

New York State  
Commission on

**PROPERTY  
TAX RELIEF**



## **Final Report to Governor David A. Paterson**

**December 1, 2008**

**Thomas R. Suozzi  
Chairman**

**Cassie M. Prugh  
Executive Director**

# Commission on Property Tax Relief

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## Commission Members

Thomas R. Suozzi, *Nassau County Executive*  
Shirley Strum Kenny, *President, Stony Brook University*  
Nicholas Pirro, *Former Onondaga County Executive*  
Michael Solomon, *Director, Merrill Lynch*  
Merryl Tisch\*, *Vice Chancellor, New York State Board of Regents*  
Paul Tokasz, *Former New York State Assembly Majority Leader*

## Special Advisers\*\*

Lisa Donner, *Co-Director, Center for Working Families*  
Elizabeth Lynam, *Deputy Research Director, Citizens Budget Commission*  
Sandra Parker, *President and Chief Executive Officer, Rochester Business Alliance*  
Karen Scharff, *Executive Director, Citizen Action of New York*  
Robert Ward, *Deputy Director and Director of Fiscal Studies, Rockefeller Institute of Government*

## Staff

All members of the staff were loaned part time from other state and local entities.

Cassie M. Prugh, *Executive Director, August-December 2008*  
John C. Reid, *Executive Director, January-August 2008*  
Lee Kyriacou, *Policy Director*  
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\* Commission Member Tisch elected to abstain from the recommendations herein.

\*\*Special Advisers participated in all Commission meetings, offering invaluable advice in their areas of expertise. The policy recommendations herein are those of the Commission only.



December 1, 2008

The Honorable David A. Paterson  
Governor of New York  
State Capitol  
Albany, New York 12224

Dear Governor Paterson:

This final report produced by the Commission on Property Tax Relief is a blueprint for how to solve New York State's property tax problem. The debate is no longer whether or not there is a problem, or what caused the problem. The debate is instead over how to address the crushing school property tax burden our State faces.

Your leadership, particularly in proposing tax cap legislation soon after our preliminary report, is not only greatly appreciated, but has been essential to what is now a recognition that property taxes are not just a local dilemma, but rather a statewide systemic problem.

The fiscal crisis we now face demands that the State Legislature accept your challenge to work together to reduce State spending. Our school districts also need to reduce spending, but to do so the State must enact the historically difficult to achieve changes in state laws and mandates. The Commission respectfully requests that you now join your property tax cap effort with a mandate relief effort to empower school districts statewide to reduce costs. We will support your efforts to persuade the State Legislature to act.

These surely are difficult times. We must provide New Yorkers with property tax relief and we must improve educational quality. To succeed in both efforts, we must give schools the flexibility to redirect existing resources towards educational quality. Mandate reform is essential to that effort.

We are honored to have had the opportunity to develop solutions on behalf of New Yorkers and stand ready to support you and your efforts to address the property tax problem we face in this State. Excelsior!

Respectfully submitted,

A handwritten signature in blue ink that reads "Tom".

Thomas R. Suozzi  
Chairman

## **Part I: New York State's Commitment to Quality Public Education**

This Commission believes that the education of our children must not be compromised. New York State has, in the two most recent Enacted Budgets, made an enormous and historic investment in school funding. Pursuant, in part, to a court ruling and new State policy, school aid investment has been targeted to ensure a “sound basic education” and to encourage smaller class size, full-day pre-kindergarten and kindergarten, and other educational initiatives to improve student achievement. Paramount in all of the Commission’s deliberations has been the recognition of New York State’s and, specifically, the Governor’s and State Legislature’s continued commitment to quality education. At the same time, the Commission believes that reducing voter anger over school taxes will help redirect the attention of New Yorkers toward maintaining and improving educational quality. Finally, during this time of fiscal crisis it is critical to work together to craft solutions and to evaluate in a cooperative and innovative spirit the options for restraining spending at all levels of government. The Commission urges school districts to focus on directing resources where they will have the most effective impact on academic performance, and urges the State Legislature to do more to provide mandate relief by acting on the recommendations made in this report.

## **Part II: The Problem**

**Property taxes are too high:** New York State has the highest local taxes in America – 78 percent above the national average. Property taxes account for most of the local taxes levied outside of New York City, and New Yorkers pay some of the highest property taxes in the nation – especially school property taxes. In national comparisons, three of the ten counties where households paid the highest property taxes, eight of the ten counties with the highest property taxes as a percentage of home value, and four of the ten counties with the highest property taxes as a percentage of personal income, are all in New York State.

