes \$489 million. Another 235 districts that are currently spending below the median would be required to increase local tax effort, and 89 districts would retain their current tax effort level.

At the same time wealthier districts would have their state aid reduced. Of the 249 districts that would receive less state aid, 103 districts would be required to have higher local tax efforts and 146 districts would retain their current tax levels. Among these 249 districts, state aid would be reduced \$813 million, including a \$178 million cut from 66 districts that would no longer receive any state aid.

Reducing Local Cost Drivers

The costs of local government could be reduced effectively by pursuing four options: (1) structural changes to the Medicaid program to reduce ineffective services; (2) reforms in the pension benefits for public employees; (3) changes to the legal framework for collective bargaining; and (4) small school district consolidations.

Reduce Medicaid Expenditures

The problem with New York's Medicaid program is not just the unusually high share of local government funding; it also is excessively expensive. New York State has the most expensive program nationwide, with an average cost per person enrolled 69 percent higher than the national average. The State's high program costs result largely from three sources: 1) paying hospitals, nursing homes and other institutional providers above average rates; 2) allowing middle-class, elderly residents to qualify for long-term care; and 3) failing to utilize managed care and permitting greater use of personal care services than other states.⁷⁸

If New York reduced the rates paid to hospitals and nursing homes, tightened eligibility loopholes, reduced usage of home care, and utilized more managed care, the State would save \$2 billion.⁷⁹ Because the State and local governments jointly fund Medicaid, these savings would translate to a savings of \$748 million for counties and New York City.⁸⁰

Pension Benefit Reforms

Generous pension benefits were once justified for state and local employees to compensate for low wages, but salaries for public employees in New York no longer lag their private sector counterparts. The Citizens Budget Commission 2006 report, *Old Assumptions, New Realities: The Truth About Wages and Retirement Benefits for Public Employees*, found that most state and local employees in New York earn higher wages than comparable workers in the private sector. Thus, the current wage structure no longer requires above average pension benefits for government employees.

The State Legislature determines pension benefits for both state and local government employees. State law governs a uniform pension benefit system for public workers, which separates workers into a few different categories. Pension benefits are not supposed to be a subject of collective bargaining. Once granted, the State Constitution protects pension benefits for current workers and retirees from cutbacks; lower benefits can be mandated only for workers hired after the new benefits are enacted in law.

⁷⁸ See Citizens Budget Commission, *Medicaid in New York: Why New York's Program is the Most Expensive in the Nation and What to Do About It*, April 2006. Available at www.cbcny.org.

⁷⁹ See Citizens Budget Commission, *Options for Budgetary Savings in New York*, October 2007. Available at www.cbcny.org.

⁸⁰ Local governments would accrue 25 percent of acute care savings and 10 percent of long-term care savings.

Union leaders and public officials have circumvented these intentions in two ways. First, they in fact negotiate pension benefits as part of collective bargaining. However, the agreements are not made part of the contracts; instead, the agreement is to jointly lobby the state Legislature for the changes. These changes are almost always granted. Second, unions sometimes do “end runs” around local elected officials by lobbying the Legislature for pension benefits that were rejected or not considered in collective bargaining. These additional benefits are often approved by the Legislature.

The current unnecessarily expensive pension system should be reformed in one of two ways. The most dramatic change would be to convert to a defined contribution rather than a defined benefit system. This is now prevalent in the private sector nationally. Under this system the employers’ shares could be set in state legislation or could be allowed to be subject to collective bargaining. Less far reaching would be changes in the current defined benefit system to make the benefits more reasonable. For example, new workers could be given benefits that do not include overtime in the benefit calculations, set higher age requirements for retirement, and/or require larger contributions to the pension fund from the workers.

