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Pataki's property tax relief takes from schools and gives to the wealthy (Commentary)

cuomo mcall pataki.JPG

Former New York Gov. George Pataki, Gov. Andrew Cuomo and former state Comptroller Carl McCall pose at Manhattanville College in Purchase, N.Y., on Wednesday, Oct. 2, 2013. Cuomo named Pataki and McCall to a new Tax Relief Commission. In its report, the commission recommended tax rebates for property owners whose taxes go up more than the 2 percent tax cap. *(The Associated Press)*

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No legislator or voter should be fooled into thinking that the commission's recommended rebates would be a fair method of property tax relief.

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By John Yinger

Although he is no longer governor, George Pataki has found a way to continue his assault on New York state's education finance system. As co-chair of the **New York State Tax Relief Commission**, Pataki has come up with another policy that takes money from needy students and gives it to rich homeowners under the guise of property tax relief. Unfortunately, Commission co-chair H. Carl McCall, the former New York State Comptroller, and Gov. Andrew Cuomo have signed on to this scam.

Pataki started his assault 15 years ago with the design of his STAR property tax exemptions. There is nothing wrong with property tax exemptions in principle, but STAR provides no relief to renters and, contrary to all known fairness principles, gives higher exemptions to homeowners in wealthier counties. As a result, the Upstate big three school districts (Buffalo, Rochester, and Syracuse) received STAR payments of \$331 per pupil in 2011-12, whereas the top 10 percent of districts, mostly downstate suburbs, received \$1,708. In short, the \$3.3 billion now spent on STAR goes to wealthy homeowners while needy school districts continue to receive far less revenue than they need.

Now Pataki wants to take another \$1 billion to give even more relief to wealthy homeowners. The commission's proposal calls for New York state to give homeowners a rebate for any increase in property taxes over the next two years, so long as they live in a jurisdiction that does not override the new property tax cap. Just like STAR, this proposal does not give any relief to renters and it heavily favors homeowners in wealthy jurisdictions.

Let's focus on school districts. Rebates would flow to homeowners in both rich and poor districts, but this flow would be very unequal. New York's education finance system has two main components: property taxes and state education aid. Because rich districts receive relatively little aid, they must rely more heavily on property taxes, which implies that homeowners in wealthy districts would receive larger rebates. In 2011-12, 18 wealthy districts, mostly Downstate suburbs, collected over \$30,000 per pupil in local revenue, whereas the Upstate big three collected about \$3,700 per pupil. If these districts all increased property

tax revenue by 2 percent, as this proposal encourages them to do, homeowners in these wealthy districts would receive an annual rebate of about $\$30,000 \times 0.02 = \600 per pupil, but homeowners in the Upstate big three would only receive $\$3,700 \times 0.02 = \74 . This is simply not fair.

A similar problem shows up in Cuomo's property tax cap. Every jurisdiction is allowed to increase its property tax levy by up to 2 percent. But in the case of schools, a 2 percent increase is a lot more money for rich districts than for poor districts. If this limit stays in place for 20 years, the allowable annual property tax levy for the above wealthy districts will have increased by \$14,578 per pupil, whereas the allowable per pupil levy in the Upstate big three will have increased by only \$1,798. This unfairness in the tax cap is bad enough. New York should not make it even worse by passing the commission's rebate plan.

In 2007, New York State implemented major reforms in education aid and promised to phase them in over four years. These reforms recognized the extra expenditure needs in poor districts and were an important step toward equalizing educational opportunity across the state. When the recession hit a couple years later, however, the phase-in was slowed and then reversed, as much larger aid cuts were imposed on poor than on rich districts. Small aid increases have been passed in the last three years, but the state is still far from the path it set in 2007. The \$1 billion budget for the Tax Relief Commission's rebate plan would be far better spent on a move toward the 2007 state aid formula.

What voters and legislators may not realize is that, as shown by a large body of scholarly literature, increases in education aid result in some combination of higher spending on schools and lower local property tax rates. Returning to the promised path for state aid would therefore serve the dual purpose of promoting a fairer and more effective aid program and shifting the funding of the education aid away from property taxes -- that is, providing property tax relief.

Gov. Cuomo may find it helpful, as former Gov. Pataki did, to buy off rich homeowners as a re-election strategy. But no legislator or voter should be fooled into thinking that the commission's recommended rebates would be a fair method of property tax relief. Instead, these rebates magnify the **unfairness that is already built into STAR** and the new property tax cap. Moreover, no legislator or voter should be fooled into thinking that these rebates would be separate from the education finance system. In fact, much fairer forms of property tax relief are available, especially a return to the 2007 state education aid formula.

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