



NEW YORK STATE COUNCIL OF SCHOOL SUPERINTENDENTS

Testimony:

School Tax Relief (STAR) Rebate Program

Assembly Committee on Real Property Taxation

December 12, 2006

Chairwoman Galef and other members of the Assembly Committee on Real Property Taxation:

I am Robert Lowry, Deputy Director of the New York State Council of School Superintendents. Thank you for this opportunity to speak on behalf of New York's over 700 school superintendents and other chief school officers on the issue of school property tax relief. Our members share with you the responsibility to balance what schoolchildren need with what taxpayers can afford.

Attached to my testimony is a report we issued in September – our version of *An Education Speech for the Next Governor*. It is organized around three imperatives that school leaders and state policymakers must work together to meet:

- First, raising standards and achievement for all students – the economic imperative;
- Second, closing achievement gaps between poor children and their more fortunate peers – the moral imperative; and
- Third, giving taxpayers the best value we can for every dollar they choose to invest in their schools – the practical imperative.

That third imperative is pertinent to your topic today and it bears critically upon our prospects for success on the other two. We know we will not sustain public support for our work of improving outcomes for all children unless we assure that the cost of operating the schools is manageable and fairly shared.

Of course, it is also true that raising achievement and closing gaps are crucial to the state's long-term prosperity. Progress on those objectives must not be sacrificed in the quest to lessen property tax burdens. We must honor both sets of obligations.

One focus of today's hearing is the implementation of the STAR rebate program enacted with the current state budget. School districts had essentially no formal role in carrying out the program, so I will focus my remarks on broader issues of school property tax relief.

In our report we argue for a three-part strategy for relieving the burden of school property taxes.

Three Imperatives for Schools and State Leaders:

Economic: Continue to raise standards and achievement for all students.

Moral: Close achievement gaps between poor children and their more fortunate peers.

Practical: Give taxpayers the best value possible for every dollar they invest in their schools.

First, the state has a duty to enact school finance reform in response to the Campaign for Fiscal Equity decisions. Additional state-funded property tax relief should be considered as a complement to that required effort. Approaching these two exercises as parts of a whole would enable the state to be more efficient and strategic in its budgeting decisions.

Some communities now provide their children with the chance for a sound basic education but must strain to do so. They should be permitted to use some increased school aid to lessen that burden on their local taxpayers. The state should then target additional property tax relief to help communities and taxpayers who face the greatest burdens remaining even after reforms to school aid.

Second, we argue against the expansion of STAR as the vehicle for delivering that additional targeted tax relief. STAR is undeniably popular; we do not propose abandoning the program and we have not engaged our leaders in any discussions on whether or how the program might be improved. But other strategies are available that can provide more help to the taxpayers who need the most help and at less cost to the state. So we recommend consideration of a stronger circuit-breaker in the state personal income tax and a tax deferral program for targeted seniors.

Third, the state can help reduce the burden of property taxes by reducing the costs that schools must bear.

Now I would like to spend a few minutes speaking more generally about school taxes, school spending, and STAR with an aim toward explaining why we recommend what we recommend.

Figure 1 in my testimony attempts to give a picture of the role of local revenues in paying for schools across different types of communities. Property “tax fatigue” has been cited as a driving force beyond school budget defeats in some of the state’s more prosperous regions. It must be addressed. But poorer communities also have challenges with property taxes.

For example, Figure 1 shows that with similar tax rates, high need rural districts are able to raise less than half the local revenue of average need districts. Put another way, if the high need rural districts doubled their tax rates – to over \$40 per \$1,000 of full value – they would still generate less local revenue than average need districts. The Big 4 cities (Buffalo, Rochester, Syracuse, and Yonkers) have a lower average tax rate but doubling their effort would still leave them with local revenues well below the state average.