A Revised Framework for Collective Bargaining

While the Taylor Law has prevented the disruption of services to citizens, and has bolstered the rights and compensation of public employees in the State, the law has also intruded upon the rights of local governments to negotiate with and determine the wages of their own employees. Proposed reforms to the current legal structure generally have at least one of three objectives: (1) to make the current dispute resolution process more timely, thereby avoiding the fiscal uncertainties of expired and retroactive contracts as well as making the Triborough Amendment less significant; (2) to change the criteria and constraints used by arbitrators; and (3) to change the conflict resolution process to encourage bargaining and rely less on arbitrators judgment.

- **More timely process.** Proposals that would lead to more timely settlements include having an automatic finding of an impasse if a settlement were not reached before a current contract expired or before the end of the fiscal year in which a contract expires. Limits can also be set on the duration of any conflict resolution process.
- **Alter arbitration criteria and constraints.** More prudent settlements could be promoted by mandating that PERB weigh more heavily criteria such as ability to pay and past collective agreements. PERB could also include additional decision criteria, such as overall compensation level and changes in the cost of living, following the example of New York City’s OCB. State law could require arbitrators to award wage increases that will not necessitate tax increases or require that any wage increase be funded in part by productivity gains.

With limitations on granting an award for a period longer than two years, the Taylor Law restricts arbitrators’ ability to resolve contract disputes as they see best

fit. Arbitrators could be allowed to grant an award that is “chronologically current” in the event of severely expired contracts or an award that matches the length of the contract that is expired.

- **Adopt another model of negotiations.** New York might benefit from using resolution processes other than the current system of arbitration. One option is “last-best offer” negotiations. Under this process, the parties in an impasse submit a final offer for consideration by the arbitrator. The arbitrator renders a binding decision by choosing one of the offers. Last-best offers can be made on an item-by-item basis, where the arbitrator renders a decision on offers made by the parties for each item in the scope of bargaining, or on a total package basis, in which the parties submit one complete offer for all items in the scope of bargaining.

A variation on this model is bracketed negotiation. As in last-best offer negotiations, parties submit their last and best offer for consideration. These offers represent the outer limits (high/low offers) of the decision to be made by the arbitrator, who does not know of the offers and renders an independent judgment. The arbitrator’s decision is binding if it falls between the high and low offer. If, however, an arbitrator’s determination is higher than the high offer, then the high offer becomes binding. Conversely, if the arbitrator’s decision is lower than the low offer, then the low offer becomes binding. The advantage of the last-best and bracketed models is that it encourages vigorous bargaining by the parties and inches them closer to agreement on their own, since it is in the interest of both parties to minimize the risk of an award that differs greatly from their own position.

Additional Consolidation Initiatives

Although the State is addressing the issue of fragmentation in several ways, additional initiatives for school districts are warranted. While New York is below average in the total number of local governments per capita, outside New York City the state has 16 percent more school districts per capita than the national average (refer to Table 9). The State might also benefit from consolidation in its property tax assessment units.⁸¹

A study examining school district consolidation in New York from 1985 to 1997 determined that the potential savings of consolidation is greatest for smaller districts.⁸² The study concluded that two 300-pupil school districts could reduce operating costs 22 percent by consolidating, yet two 1,500-pupil school districts would only reduce their operating costs 8

⁸¹ It is important to note that consolidation may exert certain costs including: “averaging up” of wages, equipment and facilities; initial cost increases during transition period; unemployment costs; and reductions in magnitude or quality of public services. The majority of consolidation efforts also require approval through a public vote, and state labor law requires that unions agree to consolidation of services provided by their members.

⁸² William Duncombe and John Yinger, Does School District Consolidation Cut Costs? Center for Policy Research, Maxwell School of Citizenship and Public Affairs, Syracuse University, Working Paper No. 33, January 2001.

percent. Consolidation has little, if any, impact on total cost reduction for large school districts. Nonetheless, the study highlighted potential for consolidating central administrative offices for school districts of all sizes and for sharing transportation services. Consolidating two 300-, 900-, or 1,500-pupil school districts resulted in a 36 percent reduction in administrative costs and an 18 to 32 percent reduction in transportation costs.

