

# NEW YORK STATE PROPERTY TAX REFORM COALITION

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TESTIMONY FOR:

NYS LEGISLATIVE HEARING ON "LOCAL GOVERNMENT"  
2013-14 EXECUTIVE BUDGET  
ALBANY,  
HEARING ROOM B, LEGISLATIVE OFFICE BUILDING  
JANUARY 28, 2013

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. The Coalition was established in 2007. I have personally been involved in property taxpayer advocacy since 1993.

This afternoon I want to start with some important history which, while fairly recent, gets little attention nowadays and may be easily forgotten or ignored even though it is highly relevant to the challenges we face today.

Five years ago last week, with great fanfare, the New York State Commission on Property Tax Relief was launched on a year-long mission to fully explore a property tax problem that had become a crisis and to propose recommendations that could remedy the situation once and for all.

The Commission submitted its preliminary findings in June 2008 and its final report in December 2008, after some 14 hearings across the state.

Most remember its flagship recommendation – a cap on the property tax levy. Fewer may recall that the Commission made “two other key recommendations” – a middle class circuit breaker and mandate relief.

Our Coalition disagreed at the time with the Commission’s proviso that the cap had to be in place first. We still feel that the circuit breaker – urgently needed for long time residents paying unsustainably high portions of their income in property tax – should logically come first, and that mandate relief to reduce state-driven costs should logically precede the local cap. At the least, they should have been implemented together as a comprehensive package.

In any event, the cap is in place, as local governments are only too well aware.

And they’re well aware of the state’s failure to deal meaningfully with many of the mandate problems and their impact, as I’m sure you’ve been hearing today. We’re sympathetic to their concerns, and I’ll leave it at that.

As a taxpayer advocate, what I need to point out is that the property tax levy cap by itself – as we predicted – has not “solved” the property tax problem. While the levy cap is nominally 2%, the allowable limit is often higher, and there is no limit whatever on one’s actual tax bill, which through reapportionments, revaluations and other vagaries of this archaic system can easily reflect double digit increases.

Meanwhile, hundreds of thousands of lower and middle income New Yorkers already pay double digit percentages of their income in property tax.

Only the circuit breaker can alleviate this situation, as the 2008 Commission recognized. by including it as a key part of the package -- albeit it should not have had to wait for the cap.

A circuit breaker provides a state income tax credit for those paying excessive amounts of their income in property tax. Here is why it plays such a uniquely important role in helping moderate income residents keep their homes.

We tend to think of property tax relief as something needed by “a town” or “a school district” based on its purported “wealth” (or lack of it) and the “average property tax burden” it purportedly creates.

One problem here is that the formulas used to measure “wealth”, (such as the Combined Wealth Ratio for schools), can be an inadequate and inequitable indicator of a community’s ability to pay. An increase in property values, for example, unless it comes from actual new construction, does not necessarily translate into greater taxpaying capacity.

Moreover, communities do not pay taxes. They **collect** them. Taxes are paid by individual taxpayers. Every town, including even those who might properly be deemed “wealthy”, has taxpayers who cannot afford higher taxes. Such taxpayers in “wealthy” towns may be just as overburdened as the rest of the overburdened around the state, as measured by their tax bill and the income available to pay it, and in some cases they face an even higher burden since the government of such a town may be more inclined to override the levy cap.

The targeted circuit breaker will help these residents – often on fixed or stagnant incomes – stay in their homes.

The 2008 Commission report, in the wake of testimony from countless witnesses, roundly criticized STAR, the state’s primary school tax 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.”

The Commission recommended that STAR be restructured and that “at least \$2 Billion” of the STAR program be transitioned to fund the recommended income-based “STAR Circuit Breaker”. (And the circuit breaker would apply to all ad valorem taxes, not just school taxes.)

Unfortunately the legislature has responded by cutting nearly \$2 Billion from STAR since

the Commission's report without reprogramming **any** of it to a circuit breaker.

Perversely, the need for a meaningful middle class circuit breaker is even greater today than it was in 2008 due to the same fiscal crisis that has impeded enactment of the several bi-partisan bills that have been introduced.

We'll need and continue to seek new revenues wherever they can be identified, including, for example, by closing corporate tax loopholes, but we also believe the 2008 Commission had it right when it proposed to restructure the flawed, expensive STAR program to provide funding for a middle class circuit breaker. The \$2 Billion the Commission proposed is now obviously out of reach for now, but we have developed a proposal which could help get a middle income circuit breaker launched while preserving STAR for those current beneficiaries who would opt for STAR instead of transferring to a circuit breaker. A gradual phase-out of STAR in favor of the more cost-effective circuit breaker would ultimately lead to a savings for the state.

Our proposal is attached.

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

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Att -

STAR Restructuring Proposal

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

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

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

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

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

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

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