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Stop STAR II!

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It's Elementary

A Monthly Column by EFAP Director John Yinger
January 2006

Stop STAR II!

On December 22, 2005, the Republican majority of the New York State Senate proposed extensions to the misguided School Tax Relief Program (STAR) that would cost state taxpayers over \$2 billion dollars.

It is unconscionable for elected officials to be proposing additional property tax relief of this magnitude while still refusing to provide the additional funding for education that is required to meet the June 2003 mandate from the State's highest court in *Campaign for Fiscal Equity v. New York*.

Even without considering the *CFE* case, an extension of STAR would be very poor public policy. The case against STAR has been presented in several of my previous columns (June, November, December 2005).

In brief, by excluding renters and by giving higher exemptions to districts in wealthier counties, STAR magnifies the resource disparities that plague public education in New York State. Moreover, by exempting a share of property values from taxation, STAR lowers the price of education to voters and encourages them to spend more. This feature has led to increases in school spending, including spending that is not directed to the principal performance objectives required by the State, and to higher property tax rates. In fact, my colleagues and I estimate that STAR has boosted property tax rates about 20 percent in the average district, thereby eliminating about one-third of homeowners' original tax savings from the STAR exemptions and substantially boosting the property tax on all property other than single-family homes.

Governor Pataki's executive budget explicitly denies that these effects occur: "STAR exemptions have no effect on determining tax levies, rates or school aid." Ironically, however, the Governor himself now appears to recognize them. During a speech at the Cicero Town Hall on January 20, 2006, the Governor

said “We’ve seen school districts raise their rate of spending one, two, three, four times the rate of inflation each and every year. Too often a district would say, ‘Well, everybody is getting the benefit of the STAR program, so we can raise taxes 8 or 9 percent and they won’t really feel it because the STAR program will cut some of the pain.’ That’s not the idea.”* That may, indeed, not be the idea, but it is clearly the unintended consequence of this program!

Governor Pataki’s response to this issue has been to call for direct \$400 rebates to property owners, but only in school districts that agree to keep their spending increases below 4 percent. This approach, which Governor Pataki calls STAR Plus, would moderate—but by no means eliminate—the unintended consequences of STAR. It would still cost a lot of money, however, about \$500 million according to the Executive Budget, and it would magnify the financing inequities that are at the heart of the *CFE* case. The extra rebates would go only to homeowners, thereby exacerbating the disadvantage of majority-renter districts such as New York City.

Moreover, this proposal offers poor districts an unfair choice: They must either forgo the spending increases required by the Regents’ new higher student performance standards or else deny their homeowners the rebate given to voters in wealthy counties. The Executive Budget claims that districts would still be eligible for the higher rebates if their spending increases exceeded 4 percent but went to the “expenses required to provide a sound basic education.” Although the details of this provision are not described in the Executive Budget, the State has consistently—and dramatically—underestimated these required expenses, so it seems highly unlikely that this provision will eliminate the inequity inherent in this approach.

In short, the original STAR program claimed \$3 billion that could have addressed education finance inequities in New York State and used it to reward wealthy, high-homeowner districts. This program also had striking unintended consequences, including a large increase in school property tax rates. This is not the time to devote even more resources to this misguided program. Instead, it is the time to eliminate STAR’s worst provisions, such as the higher exemption for homeowners in wealthier counties, to integrate STAR with the state education aid system (see my last two columns for 2005), and to devote the State’s limited resources to meeting the mandate of the Court of Appeals in the *CFE* case.

* This quotation was presented in the John Doherty, "Pataki Stumps for Tax Rebate, *The Post Standard*, January 21, 2006, p. A-4.