New York currently has 314 school districts with less than 1,500 pupils and 27 districts with less than 300 pupils. A 20 percent reduction in costs for New York schools with less than 900 students and a 7 percent cost savings for districts with 900 to 1,500 students would equate to a total savings of \$435 million (see Table 23).

Table 23
Potential Savings for School Districts from Consolidation
Excluding New York City
(dollars in millions)

	Enrollment				Total
	Under 300	300-900	900-1,500	Over 1,500	
Number of Districts	27	124	163	362	676
Total Expenditures	\$128	\$1,073	\$2,778	\$23,163	\$27,142
Potential Savings	\$26	\$215	\$194	\$0	\$435

Note: Assumes savings of 20 percent for school districts with less than 900 students; 7 percent savings for school districts between 900 and 1500; no savings for school districts with more than 1500 students.

Sources: New York State Department of Education, Office of Management Services, Fiscal Analysis and Research Unit, *School District Fiscal Profiles, Masterfile for 1997-1998 and 2004-2005*. William Duncombe and John Yinger, *Does School District Consolidation Cut Costs?* Center for Policy Research, Maxwell School of Citizenship and Public Affairs, Syracuse University, Working Paper No. 33, January 2001. CBC Staff Calculations.

Another opportunity for shared services is property assessing units. Currently, the State has 1,134 assessing units, second only to Michigan for highest number of assessing units.⁸³ The assessing units include 151 villages, which duplicate services performed at the town level. While 33 states assess property at the county level, in New York only Nassau and Tompkins counties assess at the county level. Maryland assesses at the state level. Similar to other consolidation efforts, the most cost savings potential is for rural counties with few parcels of land. In the State, nine counties have less than 25,000 parcels of land. In addition to the potential cost savings, fewer assessing units would also ensure a greater level of assessment equity among municipalities.

⁸³ Donald C. DeWitt (New York State Office of Real Property Services), *Maximizing the Efficiency of the Assessment Function: Guidelines for Transitioning to County Assessing*, August 2007.

