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## NEW YORK STATE PROPERTY TAX REFORM COALITION

[www.nyspropertytaxreform.org](http://www.nyspropertytaxreform.org) Phone (646) 522-9858 E-mail: [info@nyspropertytaxreform.org](mailto:info@nyspropertytaxreform.org)

TESTIMONY FOR:

NYS LEGISLATIVE HEARING ON "TAXES"  
2012-13 EXECUTIVE BUDGET  
ALBANY,  
HEARING ROOM B, LEGISLATIVE OFFICE BUILDING  
FEBRUARY 6, 2012

Mr. Chairman and Distinguished Members,

I speak on behalf of the New York State Property Tax Reform Coalition, a volunteer organization representing the interests of property taxpayer groups and individuals statewide who urgently seek property tax relief and reform via state legislation.

I'm here today to stress that for a lower or middle income homeowner in our state, the most burdensome tax is likely to be, more often than not, the property tax, not the state income tax. And for the hundreds of thousands whose incomes have stagnated or declined or have simply failed to keep pace with ever-rising property taxes, that burden has become unsustainable.

I will propose a solution, but first some background.

Four years ago this month, with much fanfare, the New York State Commission on Property Tax Relief commenced its Hearings with the goal of finally coming to grips with a property tax situation that had already reached crisis proportions, well before the financial meltdown.

The Commission recommended a property tax cap to control spending, to be followed by a middle class circuit breaker to provide actual tax relief, and mandate reform to reduce the costs which local governments can't control.

We said then – and continued to say – that if a property tax cap were to be enacted, the circuit breaker and mandate relief should at least accompany it – if not actually precede it. We worried that once Albany enacted a standalone, cost-free property tax cap – which it would increasingly misrepresent as property tax "relief"-- it would misportray the cap as having solved the problem for taxpayers and would drag its feet on the urgently needed circuit breaker and mandate relief.

And that of course is basically what is now happening – albeit aggravated by the fiscal crisis.

While there has at least been lip service to the need to reduce mandates, the circuit breaker – the only measure which would bring meaningful relief directly to our most overburdened taxpayers -- seems now to have all but vanished from Albany's priority list.

Let me briefly return to the Suozzi Commission.

In the wake of testimony from countless witnesses, the Commission's final report roundly criticized STAR, the state's primary relief program, noting among other things its "inefficient targeting of relief, unintended consequences of higher taxes, insufficient help for those most in need, (and) perverse school funding."

Also in response to extensive public testimony, the Commission strongly advocated a middle class circuit breaker. It recommended that STAR be restructured and that "at least \$2 Billion" of the STAR program be transitioned to an income-based "STAR Circuit Breaker". It specifically mentioned a bill sponsored by Assemblywoman Sandy Galef and Senator Betty Little as a possible model for the middle class circuit breaker.

So what has Albany done in response?

In 2009 it eliminated the STAR rebate checks, an admittedly flawed \$1.5 Billion program but which could have been at least partially reprogrammed to fulfill the Commission's circuit breaker recommendation.

It has continued to chip away at STAR each year, with total cuts in property tax relief now approaching \$2 Billion – one of the largest line item cuts in the state budget over the past three years and effectively a tax increase hurting mostly middle class New Yorkers notwithstanding STAR's flaws and limitations.

While the current Executive Budget requests no further significant cuts in STAR, neither does it reflect any sign of recognition that New York residents most overburdened by property taxes desperately need a circuit breaker and continue to be forced from their homes.

The Galef-Little and similar middle class circuit breaker bills languish in committee year after year despite having significant sponsorship.

Meanwhile, by last count, nearly 700,000 New York households with incomes under \$100,000 are paying over 10% of their income in property tax on their homes. That's nearly a third of such households. For some 243,000 of those households the tax is over 20% of income.

The property tax cap, which Albany did enact, will not meaningfully help them and may worsen matters for some.

The recent token income tax adjustment that puts \$40 in the pocket of someone with a \$50,000 income will not solve their problem.

And STAR now helps them even less than it did to start with.

Only the circuit breaker will respond to their need.

The good news is that we should still be able to launch a middle class circuit breaker without a huge influx of new revenue by going back and basically following the Commission's recommendation. That means creating a way to restructure STAR that will permit drawing on some of those resources to fund a circuit breaker but will also protect current STAR beneficiaries. Initially, to be sure, it would not be the \$2 Billion envisioned by the Commission, but it would be a start.

