

Can a cap fix New York's high property taxes?

By Cara Matthews • *The Journal News* • August 4, 2010 (updated)

ALBANY — The average statewide tax-levy increase for school spending has dropped consistently in recent years, falling from 6.89% in 2005 to 1.89% last year, the height of the state and national recession.

But with state support heading for a nose dive this year as lawmakers and Gov. David Paterson attempt to close a \$9.2 billion budget gap, the average proposed hike in the local school-tax levy is 3.2%.

Voters have their say on the budgets Tuesday.

MASS. FOUND A WAY

School officials have boasted about their thrift in recent years, but some in Albany do not want to leave changes in school spending and property-tax levies to economic chance. Instead, they favor the path Massachusetts embarked on 30 years ago, when voters approved capping annual property-tax hikes at 2.5%.

Others oppose what they consider to be an artificial limit and caution it could institutionalize inequities in school spending.

New York consistently ranks as one of the highest-taxed states in the nation, and local property-tax bills are 79% higher than the national average, a 2008 state report found.

Residents of Westchester County have it the worst—paying the highest property taxes nationwide with a median bill of \$8,404.

“Oh my goodness we can't wait to get out of Westchester,” said Gail Davis, 51, who runs a wellness business out of her Ossining home.

Davis and her husband, who was laid off about a year ago, live paycheck to paycheck and are fearful about rising taxes. Once their two daughters graduate from Ossining High school, she said, they will pack it in and move to Pennsylvania, on 17 acres of land they bought for only \$50,000.

“Within three to four years we're hoping to get out of here,” Davis said. “I have a lot of work to do on this house, but a significant part of our income is going to taxes and we don't have the money to upkeep the house.”

School property taxes comprised an average of 63% of homeowners' property taxes in 2009.

Putnam County ranked second in the state in using property taxes to finance school districts. Last year, 72% of property

taxes collected in Putnam went to school districts compared with 63% in Westchester and Rockland.

“I think that if there's overwhelming support for a property-tax cap, there's also a great deal of resistance to it,” from vested special interests such as organized labor, said E.J. McMahon, executive director for the conservative Empire Center for New York State Policy.

The pressure from property taxpayers who believe they are stretched to the limit “is never going to go away until they finally do something,” he said of state lawmakers.

The consensus among homeowners, advocates and policymakers is something has to be done, but there is disagreement on the best and fairest way to provide relief. Republican lawmakers, the Empire Center and other right-leaning groups, along with Paterson, a Democrat, say the way to control property-tax growth is with a cap.

Organized labor and left-leaning advocacy groups oppose a cap, saying it would lead to a loss of educational programs and jobs if the state pulled back on funding, as is currently being proposed, and local spending could only increase by a fixed amount.

They said school districts could be forced to make cuts to accommodate the rapid growth in the cost of health insurance, special education, pensions and fuel.

“We're talking about the disintegration of educational services as we know them,” said Ron Deutsch, executive director of New Yorkers for Fiscal Fairness.

Caps are “more of a gimmick than a fix to a situation,” said Deutsch, whose group favors a circuit-breaker system, in which property taxes are limited based on income.

Proposed caps would allow increases of 2.5% or 4% increase, or the consumer price index, whichever is lower. The consumer price index has been flat, so if a cap were currently in place, there wouldn't be an increase in school property-tax levies this year.

SOME FEARFUL OF CAP

Mount Vernon Superintendent of Schools W.L. “Tony” Sawyer said the community is “overtaxed, there's no doubt about it.”

Yet imposing a cap would be catastrophic for his urban district—especially as the state cuts aid it had initially pledged for the schools, he said.

“You can't make a promise to communities, rescind that promise and then say there is no way for you to capture any portion of that,” said Sawyer, whose proposed \$202.9 million contingency budget would carry an 8.6% tax-rate increase. “If you cap us at 4%, you literally are closing down a district.”

Current proposals to limit property-tax growth are modeled on Massachusetts' tax cap, which applies to all municipal and school property taxes. New Jersey Gov. Chris Christie recently called for his state to tighten its cap and adopt a law similar to Massachusetts'.

Under Massachusetts' Proposition 2-1/2, voters can override the cap or reduce the community's taxing authority, according to the Massachusetts Municipal Association. Municipalities can't tax more than 2.5% of the cash value of all taxable property.

The cap excludes property-tax revenue a community raises for specific projects and new growth.

Frank Mauro, head of the labor-backed Fiscal Policy Institute, said a cap would perpetuate current funding inequities among school districts.

A four-year plan to pour an additional \$7 billion in school aid to districts across New York has been delayed due to the state's budget problems.

“When you apply a percentage cap to change, you institutionalize the disparities and you make them worse,” Mauro said.

A circuit-breaker system would provide relief to the most overburdened homeowners, he said.

A 2008 report from the Washington-based Center on Budget and Policy Priorities, a nonpartisan research organization, said the cap has forced a number of Massachusetts communities to lay off teachers, police officers and other public employees; close libraries and senior centers; and scale back school programs.

N.Y. SPENDS 50% MORE

New York spent an average of \$18,365 per student in the 2008-09 school year, state records show. Per-student spending is 50% higher than the national average, according to a 2008 report by the state Commission on Property Tax Relief.