Appendix I: Property Tax Cap Model

Property Tax Cap Model 1

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	Capped at 1998 Full Value Rate			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	60	74	69	213,722,489	149,013	1,434
Albany County	53	13	13	62,012,237	41,699	1,487
Columbia County	59	6	6	11,004,390	9,313	1,182
Greene County	81	6	6	15,283,151	7,682	1,989
Rensselaer County	53	11	11	38,740,653	19,799	1,957
Saratoga County	49	12	9	27,076,418	25,754	1,051
Schenectady County	54	6	6	37,777,007	23,758	1,590
Warren County	67	9	8	10,810,439	10,258	1,054
Washington County	62	11	10	11,018,194	10,750	1,025
Central New York	52	39	39	148,546,825	120,328	1,235
Cayuga County	49	7	7	13,608,726	11,364	1,198
Cortland County	46	5	5	6,690,300	7,619	878
Onondaga County	50	18	18	94,896,885	77,036	1,232
Oswego County	63	9	9	33,350,913	24,309	1,372
Finger Lakes	54	70	69	242,020,405	191,804	1,262
Genesee County	56	8	8	9,355,947	10,249	913
Livingston County	50	8	7	9,221,277	7,828	1,178
Monroe County	51	18	18	160,795,234	117,429	1,369
Ontario County	55	9	9	16,555,610	17,711	935
Orleans County	58	5	5	8,508,359	7,823	1,088
Seneca County	58	4	4	9,537,568	4,945	1,929
Wayne County	57	11	11	23,642,788	17,458	1,354
Wyoming County	49	5	5	3,415,339	5,388	634
Yates County	56	2	2	988,283	2,974	332
Hudson Valley	63	101	40	138,543,079	139,699	992
Dutchess County	46	13	7	13,635,357	28,775	474
Orange County	58	17	13	46,045,155	60,990	755
Putnam County	60	6	2	1,851,127	2,772	668
Rockland County	62	8	1	4,572,853	7,943	576
Sullivan County	109	8	8	33,057,187	10,390	3,182
Ulster County	69	9	6	27,974,153	21,688	1,290
Westchester County	35	40	3	11,407,247	7,141	1,597
Long Island	48	121	8	45,390,927	25,248	1,798
Nassau County	44	56	7	24,486,028	22,461	1,090
Suffolk County	53	65	1	20,904,899	2,787	7,501
Mohawk Valley	53	54	50	84,209,129	83,508	1,008
Fulton County	46	7	7	9,168,194	9,805	935
Herkimer County	55	11	10	9,638,200	12,507	771
Madison County	48	10	9	10,244,222	11,926	859
Montgomery County	52	5	3	9,730,423	6,377	1,526
Oneida County	49	15	15	35,169,295	37,474	939
Schoharie County	69	6	6	10,258,794	5,419	1,893
North Country	78	63	50	40,550,799	62,851	645
Clinton County	52	8	7	10,723,791	12,126	884
Essex County	87	11	10	8,745,821	11,614	753
Franklin County	55	7	6	3,398,776	7,423	458
Hamilton County	200	4	3	1,851,696	487	3,802
Jefferson County	45	11	8	4,850,808	14,885	326
Lewis County	50	5	4	2,296,254	4,090	561
St. Lawrence County	53	17	12	8,683,652	12,226	710
Southern Tier	51	74	71	110,629,268	116,954	946
Broome County	53	12	12	46,231,873	32,233	1,434
Chemung County	42	3	3	8,782,122	12,958	678
Chenango County	49	8	8	5,118,278	9,587	534
Delaware County	80	12	12	9,265,888	7,181	1,290
Otsego County	56	12	11	6,566,678	7,986	822
Schuyler County	46	2	2	2,337,783	2,306	1,014
Steuben County	42	13	12	11,847,950	18,210	651
Tioga County	40	6	5	3,741,387	10,685	350
Tompkins County	53	6	6	16,737,308	15,808	1,059
Western New York	50	80	69	153,373,205	193,577	792
Allegany County	54	12	12	8,087,403	8,289	976
Cattaraugus County	46	12	11	8,894,216	14,463	615
Chautauqua County	58	18	13	14,628,337	18,704	782
Erie County	40	28	23	84,647,170	117,627	720
Niagara County	54	10	10	37,116,079	34,494	1,076
Total	48	676	465	1,176,986,124	1,082,982	1,087

