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# The Preliminary Report of the New York Commission on Property Tax Relief

John Yinger

*The Maxwell School, Syracuse University, joyinger@syr.edu*

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# *It's Elementary*

A Monthly Column by EFAP Director John Yinger  
May 2008

## **The Preliminary Report of the New York Commission on Property Tax Relief**

The preliminary report of the New York Commission on Property Tax Relief is full of good information and thoughtful policy recommendations.<sup>1</sup> Elected officials and citizens interested in property tax relief would benefit from reading it carefully.

Nevertheless, the Commission report is, at best, incomplete. This column examines three issues neglected by the report (state policies that encourage high local tax rates, the link between property taxes and expected levels of school services, and the need for more research and information about cost-saving educational policies) and the next column examines the Commission's recommendation to place a cap on local property taxes.

The first key point missed by the Commission report is that a central cause of the recent growth in school property taxes in New York is that the STAR program lowers the impact of tax increases on voters and encourages them to spend more. This point, which is the subject of several of my previous columns, is mentioned in a footnote in the report, but not a single recommendation addresses it.

The report calls for a "restructured STAR circuit breaker program" to replace some or all of STAR. The report does not recognize, however, that a standard circuit breaker has exactly the same incentive problem as does STAR. A circuit breaker rebates some or all of a homeowner's property taxes once they reach a certain share of the homeowner's income. Hence, the burden of

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<sup>1</sup> New York State Commission on Property Tax Relief, *A Preliminary Report of Findings and Recommendations to Governor David A. Patterson*, Albany, N.Y., June 3, 1008. Available at: [http://www.cptr.state.ny.us/reports/CPTRPreliminaryReport\\_20080603.pdf](http://www.cptr.state.ny.us/reports/CPTRPreliminaryReport_20080603.pdf)

a property tax increase is lowered or even eliminated for all households with property taxes greater than or equal to this specified share. As New York's experience with STAR demonstrates, provisions that lower the burden of property tax increases for a large number of voters lead to higher property tax rates. Consequently, a broad-based circuit-breaker program would undoubtedly lead to property tax increases, as well.

This incentive problem could easily be solved simply by placing a maximum on the property tax rate used to calculate either the STAR exemption or the circuit-breaker rebate. This possibility is not mentioned in the report.

Second, the Commission report does not acknowledge that spending on education and hence the property tax burden depend on the quality and range of services that voters and state officials expect schools to deliver. The state government cannot expect school districts to achieve higher and higher passing rates on more and more regents exams without spending more. Voters cannot expect their district to provide a wide range of services, including art, music, and athletics, without spending far more than is required to reach expected passing rates on state tests.

Indeed, the report gives the impression that the problem of property taxes would just go away if school districts could find a way to pay their teachers lower wages and give them lower benefits. In fact, however, lower wages and lower benefits would undoubtedly result in lower-quality teachers and undermine the state's objectives for student performance. Lowering the expectations placed on schools would lower expenses and property taxes, but this is an issue the Commission apparently does not want to even acknowledge. I do not favor cuts in the quality and range of services delivered by school districts in New York, but an honest debate about property tax relief should begin by recognizing that implementing such cuts would be the best way to obtain property tax relief—and then by turning to other policies if that one is not acceptable.

It is also ironic that some of the loudest complaints about high property taxes come from voters in wealthy districts. It does not make sense to provide property tax relief in these districts by giving them more aid. Voters in these districts face high property taxes because they have voted to have school systems that deliver an even wider range of high-quality services than other

districts in New York. The state should not be easing the property tax burden in these districts while poor districts are still struggling to provide the basics.<sup>2</sup> As my last column pointed out, recent changes have boosted the fairness of the state education aid formula in some ways, but the new aid system still provides a much larger share of state aid dollars to wealthy downstate districts than would an aid system based solely on a district's needs and fiscal capacity.

Third, the state does not provide school districts with the information they need to identify and implement cost-saving policies and practices. For the most part, school officials do a good job using the resources they have based on available information. Stressed school districts are not in a position, however, to conduct research on new policies and practices—or even to keep up on all the latest information from research conducted in other states. In my view, these jobs are the responsibility of the state government, and, in particular, of the New York State Education Department. At present, NYSED does not have a data system that would allow researchers to track individual student performance; it does not have a set of procedures for conducting random-assignment experiments, which provide the most reliable information under most circumstances; it does not have a standard mechanism, such as a website, for providing school districts with information about the most effective programs for achieving various objectives; and it lacks adequate staff and expertise to conduct high-quality program evaluations. Citizens around the state should insist that elected officials come up with funding for these tasks and that the NYSED undertake them.

In short, any effective responses to the problem of high property tax rates in New York State should (1) revise the provisions in STAR (or in any circuit-breaker that replaces STAR) that encourage local voters to raise property tax rates, (2) identify the crucial school services that elected officials and voters demand and make sure the state aid budget helps all districts, especially the neediest, reach the selected targets, and (3) give NYSED the resources and staff it needs to help each district identify the policies and practices that would allow it to deliver its services in a cost-effective manner.

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<sup>2</sup> As discussed in my March column, one appropriate policy response to unusually rapid property value increases in certain areas is a circuit-breaker that defers property tax increases until a house changes hands. This policy removes the burden on low-income homeowners who live in places with rapid property appreciation. The Commission promises to look into this type of policy, which they call a type of “reverse mortgage,” in its final report.