Briefly stated, it would give all current STAR beneficiaries the option of transferring to the circuit breaker by a certain date. Those who opt to keep STAR would be permanently grandfathered with their full STAR benefit as long as they stay in their current home. At a certain point the costly STAR program would be closed to new entrants. As STAR's costs diminish over time through attrition, with the more cost-effective circuit breaker becoming the primary relief mechanism, the state's overall costs for property tax relief would also decrease. The current fiscal austerity provides an opportune time to begin and to justify the gradual changeover.

An outline of the proposal is attached. We hope to have some budget estimates soon, but we encourage you to discuss the concept with your own budget and fiscal staffs. The concept is bi-partisan and should appeal both to those seeking more targeted, progressive property tax relief and to fiscal conservatives anxious to control spending.

What you may find of particular interest is that if the proposal could be implemented in time, THE STATE COULD CONCEIVABLY ACHIEVE SOME SIGNIFICANT SAVINGS IN THE 2012-13 BUDGET that would accrue from those who immediately opt out of STAR, while the fiscal impact of the new circuit breaker – enacted as an integral part of the option proposal -- would be delayed until the 2013-14 budget year. That is not a fiscal gimmick but a natural phenomenon arising from the simple fact that the circuit breaker benefit is normally structured as a state income tax credit.

As one final but important note, we urge that any new "Tax Reform Commission" or other "tax reform" effort carried out by the state include not just the income tax and other "state taxes" but the full range of taxes paid by New Yorkers, including in particular the local property tax. It is unreasonable for Albany to treat state taxes in isolation when its fiscal and tax policies and actions result in significant increases, directly and indirectly, in the property tax, and when it is mainly local taxes, rather than state taxes, which have led to the state's frequent #1 ranking in state and local taxes combined.

Thank you for this opportunity to testify. I'll be pleased to respond to any questions you may have.

John Whiteley  
Legislative Affairs Officer, NYS Property Tax Reform Coalition  
Home: 529 Baldwin Rd, Ticonderoga NY 12883  
Phone: (518) 585-6837; e-mail: whiteley@nycap.r.com

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(646) 522-9858

## PARTIAL RESTRUCTURING OF STAR TO FUND MIDDLE CLASS CIRCUIT BREAKER

- 1) Give all current Basic STAR and Enhanced STAR beneficiaries the opportunity to opt out of STAR as of a certain date (for example, as of June 30, 2012), and take the circuit breaker instead, with no prior residency requirement for the circuit breaker as long as the beneficiary continues to reside in the same home for which he/she now receives STAR. As of that date, beneficiaries could not take advantage of both programs.
- 2) "Grandfather" all current STAR beneficiaries who choose to keep STAR, as long as they continue to reside in their current home as their primary residence.
- 3) Eliminate STAR for owners of all property purchased or otherwise acquired on or after a certain date (for example, April 1, 2013).

**FISCAL CONSIDERATIONS:** (This is just one example of how the restructuring might theoretically work. Actual dates will have to be worked out carefully given the variety of time schedules that are used by different assessing units and school taxing jurisdictions.) Immediate transfers out of STAR and into the circuit breaker program would reduce the STAR budget for 2012-13. The circuit breaker would be enacted as an integral part of the option proposal, but its fiscal impact would be delayed until the 2013-14 budget due April 1, 2013 since the circuit breaker benefit is structured as a state income tax credit. The fiscal impact of STAR reductions from item (3) above would begin to kick in as part of the 2013-14 budget, helping to offset the first year of the fiscal impact of the circuit breaker.

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

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

**BUDGET ESTIMATES:** We are working on budget estimates for the coming year and the outyears. Over time we believe the proposal would provide significant revenue to help fund the circuit breaker and is consistent with other calls for a partial restructuring of STAR to fund a

middle class circuit breaker as originally recommended by the NYS Commission on Property Tax Relief (the Suozzi Commission).

John Whiteley, Legislative Affairs Officer, NYS Property Tax Reform Coalition,  
[www.nyspropertytaxreform.org](http://www.nyspropertytaxreform.org)

Member, Omnibus Consortium, [www.omnibustaxsolution.org](http://www.omnibustaxsolution.org)

Home: 529 Baldwin Rd, Ticonderoga NY 12883, Phone (518) 585-6837, e-mail:  
[whiteley@nycap.rr.com](mailto:whiteley@nycap.rr.com)