Property Tax Cap Model 2

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	If levy per TWPU capped at 3 percent			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	55	74	50	77,827,090	92,410	842
Albany County	53	13	4	5,588,610	4,930	1,134
Columbia County	59	6	5	8,570,442	7,444	1,151
Greene County	81	6	3	5,957,206	4,825	1,235
Rensselaer County	53	11	10	20,471,480	18,712	1,094
Saratoga County	49	12	6	13,151,893	20,314	647
Schenectady County	54	6	3	10,286,298	15,082	682
Warren County	67	9	8	6,867,842	10,258	670
Washington County	62	11	11	6,933,320	10,844	639
Central New York	51	39	34	62,428,687	101,526	615
Cayuga County	49	7	7	12,453,129	11,364	1,096
Cortland County	46	5	5	5,546,368	7,619	728
Onondaga County	50	18	15	32,033,137	68,013	471
Oswego County	63	9	7	12,396,054	14,530	853
Finger Lakes	52	70	62	135,142,954	134,770	1,003
Genesee County	56	8	8	6,644,400	10,249	648
Livingston County	50	8	7	9,398,226	7,828	1,201
Monroe County	51	18	13	68,876,067	64,787	1,063
Ontario County	55	9	8	9,511,595	15,328	621
Orleans County	58	5	5	8,182,278	7,823	1,046
Seneca County	58	4	4	8,107,192	4,945	1,640
Wayne County	57	11	11	19,454,453	17,458	1,114
Wyoming County	49	5	5	4,670,090	5,388	867
Yates County	56	2	1	298,654	964	310
Hudson Valley	44	101	20	52,686,139	51,053	1,032
Dutchess County	46	13	2	611,092	2,148	284
Orange County	58	17	5	14,938,766	25,629	583
Putnam County	60	6	1	4,090,494	1,917	2,134
Rockland County	62	8	1	2,008,564	2,957	679
Sullivan County	109	8	7	15,176,897	8,844	1,716
Ulster County	69	9	1	4,805,631	2,119	2,268
Westchester County	35	40	3	11,054,693	7,439	1,486
Long Island	48	121	6	40,338,140	13,062	3,088
Nassau County	44	56	6	40,338,140	13,062	3,088
Suffolk County	53	65	0	0	0	0
Mohawk Valley	51	54	48	52,993,944	66,925	792
Fulton County	46	7	7	5,295,019	9,805	540
Herkimer County	55	11	11	10,130,370	13,306	761
Madison County	48	10	9	8,268,946	10,342	800
Montgomery County	52	5	4	7,767,940	6,925	1,122
Oneida County	49	15	11	14,121,986	21,128	668
Schoharie County	69	6	6	7,409,683	5,419	1,367
North Country	56	63	50	40,950,578	59,955	683
Clinton County	52	8	8	9,656,799	18,550	521
Essex County	87	11	8	5,876,292	10,528	558
Franklin County	55	7	5	1,836,750	4,893	375
Hamilton County	200	4	4	3,296,645	553	5,961
Jefferson County	45	11	6	3,321,478	7,572	439
Lewis County	50	5	4	2,411,165	4,090	590
St. Lawrence County	53	17	15	14,551,450	13,769	1,057
Southern Tier	51	74	62	62,482,631	98,316	636
Broome County	53	12	10	11,358,889	23,935	475
Chemung County	42	3	3	10,695,953	12,958	825
Chenango County	49	8	6	3,433,421	6,794	505
Delaware County	80	12	10	7,433,948	5,504	1,351
Otsego County	56	12	11	5,329,854	6,978	764
Schuyler County	46	2	2	3,133,020	2,306	1,359
Steuben County	42	13	11	10,497,502	17,035	616
Tioga County	40	6	4	3,777,463	8,334	453
Tompkins County	53	6	5	6,822,580	14,472	471
Western New York	44	80	57	73,829,543	81,451	906
Allegany County	54	12	12	9,543,783	8,289	1,151
Cattaraugus County	46	12	11	11,849,785	14,463	819
Chautauqua County	58	18	16	16,864,684	16,508	1,022
Eric County	40	28	10	14,442,763	20,764	696
Niagara County	54	10	8	21,128,529	21,427	986
Total	48	676	389	598,679,706	699,468	856

