

NYS PROPERTY TAX REFORM COALITION

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TESTIMONY FOR: JOINT LEGISLATIVE HEARING
ON 2013-14 EXECUTIVE BUDGET - "TAXES"
ALBANY, L.O.B. HEARING ROOM B
FEBRUARY 12, 2013

Mr. Chairman and Distinguished Members,

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

Last year I spoke about the nearly 700,000 residents with household incomes under \$100,000 who pay at least 10% of their income in property tax on their homes – an unsustainable burden which puts these families among those most at risk of being forced out. Updated data shows that the figure now **exceeds** 700,000. For 250,000 of these families, the tax consumes over 20% of their income. The tax levy cap is of questionable value to those already so close to the edge, and the conceptually flawed STAR formula ignores the reality that the only fair measure of property tax burden is each individual household's tax bill in relation to the income available to pay it.

Only the circuit breaker deals with that reality, and the state's continued failure to reprogram to a circuit breaker **any** of the nearly \$2 Billion it has cut from STAR in recent years is shameful, in our view, especially when such reprogramming was specifically recommended by the state's own Commission on Property Tax Relief in 2008, and when, perversely, the urgency of a middle class circuit breaker continues to increase due to the same recession which has held up the several good circuit breaker bills that address the problem. I'll return to that at the end.

We view the circuit breaker as meaningful property tax relief for those most overburdened who can't wait for the considerable time it will take to enact and implement what has always been our long range goal – fundamental reform of the school funding system to reduce its unreasonable dependence on the inherently inequitable property tax. But since last year the financial plight of many of our schools, due in large part to the state's self-imposed spending cap, has worsened to a point which demands our equally urgent attention. Many of us believe that the property tax cap, as it turns out, has provided leverage for angry parents, frustrated educators, and ordinary taxpayers like ourselves, working together, to rightfully insist that Albany finally bite the bullet and begin to fulfill its constitutional responsibility to "provide for the maintenance and support of a system of free common schools, wherein all the children of the state may be educated."

We hear the chorus of discontent growing louder. We hear rumblings that the practice so long entrenched, whereby the state imposes much of the cost of its laws and regulations upon

local districts while itself contributing only what it determines to be fiscally or otherwise convenient in any given year, may itself not pass constitutional muster.

Few of us are constitutional scholars or even lawyers. But the events of the past couple of years have led more and more of us to question the logic of continued dependence on an antiquated tax system whose relationship to modern economic and demographic realities grows ever more tenuous.

More and more of us now ask why it is that the state can treat its fiscal situation in isolation and close its budget shortfalls “with no new taxes” while local property taxes continue to escalate, due in large part, directly or indirectly, to state tax and fiscal policies (the \$2 Billion STAR reduction being just one blatant example).

We welcome with enthusiasm the Governor’s proposed Tax Reform and Fairness Commission in the hope and belief that he will recognize the need to include ALL taxes levied in New York, including in particular the property tax, if such a forum is to be truly meaningful. We look forward to working with him and with any and all legislators who may be involved.

Since this is a budget hearing, our main point is that we think the time is coming, perhaps sooner than any of us might have expected, when New Yorkers will insist that Albany significantly increase its share of the responsibility for funding schools in particular, but also give more aid to counties and municipalities.. Gradually centralizing most core school funding would not only provide fundamental tax reform, it would eventually help control overall costs while preserving and enhancing education quality.

The state must figure out now, even in this still austere environment, where the revenue is to come from in future years to meet that demand. Some of the ideas are out there – e.g., close corporate or other tax loopholes, allow casinos, encourage a federal stock transfer tax to fund education. There have to be others. We can’t just cut our way to prosperity.

And yes, some of that revenue is needed now to fund a circuit breaker to save the homes of those who can’t wait for the funding reform. I will also repeat the suggestion we made last year to follow the NYS Property Tax Relief Commission’s recommendation to fund a middle class circuit breaker by restructuring a portion of STAR. That can still be done (albeit more limited now), and in a way that preserves STAR for all current beneficiaries who wish to keep STAR (instead of transferring to a circuit breaker) and remain in their current home. Our updated proposal is attached. It won’t fully fund the circuit breaker, but it would help. And long term it would save the state money. But if it’s not politically acceptable, as some seem to believe, we’ll need that much more from new revenues.

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

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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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