



Testimony to

**New York Commission on Real Property
Tax Relief**

Presented by

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My name is Ken Pokalsky and I am Senior Director of Government Affairs for The Business Council of New York State, Inc. The Council is New York's largest statewide employer association, representing more than 3,000 private sector employers in all industry sectors across New York State.

This discussion on property taxes is incredibly timely. In the face of a struggling national and state economy, New York just adopted a budget that grows at nearly double the rate of inflation, includes \$900 million in new taxes, and, by our calculation, imposes more than \$700 million in new business tax levies, including major hits on a financial services industry that is critical for the state's fiscal and economic well being.

There is a desperate need for fiscal discipline in Albany. We need to recognize that our spending and tax policies are having an adverse impact on the state's economic climate, and we need to find the new political will to adopt policies that make us more competitive.

We are confident that our message of reduced spending and taxes will resonate as we move forward, and we see the work of this Commission as an important step.

New York's economy is simply not competitive, and real property taxes are arguably the most significant competitiveness issue facing New York employers.

Outside of New York City, business pays nearly \$9 billion in total property taxes – 40% of the total. For many businesses, property taxes are the largest single tax levy they pay, and property taxes impact business property owners as well as those operating in leased property.

Therefore, it is essential that any reform recommendations coming from this Commission recognize the impact of real property taxes on the business sector, and include business property tax relief in your recommendations.

These are statewide issues, but they are especially important in Upstate, where economic growth has consistently lagged behind national, and downstate, trends. A recent study by our Public Policy Institute illustrated an "excess" real property tax burden of \$3 billion per year on Upstate (comparing upstate rates to national averages) costs that impose a tremendous drag on regional economic performance.

Property taxes in New York are double the national average, and Albany can't seem to fix the problem.

Maybe it's trying the wrong solution.

- The state is projected to spend \$5 billion this year on the STAR program, which provides important financial relief from school property taxes for residents.

- But in addressing the symptom rather than the cause, STAR only seems to have let school districts increase their taxes faster.

- And, importantly, business — which pays more than a third of school property taxes — gets no benefit from STAR.

- One alternative might be to cap both STAR, and adopt a cap on local property tax levies. STAR could be capped at its 2006-07 level, for example, and the growth in local property taxes capped at 2.5%—about the rate of inflation. The property tax cap would offset the impact of the STAR cap.

- But the real key to effective property tax reform is to adopt mandate relief, and downsizing reforms, that will enable local governments to get by on less.

Most citizens, businesses, economists, policy analysts, economic developers and elected officials already recognize New York's biggest competitiveness problem - property taxes. New York's local property taxes hit \$37 billion in 2005 (the most recent year for which the state Comptroller's office has published complete data).

Outside New York City, which levies a local income tax, property taxes averaged \$2,303 per capita. That's higher than any other state, and more than double the national average.

The burden is growing—and growing faster. The Comptroller's office says property taxes increased an average of 3 percent a year from 1995 to 2000, then an average of 7.1 percent a year from 2000 to 2005—more than double the rate of inflation. Over the past two decades, property tax levies have consistently, and increasingly, grown faster than the rate of inflation and the growth in personal income.

The problem has been obvious for years. But the solutions have proven elusive. Officials at state and local levels have engaged for decades in a circular process of trying to pass the blame and the costs on to each other. State officials call on localities to reduce costs—but then pile on mandates that drive up local costs. Local government demands more money from Albany—but then write generous contract settlements with their unions, and balk at the idea of sharing services with neighboring governments to cut costs.

In 1998, the state adopted STAR (for School Tax Assessment Relief) in an attempt to break this cycle. Under STAR, the state dedicated billions of dollars to providing residents with property tax relief by directly offsetting local school taxes.

But STAR appears to have backfired—in two crucial ways:

- First, the relief it gave to taxpayers provided cover for a sharp increase in the rate of spending growth (and tax levies) by school districts. Between 1998 and 2005 (the latest year for which detailed figures are available), school tax levies outside New York City rose 54 percent. Even after STAR payments were deducted, the school property tax burden rose about 24 percent (one-and-a-half times inflation during that period). Total tax levies for schools outside New York City rose by 3.72 percent in 1999, 4.01 percent in 2000, 5.83 percent in 2001,

7.6 percent in 2002, 7.74 percent in 2003, 7.78 percent in 2004 and 8.05 percent in 2005. In other words, they rose just a bit faster every single year.