Property Tax Cap Model 3

Region	School Property Tax Burden (per \$1,000 Income)	Number of School Districts	If levy per pupil capped at 3 percent			
			Number of Constrained Districts	Necessary Tax Reductions	Pupils in Constrained Districts	Tax Reduction Per Pupil
Capitol District	55	74	71	195,244,965	153,354	1,273
Albany County	53	13	11	42,362,369	36,394	1,164
Columbia County	59	6	6	14,399,999	9,313	1,546
Greene County	81	6	6	13,841,825	7,682	1,802
Rensselaer County	53	11	11	33,374,983	19,799	1,686
Saratoga County	49	12	11	49,942,076	34,308	1,456
Schenectady County	54	6	6	14,458,238	23,758	609
Warren County	67	9	9	15,413,474	11,256	1,369
Washington County	62	11	11	11,452,000	10,844	1,056
Central New York	51	39	37	108,212,215	114,888	942
Cayuga County	49	7	7	14,800,545	11,364	1,302
Cortland County	46	5	5	6,619,317	7,619	869
Onondaga County	50	18	17	68,632,339	76,511	897
Oswego County	63	9	8	18,160,014	19,394	936
Finger Lakes	52	70	69	229,488,057	156,960	1,462
Genesee County	56	8	8	11,541,707	10,249	1,126
Livingston County	50	8	8	13,912,890	9,597	1,450
Monroe County	51	18	17	121,097,126	80,815	1,498
Ontario County	55	9	9	25,298,150	17,711	1,428
Orleans County	58	5	5	10,862,170	7,823	1,389
Seneca County	58	4	4	10,787,788	4,945	2,182
Wayne County	57	11	11	26,005,791	17,458	1,490
Wyoming County	49	5	5	6,637,118	5,388	1,232
Yates County	56	2	2	3,345,317	2,974	1,125
Hudson Valley	44	101	98	691,044,815	327,489	2,110
Dutchess County	46	13	12	62,440,301	42,348	1,474
Orange County	58	17	16	125,325,370	67,941	1,845
Putnam County	60	6	6	44,756,047	16,748	2,672
Rockland County	62	8	8	65,467,105	42,388	1,544
Sullivan County	109	8	8	29,914,650	10,390	2,879
Ulster County	69	9	9	52,285,267	28,148	1,857
Westchester County	35	40	39	310,856,075	119,526	2,601
Long Island	48	121	114	881,840,780	435,313	2,026
Nassau County	44	56	55	449,426,192	208,616	2,154
Suffolk County	53	65	59	432,414,588	226,697	1,907
Mohawk Valley	51	54	50	66,647,066	71,475	932
Fulton County	46	7	7	7,442,560	9,805	759
Herkimer County	55	11	11	11,672,903	13,306	877
Madison County	48	10	10	10,745,718	12,188	882
Montgomery County	52	5	4	7,037,559	6,925	1,016
Oneida County	49	15	12	19,860,862	23,832	833
Schoharie County	69	6	6	9,887,465	5,419	1,825
North Country	56	63	55	66,915,365	58,733	1,139
Clinton County	52	8	7	17,696,510	12,126	1,459
Essex County	87	11	11	12,070,551	11,891	1,015
Franklin County	55	7	6	5,737,944	7,423	773
Hamilton County	200	4	4	4,678,080	553	8,459
Jefferson County	45	11	6	4,189,774	6,062	691
Lewis County	50	5	4	3,330,626	4,090	814
St. Lawrence County	53	17	17	19,211,880	16,588	1,158
Southern Tier	51	74	70	116,885,551	110,596	1,057
Broome County	53	12	11	24,055,747	25,922	928
Chemung County	42	3	3	14,831,489	12,958	1,145
Chenango County	49	8	8	5,648,038	9,587	589
Delaware County	80	12	12	13,285,361	7,181	1,850
Otsego County	56	12	12	10,959,249	9,114	1,202
Schuyler County	46	2	2	4,092,359	2,306	1,775
Steuben County	42	13	11	17,076,592	17,035	1,002
Tioga County	40	6	5	8,122,240	10,685	760
Tompkins County	53	6	6	18,814,477	15,808	1,190
Western New York	44	80	70	132,494,361	134,991	982
Allegany County	54	12	12	10,942,632	8,289	1,320
Cattaraugus County	46	12	12	16,901,562	15,445	1,094
Chautauqua County	58	18	17	25,295,918	17,827	1,419
Erie County	40	28	20	50,683,031	67,641	749
Niagara County	54	10	9	28,671,219	25,789	1,112
Total	48	676	634	2,488,773,174	1,563,800	1,591

Appendix II: Circuit Breaker Model

Methodology

The model utilized 2004 New York State personal income tax return data from the New York State Department of Taxation and Finance. All itemizers are assumed to be homeowners. Property taxes by income were calculated by subtracting local income taxes (deducted for federal income tax purposes) from total taxes deducted for state income tax purposes. The average property taxes per tax filer represent the average property taxes paid per household. The number of personal income tax filers and the number of households in the State are roughly equal.

