Short Term Property Tax Relief and Long Term Tax Reform: An Omnibus Approach

By the way New York State divides responsibility between itself and its local governments for the funding of important public services, it places too much pressure on the property tax. NYS should be relying less on the property tax and more on statewide taxes based on realistic measures of the "ability to pay." But by sometimes cutting and sometimes freezing state aid to local governments and school districts, NYS has been increasing its reliance on the property tax. The latest "solution" to this problem is to cap local property taxes thus putting local elected officials in the position of having to cut funding for important local services and/or increase property taxes above the cap.

NYS should begin NOW to implement funding formulas that will gradually, but steadily and significantly, reduce the state's dependence on the property tax. This will reduce but not eliminate another problem with the property tax – that there are households who, through no fault of their own, are being called on to pay inordinate shares of their income in property taxes either directly or through their rent. To provide meaningful relief, in a timely fashion, to those households that are truly overburdened by property taxes, NYS must also begin NOW to implement a middle class circuit breaker. The result is the two-pronged omnibus approach:

- Short term (i.e., immediate) property tax relief through a well-designed middle class circuit breaker; and,
- Long term tax reform that reduces the pressure on the property tax by increasing the portion of the cost of essential public services that is financed by state taxes that are realistically related to the "ability to pay."

An effective plan for long term tax reform should also provide for the creation of a tax reform study commission, with members to be appointed by the Governor and all four parties in the Legislature, and the establishment of a statutory requirement for both a periodic study of the incidence (i.e., the distributional impact) of the overall state-local tax system and analyses of the distributional impact of proposed tax legislation.

Property tax relief: The immediate need for a middle class circuit breaker

The short term relief portion of this proposal builds upon the significant work on the development and refinement of a middle class circuit breaker has been done by Assemblywoman Sandra Galef and Senator Elizabeth Little. A circuit breaker would provide households with a refundable credit for a substantial portion (70% in the Galef-Little bills and the omnibus proposal) of the amount by which the property taxes on the household's primary residence exceeds a specified percentage of its income

The original 2008 version of the omnibus proposal and the early versions of the Galef/Little bill proposed eliminating the rebate check portion of the STAR program and using the resources involved to finance an effective middle class circuit breaker. But, in 2009, Governor Paterson succeeding in getting the Legislature to eliminate the STAR rebates checks as part of his overall plan for balancing the state's budget While the rebate checks represented a flawed and untargeted approach to property tax relief, their elimination means that the Governor and the Legislature must now find an alternative means of financing the implementation of a meaningful circuit breaker.

The omnibus proposal would limit the cost of the proposed middle class circuit breaker by adopting the Galef/Little bill's proposed 5-year residency requirement. The costs would also be phased in by gradually increasing the program's income limits and by phasing in coverage for renters during the second and third years of the phase-in. The multi-year "phase in" approach is designed to be sensitive to the state's fiscal situation while recognizing that the homeowners most overburdened by property taxes need help immediately.

Long term tax reform: A continuing priority

New York State should significantly decrease the pressure placed on the local property tax base (municipal, school and county) by gradually shifting $10 billion of costs from the local level to the state level. This shift from the local level to the state would represent a shift from the regressive local tax base to more progressive state taxes based on ability to pay. This shift would cover $6 billion in school costs, $1 billion in local Medicaid costs and $3 billion in the cost of basic municipal services.

Such a "mixed" or "balanced" approach ensures much fairer treatment of taxpayers throughout the state than an approach that involves the complete takeover of local Medicaid costs and lesser reductions in the local shares of school costs and basic municipal services or an approach that would use all of the available resources to take over 100% of school districts' costs of a sound, basic education.

At its meetings and in its reports, the Suozzi Commission constantly repeated that school property taxes account for 62 percent of all local property taxes in New York State. This was true only if the STAR reimbursements provided to school districts were counted as taxes paid by property owners. Statewide, if STAR were counted as what it is (i.e., state aid), the school taxes paid by property owners made up 56 percent of local property taxes statewide—but that figure varied tremendously. It was 37 percent in Allegheny County, 37 percent in Fulton, and 39 percent in Cortland and Cattaraugus counties, but 71 percent in Saratoga and Putnam counties. Why the bigger differences? Because some counties have much greater concentrations of needy individuals relative to their tax bases than do other more prosperous counties. And that ends up making the local share of the costs of programs such as Medicaid a much greater lien on some counties' tax bases than on others. Similarly, some counties have one or more older cities and/or villages with responsibilities for substantial amounts of basic municipal services. So, in addition to shifting $6 billion of school costs from the local school property tax base to the state tax base, something similar should be done in regard to revenue sharing with the state's general purpose local governments, and in regard to the division of responsibility for the non-federal share of Medicaid costs.

For general-purpose local governments, the primary pressure that the state has placed on the property tax base involves the failure of the state to stick to its traditional commitment to share 8 percent of its tax revenue annually with its local governments. In the 1980s, when Hugh Carey was governor, NYS had its first freeze on revenue sharing in order to allow one of the state's earliest multi-year income tax cuts to be phased in as scheduled despite the recession that the nation was then experiencing. During the budget problems of the early 1990s, no major state program was cut more than revenue sharing—from over $1 billion a year to less than $500 million. The omnibus proposal calls for the state government to phase in a $3 billion increase in revenue sharing over the next ten years.

In regard to Medicaid, the state should honor its commitment to picking up increases in the local share in excess of 3 percent per year. But in addition to this, the omnibus proposal would gradually increase the state share of Medicaid costs in a way that bases each county's share of Medicaid costs on objective measures of each county's relative "ability to pay" and, in the course of doing so, shifts an additional $1 billion in costs (over and above whatever may be the costs of the 3% cap) from the local property tax base to the state tax base. This reform would reduce the burden on those Upstate counties that have large numbers of needy families relative to their local tax bases.

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