Citizens Budget Commission
One Penn Plaza
Suite 640
New York, NY 10119

T 212.279.2605
F 212.868.4745
www.cbcny.org

Elizabeth Lynam, Citizens Budget Commission
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Good afternoon. I am Elizabeth Lynam, Deputy Research Director at the Citizens Budget Commission. Thank you for the opportunity to testify today. As you know, the Citizens Budget Commission is a nonprofit, nonpartisan watchdog group dedicated to influencing constructive change in the finances and services of the New York City and State governments. I will discuss the current problems in New York's local tax system and outline options to address these problems.

Taxes in New York are high and local taxes are the problem.

- New York residents bear the second highest state and local tax burden in the nation, collecting $150 in state and local taxes for every $1,000 of personal income – 33 percent more than the national average and 26 percent more than all other large and neighboring states that compete with New York.
- State policy successfully brought state taxes in line with national averages; however, New York's local tax burden is number one in the nation by far. The local tax burden in New York City is more than double the national average and the local burden outside the City is 58 percent above average. Outside New York City, the local tax burden is 32 percent higher than the second highest state.

New York's tax burden is not only high, it is also inequitable.

- Despite high levels of state education aid, students in property-wealthy districts enjoy significantly more resources than students in property-poor districts. In the wealthy district of Scarsdale, the local school tax effort is below $8 for every $1,000 of income and property wealth – 35 percent below the state average – yet per pupil spending in the district is 43 percent higher than the state average. In contrast, in Rochester, the local school tax effort is twice that of Scarsdale, yet Rochester spends 29 percent less per pupil than the Westchester suburb.
- In the past decade, property values in the suburbs of New York City grew five times faster than in the upstate counties, increasing the local tax base downstate and enabling lower downstate tax efforts.

Unfortunately, the State's $5 billion local tax relief program, School Tax Relief (STAR), has not successfully reduced the local tax burden nor advanced equity in the distribution of local taxes.

- As STAR was phased in, school districts significantly increased spending. A recent study indicates that growth in school spending negates the savings from STAR by one-third on average. Furthermore, the property tax levy statewide from fiscal year 1995 to 2000 grew 8 percent, yet expanded 48 percent over the next five years, as STAR was fully implemented in 2002.

- STAR's inducement to increase spending not only negates the intended tax relief, but also increases the tax burden for commercial property owners, who receive no benefit from STAR. As a result, the program in effect created a class system for property, with commercial owners paying higher tax rates. Since the property tax is the single largest tax on business in New York, increasing commercial property taxes detracts from the state's competitiveness. In addition, commercial and large residential property owners may pass along the increased taxes to their tenants in the form of increased rents. Outside of New York City, renters receive no tax relief from STAR.

In addition to being ineffective in decreasing local taxes, STAR is not targeted to residents with the highest tax efforts.

- STAR's exemption inflator for property-wealthy counties – and exclusion of renters and commercial property – ensures that more aid arrives where it is least needed. In fiscal year 2005, Westchester County received 3 percent of state education aid yet 10 percent of STAR aid. In fact in 2005, the eight wealthy counties immediately outside New York City received 22 percent of state education aid but 41 of STAR aid.
- STAR aid has no rational relationship to the number of pupils or needs in a school district. On average, STAR increased state aid to school districts 20 percent. However, in Buffalo, Rochester, and Syracuse, STAR increased state aid only 4 percent. If STAR were allocated as school aid, Rochester, Syracuse and Buffalo combined would receive $136 million more aid from the state.

The recently-implemented "Middle-Class STAR Rebate" program takes a small step in the right direction. The rebate better targets relief to lower-income households, yet because it is based on the STAR exemption, the rebate embodies the same equity flaws as the original STAR program. Consequently, the maximum amount of the rebate for non-seniors varies from $250 in Buffalo to $327 in Saratoga Springs to $809 in Scarsdale. Limiting the rebate to households with less than $250,000 in annual income was an important first step, but the state needs to go further to direct the most tax relief to the most in need.

The Citizens Budget Commission recently studied options to lower the local tax burden and improve equity in local taxes. The CBC released a background paper entitled, "Local Taxes in New York: Easing the Burden," and hosted a half-day conference at the Rockefeller Institute on December 6 to discuss the options in the paper.

One option to both reduce the tax burden and improve equity is a state takeover of local Medicaid costs and more aggressive Medicaid cost containment. County governments shoulder a significant portion of Medicaid funding yet have no control over the policy. The current local funding levels are unusually high and especially burdensome in economically-challenged communities with high shares of Medicaid-eligible residents and low levels of taxable resources. While the recently phased-in local Medicaid growth cap is a step in the right direction, the cap does not address existing inequities. A state takeover of all non-federal Medicaid costs would provide