The hypothetical circuit breaker program offers a credit to homeowners equal to property taxes in excess of 5 percent of New York Adjusted Gross Income for owners with less than \$20,000 and 7 percent of New York Adjusted Gross Income for owners above \$20,000. Thus, the total value of the credit for each income bracket equals: Property Taxes – X percent * NYAGI.

For tax filers claiming the standard deduction, the number of homeowners and renters is broken up according to U.S. Census data in the *2006 American Community Survey* of homeowners and renters in New York by income. The average amount of property taxes paid by income bracket is then applied to these homeowners. The value of the credit follows the same formula as described above.

The model for renters assumes that New York Adjusted Gross Income by varying income brackets does not differ significantly between owners and renters. The model first assumes a “property tax equivalent” for renters, equal to 20 percent of annual rent. This equivalent represents the theoretical amount of property taxes passed onto tenants from the building owners. The credit for all renters is equal to “property taxes” in excess of 6 percent of New York Adjusted Gross Income. This formula is the equivalent of refunding rent paid in excess of 30 percent of NYAGI.

Because the Citizens Budget Commission does not have access to individual tax returns, the analysis works off averages and thus cannot incorporate caps on the amount of an individual credit.

All Returns				
Income Class	Number of Filers	NYAGI (000s)	Average NYAGI	
Under \$5,000	1,170,424	2,247,675	1,920	
\$5,000 - 9,999	823,368	6,122,515	7,436	
10,000 - 19,999	1,264,123	18,584,747	14,702	
20,000 - 29,999	990,224	24,600,542	24,843	
30,000 - 39,999	815,073	28,364,117	34,799	
40,000 - 49,999	628,266	28,115,821	44,751	
50,000 - 59,999	466,514	25,557,906	54,785	
60,000 - 74,999	524,742	35,206,465	67,093	
75,000 - 99,999	554,372	47,816,086	86,253	
100,000 - 199,999	596,606	79,249,743	132,834	
200,000 and over	230,838	168,222,927	728,749	
Total	8,064,550	464,088,545	57,547	

Itemizers						
Number Itemizers	Total Property Tax (000s)	Average Property Tax	NYAGI for Itemizers	Percent of NYAGI	Prop Taxes above percent AGI	Average Credit
1,058	3,952	3,736	2,031,777	101,589	3,850,664	3,640
2,715	4,043	1,489	20,188,575	1,009,429	3,033,604	1,117
46,734	117,237	2,509	687,068,884	34,353,444	82,883,536	1,774
101,548	276,514	2,723	2,522,798,725	126,139,936	150,374,449	1,481
157,006	485,547	3,093	5,463,727,330	273,186,366	212,360,213	1,353
165,861	559,305	3,372	7,422,521,917	371,126,096	188,179,160	1,135
149,858	555,903	3,710	8,209,950,253	410,497,513	145,405,236	970
201,324	890,420	4,423	13,507,411,995	675,370,600	215,049,273	1,068
259,668	1,354,890	5,218	22,397,067,878	1,119,853,394	235,036,614	905
376,336	2,683,218	7,130	49,990,330,947	2,499,516,547	183,701,394	488
159,993	4,268,228	26,678	116,594,714,914	5,829,735,746	NA	NA
1,622,101	11,199,257	6,904	226,817,813,195	11,340,890,660	1,419,874,143	875

Standard Deduction					
Income Class	Number	Percent			
		Homeowners	Owners	Renters	
Under \$5,000	1,169,366	18.6%	217,429	951,937	
\$5,000 - 9,999	820,653	18.6%	152,590	668,063	
10,000 - 19,999	1,217,389	32.8%	399,844	817,545	
20,000 - 29,999	888,676	43.5%	386,829	501,847	
30,000 - 39,999	658,067	47.7%	313,904	344,163	
40,000 - 49,999	462,405	51.9%	239,864	222,541	
50,000 - 59,999	316,656	61.7%	195,230	121,426	
60,000 - 74,999	323,418	61.7%	199,399	124,019	
75,000 - 99,999	294,704	71.6%	210,956	83,748	
100,000 - 199,999	220,270	79.6%	175,331	44,939	
200,000 and over	70,845	79.6%	56,391	14,454	
Total	6,442,449		2,547,766	3,894,683	