High property taxes have the most negative impact on low and moderate income working families, seniors on fixed incomes, and small business owners, who must shoulder this burden regardless of their ability to pay. Whether your concern is decreasing education costs, or increasing education spending, or addressing inequities in school funding, or improving programs, virtually all agree the answer cannot be to continue to increase property taxes at the current rate. The rate of increase in property taxes over recent years is unsustainable, and simply unfair to those who cannot afford to pay.

Why property taxes are so high: New York State property taxes are too high for two basic reasons:

**Expenses are high.** New York schools outside of New York City spend more per student than any state in the nation – an estimated \$18,768 in 2008-09.<sup>1</sup> New York’s per student spending is more than 50 percent above the national average. This results from high personnel costs; the number and complexity of mandates and expense of compliance, especially those that govern special education; and the large number of school districts, many of which are small.

New York is a proud State with a progressive history and a social compact devoted to improving the quality of life for all New Yorkers. Generations of New York’s leaders, committed to maintaining its status as a national model of social responsibility, have adopted laws and regulations that require local school districts and local governments to provide certain functions in certain ways. The unintended consequence is government that is very expensive. The thorny challenge is to help school districts and other local governments reduce these expenses, while remaining faithful to our social contract.

**State aid as a percentage of total cost is below the national average.** It must be noted that New York State spends a great deal on public education, well above the national average. In fact, the State has dramatically increased spending over the past several years. However, the State’s contribution represents, as a percentage of the total cost, only 44 percent, which is below the national average of 47 percent. Given the severe economic crisis facing the nation and New York State’s current fiscal challenges, significant increases in state aid to education are not anticipated. Therefore, it is crucial that action be taken to reduce expenses.

To the extent that the costs to maintain the most expensive schools in the nation are not covered by State aid, they must be paid by local property taxpayers. This report examines why school district costs are so high and how New York State compares to other states regarding state funding.

### Part III: Recommendations

The remaining sections of this report discuss proposed solutions to the property tax problem in New York State. There are only three options to address the ever increasing cost burden of the New York State education system: 1) decrease expenses (or at least decrease the rate of growth), 2) increase state aid, or 3) increase property taxes. These options involve hard choices, but this Commission concludes that, regardless of any other factors, it must be a priority to limit property tax increases above a capped amount.

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<sup>1</sup> 2008-09 New York State Education Department Property Tax Report Card.

After months of public testimony and intensive study, the Commission identified a comprehensive approach that begins with a principal recommendation – a cap on the growth of property taxes. Once that critical priority is addressed, two other key recommendations can supplement the first in important ways: individual relief based upon need – a “STAR circuit breaker,” – and reform of state laws and mandates, where compliance causes an unwarranted growth in costs, a crucial concern during this period of fiscal crisis.

**The Property Tax Cap:** The Commission proposes capping annual growth in the property tax levy at 4 percent or 120 percent of the Consumer Price Index (CPI), whichever is less. New construction, which results in an increase to the tax levy, may be added to increase the capped amount. Any levy not used may be “banked,” to be used in future years at a rate not exceeding 1½ percent of the prior year’s levy. School districts that do not exceed the cap would no longer be required to submit their budgets for an annual vote. If a school district wishes to exceed the cap, a positive vote by at least 55 percent of the voters would be required to override the cap. If a school district has received a 5 percent or greater increase in state aid, 60 percent of the voters would be required to override the cap. This 5 percent number is not intended to suggest that 5 percent growth in state aid is sufficient for high need districts. Following the submission of the Commission’s preliminary report on June 3, 2008, Governor Paterson proposed legislation creating a property tax cap. The legislation was substantially similar to the Commission’s cap proposal, except that the Governor’s bill retained the requirement of a vote on the school budgets, even if their proposed increase was below the cap. The Commission supports this legislation.

