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What's STAR got to do with it?

New York State spends billions trying to hold down school taxes–but they grow faster every year anyway. Could it be time for a new approach?

Ask citizens, businesses, economists, policy analysts, economic developers and even elected officials what New York's biggest problem is, and the answer from all of them will almost certainly be: **property taxes.**

New York's local property taxes hit $37 billion in 2005 (the most recent year for which the state Comptroller's office has published complete data). Outside New York City, which levies a local income tax, property taxes averaged $2,303 per capita. That's higher than any other state, and more than **double** the national average. A four-bedroom home listed in East Greenbush this month carries property taxes of $9,429; a similar one in Port Jefferson pays $15,672 a year. The burden is growing—and growing *faster*. The Comptroller's office says property taxes increased an average of 3 percent a year from 1995 to 2000, then an average of 7.1 percent a year from 2000 to 2005—more than double the rate of inflation.

> ***Property taxes are New York's largest single competitive disadvantage. But Albany has yet to find the cure.***

The problem has been obvious for years. But the solutions have proven elusive. Officials at state and local levels have engaged for decades in a circular process of trying to pass the blame and the costs on to each other. State officials call on localities to reduce costs—but then pile on mandates that drive up local costs. Local governments demand more money from Albany—but then write generous contract settlements with their unions, and balk at the idea of sharing services with neighboring governments to cut costs.

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Property taxes in New York are double the national average, and Albany can't seem to fix the problem. Maybe it's trying the wrong solution.

- **The state is projected to spend $5 billion this year on the STAR program, which is supposed to provide relief from school property taxes.**
- **But STAR only seems to have let school districts increase their taxes faster.**
- **And business — which pays 30% of school property taxes — gets no benefit from STAR.**
- **One alternative might be to cap both STAR, and local property taxes. STAR could be capped at its 2006-07 level, for example, and local property taxes capped at 2.5%—about the rate of inflation. The property tax cap would offset the impact of the STAR cap.**
- **But the key is to adopt mandate relief, and downsizing reforms, that will enable local governments to get by on less.**

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Under cover of STAR, school district property tax levies rose four times as fast between 2002 and 2007 as they did in the previous five years.

Table 1

10-year growth in school property taxes — 1995 vs. 2005

New York State outside New York City

Type of property	Total tax levy, 2005	Total tax levy, 1995	$ change in 10 years	% change in 10 years	Sector's share of 2005 tax burden
All property	$16,009,227	$9,078,410	+ $6,930,817	+ 76%	
		Inflation during this period		*+ 24%*	
Residential	11,341,851	5,902,457	+ 5,439,393	+ 92%	70.8%
Agricultural	115,731	98,404	+ 17,327	+ 18%	0.7%
Vacant	326,597	233,672	+ 92,924	+ 40%	2.0%
Commercial	2,690,837	1,618,226	+ 1,072,611	+ 66%	16.8%
Recreational	123,028	80,510	+ 42,518	+ 52%	0.8%
Industrial	322,910	287,266	+ 35,644	+ 12%	2.0%
Utilities	905,299	813,844	+ 91,454	+ 11%	5.7%
Forested	99,100	57,966	+ 41,133	+ 71%	0.6%
Business (all non-residential)	$4,667,377	$3,175,953	+ $1,491,423	+ 47%	29.2%

Dollar figures in 1,000s. Levies are before any STAR payments or "rebates."
Source: Office of Real Property Services; analysis by the Public Policy Institute.

The STAR backfire

In 1998, Governor George Pataki proposed, and the Legislature adopted, an attempt to break this cycle. Under a program known as STAR (for School Tax Assessment Relief), the state began pouring billions into a fund that was supposed to deliver relief by directly offsetting local school taxes.

But STAR appears to have backfired—in two ways:

- First, the relief it gave to taxpayers provided cover for a sharp increase in the rate of spending growth (and tax levies) by school districts. Between 1998 and 2005 (the latest year for which detailed figures are available),* school tax levies outside New York City rose 54 percent. Even after STAR payments were deducted, the school property tax burden rose about 24 percent (one-and-a-half times inflation during that period).

  Total tax levies for schools outside New York City rose by 3.72 percent in 1999, 4.01 percent in 2000, 5.83 percent in 2001, 7.6 percent in 2002, 7.74 percent in 2003, 7.78 percent in 2004 and 8.05 percent in 2005. In other words, they rose just a bit faster *every single year.*

* http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm—Office of the State Comptroller. That report focuses on school property taxes outside New York City, because the city relies heavily on its local income tax to help fund schools.