All Returns						
Income Class	Number	NYAGI for Owners	Percent of NYAGI	Avg Prop Tax * Owners	Property Taxes Above percent of NYAGI	Average Credit
\$5,000 - 9,999	820,653	1,154,837,861	57,741,893	231,271,770	173,529,877	1,117
10,000 - 19,999	1,217,389	6,565,453,568	328,272,678	1,120,286,432	792,013,754	1,774
20,000 - 29,999	888,676	12,132,948,916	849,306,424	1,329,846,442	480,540,018	984
30,000 - 39,999	658,067	16,387,411,527	1,147,118,807	1,456,304,666	309,185,859	657
40,000 - 49,999	462,405	18,156,767,280	1,270,973,710	1,368,157,007	97,183,298	240
50,000 - 59,999	316,656	18,905,587,146	1,323,391,100	1,280,113,465	(43,277,635)	(125)
60,000 - 74,999	323,418	26,885,656,193	1,881,995,934	1,772,324,897	(109,671,037)	(274)
75,000 - 99,999	294,704	40,592,621,378	2,841,483,496	2,455,613,271	NA	NA
100,000 - 199,999	220,270	551,667	73,280,324,376	5,129,622,706	3,933,302,248	NA
200,000 and over	70,845	216,384	157,689,891,839	11,038,292,429	5,772,614,964	NA
Total	6,442,449	372,171,080,505	25,889,178,198	21,536,011,333	2,647,649,955	635

Note: Credit equals property taxes exceeding 5 percent of NYAGI for owners with less than \$20,000; 7 percent of NYAGI for owners above \$20,000; and 6 percent of NYAGI for renters.

Income Class	All Returns				Number Renters	Median Monthly Rent	Median Annual Rent	Property Tax Equivalent		NYAGI for Renters	Property Taxes Over .06*NYAGI	Average Credit
	Number of Filers	NYAGI (000s)	Average NYAGI	20 percent of Rent				Total Property Taxes				
Under \$5,000	1,170,424	2,247,675	1,920	951,937	581	6,968	1,394	1,326,675,503	1,828,094,977	1,216,989,804	1,278	
\$5,000 - 9,999	823,368	6,122,515	7,436	668,063	581	6,968	1,394	931,051,725	4,967,676,680	632,991,124	948	
10,000 - 19,999	1,264,123	18,584,747	14,702	817,545	682	8,183	1,637	1,337,939,901	12,019,293,697	616,782,279	754	
20,000 - 29,999	990,224	24,600,542	24,843	501,847	812	9,748	1,950	978,407,917	12,467,593,141	230,352,329	459	
30,000 - 39,999	815,073	28,364,117	34,799	344,163	855	10,255	2,051	705,864,448	11,976,705,932	NA	NA	
40,000 - 49,999	628,266	28,115,821	44,751	222,541	897	10,762	2,152	478,976,255	9,959,053,526	NA	NA	
50,000 - 59,999	466,514	25,557,906	54,785	121,426	1,022	12,260	2,452	297,733,492	6,652,319,220	NA	NA	
60,000 - 74,999	524,742	35,206,465	67,093	124,019	1,022	12,260	2,452	304,091,413	8,320,808,934	NA	NA	
75,000 - 99,999	554,372	47,816,086	86,253	83,748	1,185	14,219	2,844	238,154,164	7,223,464,215	NA	NA	
100,000 - 199,999	596,606	79,249,743	132,834	44,939	1,580	18,958	3,792	170,388,721	5,969,418,898	NA	NA	
200,000 and over	230,838	168,222,927	728,749	14,454	1,580	18,958	3,792	54,801,784	10,533,035,422	NA	NA	
Total	8,064,550	464,088,545	57,547	3,894,683				6,824,085,323	91,917,464,642	2,697,115,536	693	