Figure 1: Estimated School Tax Rates and Revenue Yield per Pupil

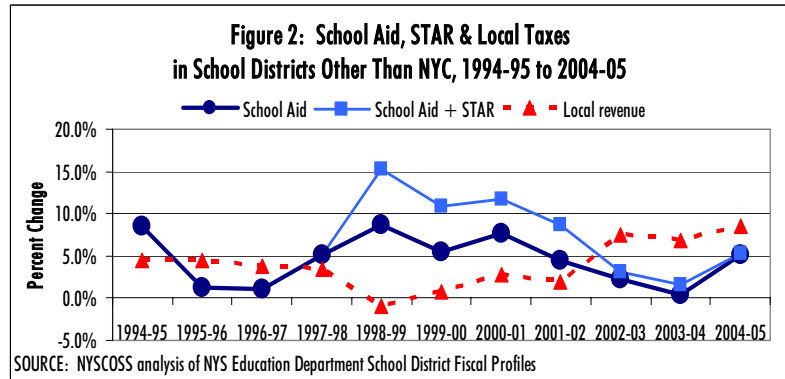
Need/Resource Category	Estimated Tax Rate (per \$1,000 of Full Value)*	Local Revenue per Enrolled Pupil**
High Need Districts		
New York City	16.56	6,859
Big 4 Cities	16.45	3,613
Small Cities & Suburbs	22.39	6,600
Rural Districts	20.25	4,374
Average Need	20.71	8,863
Low Need	15.65	15,522
Total State	17.83	8,394

*2005-06 Total local revenue/2003 full value
**2005-06 total local revenue/2005-06 public school enrollment

SOURCE: NYSCOSS Analysis of NYS Education Department 2006-07 state aid data

These facts are one of the reasons why we continue to advocate comprehensive, statewide school aid reform with the aims of assuring that all schools can deliver the state constitution’s promise of a sound basic education and that all communities can endow their schools with that opportunity without overburdening their local taxpayers.

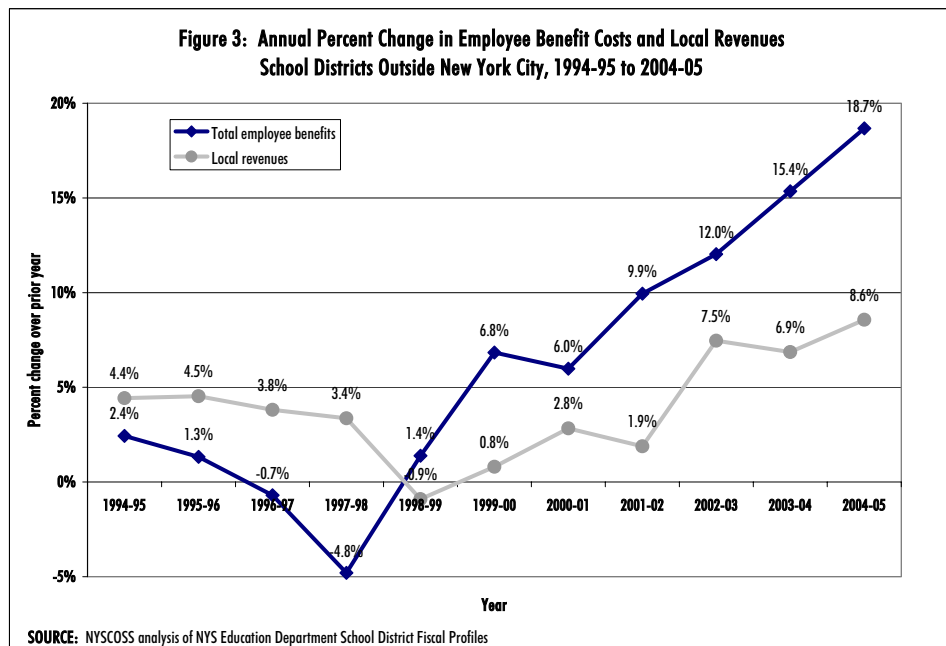
Figure 2 presents a long-term look at the interplay between state support and local revenues. Unsurprisingly, when state aid is strongest, local tax increases are lowest. For example, local school taxes were essentially flat during the initial years of the phase-in of STAR – 1998-99 and 1999-2000, a period when there were also strong increases in school aid.