Figures from the state Comptroller's office show that under cover of STAR, school district property tax levies rose four times as fast between 2002 and 2007 as they did in the previous five years. School property taxes consistently rose faster than overall county, city or town property taxes.

- Second, business is not eligible for STAR rebates. So business property owners have faced the full brunt of these tax increases, even as the homeowners who vote on school budgets were partially insulated from them by the STAR payments. Business overall (all non-residential property taxpayers combined) is paying about 30 percent of all school property taxes outside New York City.

The business share would be much larger were it not for the fact that total business property value has been growing less than half as fast as residential values—a reflection of the state's weak business climate. For example, many industrial and commercial enterprises have simply closed, with their properties gone off the rolls altogether.

But local assessment and taxing policies have ensured that the effective tax rate on residential property value has declined a bit, while the effective rate on business property has held steady. The net result of this maneuvering is that as of 2005, business was paying \$986 million more in school property taxes than it would have, if it had been taxed at the same effective rate as residential property.

But while STAR has had little discernible effect on property taxes, it has had an enormous impact on the state's spending and taxes. Starting with \$600 million in Fiscal Year 1998-99, STAR soared to \$3.99 billion in FY '06-07, and \$4.7 billion in the current fiscal year. The Executive Budget proposed this January included \$5 billion for FY '08-09 (and that's actually a cut of some \$300 million from base formula growth). At this rate of growth, STAR will pass \$12 billion in another 10 years.

We are here today to suggest an alternative strategy that will treat the root cause, not just the symptom, of sky high local property taxes. Simply put, we should cut local costs and cap property tax levies.

The state should consider taking a breather on the growth of STAR, and pursue more effective means of holding down local property taxes. Freezing STAR at its 2006-07 level of \$4 billion, for example, could have saved the state \$1 billion in FY '08-09 and eliminated all consideration of tax increases in the new budget.

Two key steps would hold property taxpayers harmless from the change:

First, roll back costly state mandates on local governments—and then help them consolidate, share services, downsize and realign their workforces to save taxpayer dollars. Reforming the Triborough provision, updating public pension

plans and relieving municipalities from liability lawsuits would almost certainly save over \$1 billion from the \$160 billion that localities are on track to spend this year. Consolidations, shared services and workforce flexibility that enable localities to downsize could save billions more over time. Local governments in New York State have some 187,000 more employees than they would have, if they matched the national average ratio of employees to population. That, alone, costs at least \$8 billion extra a year.

Second, adopt a statewide cap on the growth of property taxes, to ensure that these cost savings actually come back to the taxpayers. A cap that allowed property-tax growth of 2.5 percent this year, for example, would reduce the hit on taxpayers by about \$1.4 billion (assuming taxes will otherwise rise 7.1 percent, in keeping with recent trends). That cap—at, or close to, the projected rate of inflation—would more than offset the impact on the taxpayers of freezing the STAR program.

The tools to design an approach like this are already at hand, including the work of this commission and the state commission on consolidation and shared services for localities.

If those commissions were given a concrete goal—for example, to find \$1 billion in savings this year, growing to \$2 billion in two years—New York State could freeze STAR, cap taxes, and deliver real relief to residential and business property taxpayers.

Before concluding, I would like to briefly address the issue of education spending, as the Commission has heard numerous comments focusing on the adequacy and equity of school funding in New York State. While an important issue, we do not believe this is the central issue to be addressed by the Commission.

Over the past two decades, The Business Council has led the business community's involvement in education policy, pushing the issue of quality and accountability, and recognizing schools that made significant progress in educational outcomes. We recognize the vital role that primary, secondary and post-secondary education has in preparing the workforce of the future, and in providing a high quality of life for New Yorkers.

While we recognized there are concerns about the state's school funding formula, we strongly challenge arguments of inadequate school funding. New York tops the charts in most measurements of elementary and secondary school spending. We are the highest state in total per-pupil elementary and secondary spending, more than 60 percent above the national average; per capita state and local education spending is 40 percent above the national average. Yet we continue to lag in key educational performance measures such as graduation rates and performance on SAT scores. In short, we see more of an issue in assuring *effective use* of educational dollars, rather than a need for a significant increase in school spending.

Thank you for the opportunity to address the Commission today. We look forward to working with you as you complete this critical assignment, and I will be pleased to answer any questions you have at this time.