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What to do about rising property taxes?

By Robert Ward

Ten years ago, New York Governor George Pataki and the state Legislature created a program to relieve the high and rising burden of school property taxes on homeowners. It's called STAR, an acronym for School Tax Relief. A decade after its enactment, STAR today is bigger than ever. It costs more than \$4 billion, and provides tax rebates to millions of homeowners from Long Island to Niagara Falls. And yet, still, the property tax burden across New York State continues to grow.

A report just issued by the Citizens Budget Commission, a respected nonpartisan think tank, shines a light on the causes of New York's high property taxes, and on what might be done about them. Like a number of previous reports, the Citizens Budget Commission concluded that STAR hasn't solved our property-tax problem, and isn't likely to do so even if Governor Spitzer and the Legislature keep expanding STAR. In fact, some academic research suggests that STAR may drive overall taxes higher by giving school districts a strong incentive to spend more than they otherwise would.

Of course, property taxes are high in New York because spending by local governments and school districts is higher than in most other states, and because the property tax is the primary source of tax revenue to pay for that spending. The Citizens Budget Commission found that New York's local governments employ 23 percent more workers, in comparison to the population, than the national average. Municipal and school employees in the Empire State are paid an average of 30 percent more than the national average.

One factor that contributes to those high numbers of public sector jobs is the sheer number of local governments in New York. Our multiplicity of coun-

ties, cities, towns, villages, school districts, fire districts and other special districts drives costs higher, and thus drives property taxes higher as well.

What to do about the high cost of property taxes? The Citizens Budget Commission held a conference at the Rockefeller Institute of Government in Albany to answer that question. Some speakers at the conference endorsed a legal limit, or cap, on property tax increases. In 1980, our neighboring state of Massachusetts enacted Proposition 2 1/2. It limits property tax growth to 2.5 percent a year and the total property tax levy to 2.5 percent of overall property values. The cap exempts the value of new development, the cost of buildings and other capital investments, and voter-approved initiatives. The tax cap in Massachusetts seems to have made a big difference, limiting the growth in the property tax bills that homeowners and business owners pay. California is well known for Proposition 13, which imposes different types of limits on property taxes. Many critics say the California approach creates enormous inequities among property owners, and has damaged educational quality by restricting the growth in resources available for public schools. But you don't hear those criticisms about the approach Massachusetts takes to keeping property taxes affordable.

Ultimately, holding down local property taxes will mean some combination of controlling costs, and shifting more costs to the state level. Controlling costs doesn't mean slashing services. It could mean things such as managing our expensive Medicaid system more effectively, and restructuring the comparatively rich pension and health benefits that public employees and retirees, at both the state and local levels, enjoy in New York.

Governor Spitzer's initiative to consolidate and streamline local governments could make an impor-

tant contribution, too – especially if local elected leaders can overcome parochial resistance to change.

As for the state taking over more of the local cost of education, Governor Spitzer and legislators are already delivering big increases in state aid to local schools. More increases are likely in 2008, despite the state's own financial problems. Whether that new state aid, changes in STAR or anything else

will have an impact on New Yorkers' property tax bills remains very much an open question.

Robert Ward is deputy director of the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York. He is also author of *New York State Government: Second Edition*, published by the Rockefeller Institute Press.