Conversely, we saw larger local tax increases in 2002-03 and 2003-04, when state aid increases were lower.

Figure 2 also shows local tax increases running at higher levels in the most recent years, even in 2004-05, a year when state school aid increased by 5.2 percent. Figure 2 is based on the State Education Department’s school district fiscal profiles which are only available through 2004-05. Other data sources indicate that increases in local school taxes outside New York City rose by 6.4 percent last year and by 6.1 percent this year. The moderated increase this year is undoubtedly due to the record school aid increase you enacted as part of an on-time budget. Your actions do make a difference.

But why have school tax increases continued at higher than historical levels even with more favorable state aid increases in recent years? Because schools have struggled with the same cost pressures as every other enterprise in America: pensions, health insurance and energy. Figure 3 shows that annual percent changes in local school taxes and employee fringe benefits have followed similar trajectories of decreases and increases over the past decade.



Part of the surge in fringe benefit costs occurred as employer contribution rates for the State and Local Employees Retirement System (ERS) and Teachers Retirement System (TRS) rebounded from unsustainably low levels achieved through the 1990s stock market boom. Their impact on school costs have moderated in the last couple years – ERS contribution rates have fallen and TRS rates are en route to stabilizing, barring a stock market crash or significant benefit enrichment. But health insurance costs continue to spiral up. The Division of the Budget predicts health insurance costs for the state workforce will rise by over 21 percent over the next two years, for example.

The question of what, if anything, should be done about these costs will fall to other committees. But for now, we would offer the principle that any course of action must weigh the challenge of getting and keeping the best teachers and leaders, as well as restraining costs.

Why do we argue against expanding STAR as the vehicle for further property tax relief?

First, because the basic STAR enhancement is not targeted. Every homeowner receives a partial exemption from school property taxes, even millionaires living in mansions. This makes STAR an expensive if popular program.

It is also our sense that there is little analysis of the impact of STAR on the state’s overall school finance system. As Figure 4 illustrates, in many years, increases in STAR funding have approached or even exceeded those made in school aid. Yet while the size and distribution of school aid increases provoke intense scrutiny and debate every year, those of STAR seem to be accepted like the weather – something that just happens.

Figure 5 contrasts the distribution of school aid and STAR across school districts of varying need. Figure 6 contrasts STAR funding per pupil and estimated local tax rate for districts grouped by property wealth per pupil. Figure 6 shows that residents of the poorest 20 percent of districts receive less than 50 percent of the STAR funding per pupil of the wealthiest group despite paying effective tax rates that average 50 percent higher.

Figure 4: Annual Change in School Aid and STAR All Districts, 1999-2000 to 2006-07 Dollars in Millions

Year	School Aid	STAR
1999-00	922	683
2000-01	1,094	723
2001-02	680	536
2002-03	411	54
2003-04	(1)	80
2004-05	147	164
2005-06	848	222
2006-07	1,269	1,066

SOURCE: NYS Division of the Budget, *Description of New York State School Aid Programs* (Annual)

Figure 5: 2005-06 Shares -- School Aid vs. STAR

Need/Resource Category	2005-06 School Aid	2005-06 STAR
High Need Districts		
New York City	38.3%	26.7%
Big 4 Cities	6.6%	2.5%
Small Cities & Suburbs	10.3%	8.1%
Rural Districts	9.7%	5.4%
All High Need	64.9%	42.7%
Average Need	28.9%	37.4%
Low Need	6.2%	19.9%

SOURCE: NYSCOSS analysis of NYS Education Department school aid data

Figure 6: 2005-06 STAR Per Pupil & Local Tax Rates Districts Grouped by Property Wealth per Pupil New York City Excluded

School District Wealth Group	2005-05 STAR per pupil	Estimated Tax Rate
Poorest 20%	835	21.795
Next poorest 20%	1,162	23.600
Middle 20%	1,227	23.373
Next wealthiest 20%	1,500	20.173
Wealthiest 20%	1,724	14.442

SOURCE: NYSCOSS analysis of NYS Education Department school aid data

We also note there is a circular relationship between school aid and STAR: low school aid translates into higher property taxes which lead, in turn, to higher STAR spending.