Table 2

10-year changes in property values and school tax rates
New York State outside New York City

Type of property	Full value, 2005	Full value, 1995	% change in value, 1995-2005	Effective tax rate, 1995	Effective tax rate, 2005
All property	$1,052,227	$552,625	+ 90%	1.64%	1.52%
Residential	794,418	378,454	+ 110%	1.56%	1.43%
Agricultural	7,020	6,567	+ 7%	1.50%	1.65%
Vacant	24,113	15,199	+ 59%	1.54%	1.35%
Commercial	141,220	84,499	+ 67%	1.92%	1.91%
Recreational	7,341	4,380	+ 68%	1.84%	1.68%
Industrial	16,294	14,763	+ 10%	1.95%	1.98%
Utilities	49,613	41,561	+ 19%	1.96%	1.82%
Forested	7,117	4,659	+ 53%	1.24%	1.39%
Business (all non-residential)	$257,805	$174,171	+ 48%	1.82%	1.81%

Dollar figures in millions. Source: Office of Real Property Services.

Figures from the state Comptroller's office show that under cover of STAR, school district property tax levies rose four times as fast between 2002 and 2007 as they did in the previous five years. School property taxes consistently rose faster than overall county, city or town property taxes.

- And business, meanwhile, is not eligible for STAR rebates. So business property owners have faced the full brunt of these tax increases, even as the homeowners who vote on school budgets were partially insulated from them by the STAR payments.

Business overall (all non-residential property taxpayers combined) is paying about 30 percent of all school property taxes outside New York City, as illustrated in Table 1.

The business share would be much larger were it not for the fact that, as displayed in Table 2, total business property value has been growing less than half as fast as residential values—a reflection of the state's weak business climate. Many industrial and other business properties have closed and gone off the rolls altogether.

But local assessment and taxing policies have ensured that the effective tax rate on residential property value has declined a bit, while the effective rate on business property has held steady. The net result of this maneuvering is that **as of 2005, business was paying $986 million more in school property taxes than it would have, if it had been taxed at the same effective rate as residential property.**

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Time for a new approach to property tax relief?

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But while STAR has had little discernible effect on property taxes, it has had an enormous impact on the *state's* spending and taxes. Starting with $600 million in Fiscal Year 1998-99, STAR soared to $3.99 billion in FY '06-07, and $4.7 billion in the current fiscal year. Governor Spitzer has proposed $5 billion for FY '08-09 (and that's actually a cut of some $300 million from base formula growth). At this rate of growth, STAR will pass $12 billion in another 10 years.

An alternative: Cut local costs and cap property taxes

Perhaps the state should consider taking a breather on the growth of STAR, and pursue more effective means of holding down local property taxes. Freezing STAR at its 2006-07 level of $4 billion, for example, could save the state $1 billion in FY '08-09 and eliminate all consideration of tax increases in the new budget. Two key steps would hold property taxpayers harmless from the change:

1. Roll back costly state mandates on local governments—and then help them consolidate, share services, downsize and realign their workforces to save taxpayer dollars.

   Eliminating the Wicks law on construction projects, reforming the Triborough provision, updating public pension plans and relieving municipalities from liability lawsuits would almost certainly save over $1 billion from the $160 billion that localities are on track to spend this year.

   Consolidations, shared services and workforce flexibility that enable localities to downsize could save billions more over time. Local governments in New York State have some 187,000 more employees than they would have, if they matched the national average ratio of employees to population. That, alone, costs at least $8 billion extra a year.

2. And adopt a statewide cap on the growth of property taxes, to ensure that these cost savings actually come back to the taxpayers. A cap that allowed property-tax growth of 2.5 percent this year, for example, would reduce the hit on taxpayers by about $1.4 billion (assuming taxes will otherwise rise 7.1 percent, in keeping with recent trends). That cap—at, or close to, the projected rate of inflation—would more than offset the impact on the taxpayers of freezing the STAR program.

The tools to design an approach like this are already at hand. Governor Spitzer has one commission at work on consolidation and shared services for localities, and another one studying mandates and property-tax caps. If those commissions were given a concrete goal—for example, to find $1 billion in savings this year, growing to $2 billion in two years—New York State could freeze STAR, cap taxes, and deliver real relief to residential and business property taxpayers.

The Business Council

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