**The STAR Circuit Breaker:** The Commission recommends that, after a property tax levy cap is adopted, the State reexamine the STAR program, which provides payments to school districts with no relation to individual taxpayers’ ability to pay and has failed to effectively reduce property tax growth. A new STAR circuit breaker, targeted to relieve the tax burden on individual taxpayers based upon their income and ability to pay, would be a much more equitable way of reducing an individual’s property tax burden. A levy cap is necessary to ensure that property tax growth is restrained for all taxpayers, including businesses. A circuit breaker implemented after a cap has been enacted ensures that, in addition to limiting property tax growth, individual relief is targeted to people most in need. Recognizing the financial pressure faced by the State, the Commission recommends redirecting at least \$2 billion from the ineffective STAR program to a more effective circuit breaker.

**Changing State Law and Mandate Relief:** The Commission recommends that the State support school districts' efforts to rein in the costs of salaries, pensions and health care, as well as general operating and capital expenses. These recommendations address the root causes of high property taxes by adopting the following proposed solutions:

*Reduce the Burden of Excessive Mandates*

- **No new legislative or regulatory mandates** without a complete accounting of the fiscal impact on local governments, which must include full documentation, local government input and proposed revenue sources to fund the new mandates.
- **Mandate accountability** through an annual report from the Office of the State Comptroller, which should include the cumulative cost to localities of complying with all new regulatory and legislative mandates.

*Decrease School District Personnel Costs*

- **Adopt regional or statewide collective bargaining agreements.**
- **Increase health insurance premium contributions by employees** and provide health insurance coverage jointly with other public employers or school districts, including increased use of health benefit trusts.
- **Convene a study to evaluate creating a Tier 5** in the pension system for new employees.
- **Amend the "Triborough" provision** in collective bargaining to exclude teacher step and lane increments from continuation until new contracts are negotiated, and centralize reporting of school district collective bargaining outcomes.

*Limit Other School District Operational Costs*

- **Repeal the Wicks Law**, or significantly increase the threshold amounts for determining when separate contracts are required in construction projects.
- **Increase threshold amounts for purchasing** under competitive bidding requirements.
- **Increase participation in statewide energy efficiency programs** through collaborative efforts of state entities.
- **Centralize and streamline school district reporting** to decrease personnel and other costs associated with sometimes duplicative and unnecessary forms and other filing requirements.
- **Simplify or eliminate other individual education mandates.**

### *Improve Special Education*

- **Shift the emphasis of the State Education Department from regulatory enforcement to outcome-based accountability** through targeted intervention to promote best practices in school districts.
- **Dramatically accelerate the integration of special education with general education, improving and increasing opportunities** to benefit students who need extra help within the general education setting.
- **Decrease special education classification rates** by requiring the State Education Department to review those school districts with classification rates 20% higher than the state average and determine whether assistance is needed.
- **Reduce the cost of litigation** by promoting alternative dispute resolution, improving the consistency and effectiveness of hearing officers, and by shifting the burden of proof back to the plaintiff except when the family is unable to afford counsel.
- **Increase collaboration** to enhance local and regional service delivery to students.
- **Secure additional federal funding** to reduce the pressure on the property tax.

### *Seek Economies of Scale and Enhanced Educational Opportunities*

#### **School District Consolidation**

- **Require consolidation of school districts with fewer than 1,000 students and grant the Commissioner of Education discretionary authority to order consolidation of school districts with fewer than 2,000 pupils** to achieve economies of scale and to increase educational opportunities through expanded course offerings.
- **Restructure state reorganization aid** to ensure that it is used predominantly to pay for reorganization expense or to provide needed services, and temporarily suspend building aid for districts being consolidated.
- **Amend State law to simplify consolidation by removing anachronistic distinctions between, union free, central and city school districts.**



### **Shared Service Delivery**

- **Eliminate State Education Department approvals for participation by BOCES in agreements with other local government entities to provide non-instructional services**, and remove the BOCES district superintendent salary cap to ensure qualified candidates for this leadership position.

### ***Grant Mayoral Control and Provide Funding Flexibility in the “Big Four” Cities***

- **Exempt the Big Four city school districts from the proposed property tax cap.**
- **Adjust the maintenance of financial effort requirements to reflect declining student populations.**
- **Grant mayoral control for the Big Four school districts**, with a sunset provision.

### ***Encourage Efficient Delivery of Social Services***

- **Provide social services to students in schools** by directing appropriate agencies to collaborate and coordinate with each other and with school districts.

### ***Address Other Equity Concerns for Property Taxpayers***

- **Create countywide property tax assessment** and uniform statewide assessing standards.