Again, STAR has proven to be a popular program and our leaders have not endorsed any proposals for changes. But by essentially guaranteeing all current STAR beneficiaries a tax

credit equal to about 30 percent of their regular STAR benefit, the new credit compounds the weaknesses of the current program. The Division of the Budget estimates that the combined cost of STAR and the STAR income tax credit will climb by over \$1 billion over the next four years.

What are some alternatives to the STAR credit worth considering?

There have been proposals to cap school spending or taxes. We see these proposals as attempts to force on schools choices that policymakers seem unwilling to make themselves. Absent actions to help schools reduce costs that are beyond their unilateral control, proposals for caps are just cynical gestures. Worse, tax caps are genuinely dangerous. In the aftermath of the late 1970s "Proposition 13" caps, California's schools went from "first to worst" in the nation in the summing-up of one analysis.

There have also been proposals to allow communities the option of a local income tax to raise funds for schools. Here I can speak from personal experience. I was involved in the development of Governor Cuomo's 1993 proposal for a school district local option income tax surcharge. Candidly, the more I explained it, the more unworkable it seemed.

The income tax is an unstable revenue source, a fact related to its fairness – taxes owed do go down if a taxpayer loses a job or retires. But the state, with all the expertise of the Division of the Budget, the Tax Department, and the legislative fiscal committees, has great difficulty projecting income tax receipts. Forecasting for a base as small as a typical school district would be even more hazardous, both for accuracy and for consequences.

The property tax could be made fairer by improving how it is administered; so we support the proposal for a commission to recommend how that can be done. Even then, the income tax would still remain a fairer way to pay for services. But that revenue needs to be collected by the state and distributed either through school aid or state-funded property tax relief, or some combination of the two.

Governor-elect Spitzer has proposed a more targeted expansion of STAR. Eligibility for a 30 percent enhancement of the basic STAR exemption would be denied to taxpayers with incomes above \$235,000. It would also provide up to an 80 percent increase in STAR relief for "middle class" taxpayers – those with incomes up to the state median (adjusted for regional cost differences) and tapering down to the 30 percent enhancement for taxpayers with incomes at about twice the median.

With its targeted structure, this proposal is better than an across-the-board STAR enhancement of comparable cost. But a circuit-breaker credit in the personal income tax could be even more efficient at getting the most relief to the most stressed taxpayers, by tying the size of the credit to the percentage of income used to pay property taxes.

Additional relief for seniors could be provided through a tax deferral program. Targeted seniors would have their property tax liability capped, with the state covering the difference between the cap and the true tax bill. The state could recover the sums it has paid when the home is sold or transferred. Nearly half the states have local option tax deferral programs for seniors.

To conclude, however, we must stress the role of traditional school aid in moderating property tax burdens.

The state finally has a clear order from the Court of Appeals to resolve the Campaign for Fiscal Equity litigation and all state leaders have proclaimed the need for statewide school aid reform. A goal of that reform should be to make the state a more reliable partner in helping to pay for schools – by assuring all districts the resources to provide a sound basic education, by reducing local burdens where they are excessive, and by making aid more predictable through formula simplification and multi-year budgeting.

It is also worth noting that, unlike STAR, school aid offers at least the potential of some property tax relief for businesses and renters who also pay property taxes.

Thank you for listening, for your interest in developing a fair and sustainable basis for local school funding, and for your support of school funding this year and every year.