The commission recommended a cap on the growth of property-tax levies for schools, a circuit-breaker system, and a prohibition on new state mandates.

Can A Cap Fix... (cont'd.)

A circuit-breaker tax isn't tax relief but "higher taxes for some people to provide a bigger refund for others," said McMahon, who would prefer a 2.5% cap rather than 4% on increases in school property-tax levies.

As a young professional trying to make a living in Haverstraw, Sean Jelen says property taxes are more than just a thorn in his side. The \$9,000 a year he pays for his two-bedroom condominium weighs on his mind every time he enters the building, he said.

"It's just making this place completely unaffordable for young people who are starting their careers," said Jelen, 27, vice president and chief operating officer at Palisades Federal Credit Union. "The cap has to be put in place. At some point people have to be held accountable."

Paterson wants to cap property-tax growth for schools and other government services. He originally recommended a cap only on school property-tax levies. The limit would be 4% or the CPI, whichever is lower. Voters could override the cap.

The governor believes addressing 100% of the property-tax bill will provide meaningful reform, said Larry Schwartz, his chief of staff.

"What good is it if you cap 60% of your bill and the other 40% sees double-digit increases," he said.

Voters could choose to pierce the school-tax cap. For local government and taxing districts, it would be up to the governing body.

Residents could vote officials out of office if they thought tax hikes were excessive, Schwartz said.

The cap wouldn't apply to the Big Five city school districts — New York City, Rochester, Yonkers, Buffalo and Syracuse.

Paterson has proposed a property-tax circuit breaker, but it would be tied to a spending cap, Schwartz said. Property owners would receive tax credits using the money saved by implementing a spending cap.

Paterson and legislative leaders are still debating which cuts would be the most palatable to close the \$9.2 billion deficit this fiscal year, which began April 1. Paterson is pushing hard in budget negotiations for the property-tax cap, Schwartz said.

TAX CAP A HIT IN MASS.

The Massachusetts cap, which voters approved 59% to 41% in 1980, is popular in the state, said Barbara Anderson, head of Citizens for Limited Taxation in Massachusetts.

"People are so used to 2-1/2 now it's no longer a controversial issue anymore," she said.

The cap empowers people and has changed the attitude of local government officials, said Anderson, who has worked on the issue since 1978.

Cap overrides are more common in wealthier communities, she said. The New York State School Boards Association opposes a property-tax cap on the grounds that property owners can vote down annual school budgets if they think spending increases are too high, spokesman David Albert said.

Ninety-seven% of school budgets passed last year, he said.

Senate Republicans, who passed legislation in 2008 to cap school property taxes, recently tried and failed to amend budget legislation and include a 2.5% cap on school property-tax hikes, or the CPI, whichever is lower.

New York provides more than \$21 billion in school aid and taxpayers foot the rest of the bill, which totals about \$55 billion, Sen. Kenneth LaValle, R-Suffolk County, said recently.

"If you look at the growth that has been going up and in some cases we've even had growth of double digits in our school districts, the question that our citizens are asking, 'Is it sustainable?'" he said.

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Where do your property taxes go?

In the Lower Hudson Valley, how property tax levies were distributed in 2009:

School districts: 64%, Counties: 15%, Towns: 8%, Villages: 6%, Cities: 4%, Fire districts: 2%, Special districts: 2%

Source: New York Office of Real Property Services

In favor of cap

About 75 municipalities in New York have passed resolutions supporting Assembly Republicans' Property Taxpayer Protection Act.

Binghamton: Hamden, Maryland, Sherburne, Sidney, Spencer

Elmira: Guilford, Steuben County Legislature

Ithaca: Cortland

Poughkeepsie: Lloyd, Saugerties

Rochester: Alexander, Bergen, Bethany, Canandaigua, Chili, Clarendon, Geneva, Honeoye Falls, Ogden, Perinton, Wolcott

Westchester/Putnam/Rockland: Patterson

Source: State Assembly Minority Conference

Proposals for levy limits

These are the current proposals for property-tax caps in New York:

- Gov. David Paterson's plan would limit tax-levy growth for all school districts, counties, cities, towns, villages, special districts and fire districts to 4% or 120% of the annual increase in the U.S. Consumer Price Index, whichever is lower. The limit could be increased to account for new construction. School districts could bank unused tax-levy capacity from previous years. The vote threshold for an override would depend on the amount of state aid the district receives. It would not apply to New York City or the Big Five school districts.

Two-thirds of a local government's governing body would have to approve an override.

- Senate Republicans want to cap the growth in school property-tax levies at 2.5% a year, or 120% of the annual increase in the CPI, whichever is lower. An "override" proposition to reduce the tax-levy limit would have to be approved by more than 50% of voters.

- Assembly Republicans are advancing the Property Taxpayer Protection Act, which would cap school property taxes at 4% or the rate of inflation, whichever was lower. A two-thirds vote of property owners could override the cap. The cap could be increased in proportion to the net%age increase in enrollment and the net%age increase in the quantity of real property in the district. The bill would provide mandate relief.