

NYS PROPERTY TAX REFORM COALITION

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TESTIMONY FOR: NYS Joint Legislative Hearing on 2014-15 Executive Budget (Taxes)

Albany, Legislative Office Building, Hearing Room B

February 10, 2014

Distinguished Members:

I'm John Whiteley, Legislative Affairs Officer of the NYS Property Tax Reform Coalition, a volunteer advocacy group that represents the interests of residents throughout the state who seek property tax relief and reform via state legislation.

My focus will be on the circuit breaker, which has always been the Coalition's primary goal for property tax relief. Before getting to that, let me just say that our long term objective is to gradually reduce the continuing overuse of the archaic and inequitable property tax as a means of funding services in this state, and to replace it with a gradual but significant increase in state funding, especially for schools, more in keeping with the state's constitutional obligations and our 21st century economic realities. The property tax hits hardest at the middle class, contributing to its decline amid a level of income inequality not seen since the eve of the Great Depression, with our state at the top of the list nationally. As the Governor commendably points out, we now collect some \$50 Billion in property tax, compared to \$40 Billion from the income tax. The underlying need for systemic, permanent funding reform -- and how to get there -- should be on the minds of all of us, regardless of current or future fiscal constraints, as we consider this budget and the future of our state.

Now to the circuit breaker, whose sole purpose is to give those residents most overburdened by property taxes a fighting chance to keep their homes while we try to work on a long term transition to more equitable taxation. We are grateful to Governor Cuomo for recognizing the continuing severity of the property tax burden and the importance of the circuit breaker as a way to alleviate it. His welcome initiative finally gives us some hope for the long overdue relief only a circuit breaker can provide. Unfortunately, the circuit breaker he has proposed needs improvement.

With help from colleagues I have just completed, on behalf of the Coalition and the Consortium, a working paper with our detailed critique of the property tax package in general and the circuit breaker in particular. Since a critique begs an alternative proposal, we have included that as well. That paper is attached.

I will briefly summarize here the four main problems we find with the circuit breaker and the rest of the package.

1) THE STRUCTURE OF THE CIRCUIT BREAKER IS FLAWED

This circuit breaker is not targeted to those most overburdened and at greatest risk of being forced from their homes. Most unfortunate under this formula, the greater one's overburden the less meaningful the benefit.

How do we explain to those who are paying 10% or 20% (or more) of their income in property taxes on their home -- those truly overwhelmed through no fault of their own -- that in most cases they will get no more relief than someone paying 3%?

We're not complaining about the \$1 Billion total. Although more will be needed as soon as possible, the \$1 Billion could be a credible beginning if distributed rationally. With the \$3.5 Billion STAR in place as the state's flagship relief system guaranteeing something to virtually everyone, this additional funding should be targeted to those truly overburdened. Formulas used in the Krueger-Engelbright bill and the Galef-Little bill are models for how this may be done.

We offer a suggestion. The proposal does not include an extended prior residency requirement, such as the five years prescribed in both the Krueger-Engelbright and Galef-Little bills. It should, and the attached paper explains why. And the savings could help make the formula more equitable to those most overburdened.

2) RENTER TAX RELIEF SHOULD BE INTEGRATED INTO THE CIRCUIT BREAKER

We commend the Governor for his interest in extending relief to overburdened renters as well as homeowners through a renter tax credit, but we urge that the tax credit be structured as an additional component of the circuit breaker, as is done in most of the 30 or so states with circuit breakers. Details are in the attached paper.

3) WHY A TEMPORARY PROPERTY TAX FREEZE, WHICH FURTHER DELAYS THE ALREADY OVERDUE CIRCUIT BREAKER?

We question the policy merit of the proposed two year property tax freeze for homeowners, seemingly designed mainly as a way to jawbone local governments and school districts into cost savings through consolidation or sharing services. While such cost savings are important, we wish at least equal attention would be paid to the continuing costs of unfunded state and federal mandates. If we're talking about property tax relief, the long overdue circuit breaker is clearly a more urgent need and should be fully funded immediately. With resources still scarce, it is unreasonable to delay fully funding the need-based circuit breaker to give additional tax breaks to all STAR homeowners.

4) CIRCUIT BREAKER SHOULD NOT BE LINKED TO THE TAX CAP

Some of our most struggling property taxpayers live in communities where a solid majority of the residents are either relatively affluent or otherwise willing and able to support spending and tax levels which are forcing more and more of the struggling minority out of their homes. And the smaller that minority, the worse off they are -- without the lifeline of a circuit breaker. **The reality is that, in virtually any community, those taxpayers struggling the most -- who by definition most need a circuit breaker -- have no control over the community's demographics and will likely never be able by themselves to achieve the 40% voting strength to block an override of the tax cap. Losing their circuit breaker lifeline due to an override they can't defeat would be an unconscionable injustice and worsen their situation.**

Some may believe a circuit breaker would drive up local budgets without a cap in place, perhaps based on the STAR experience. The circuit breaker is structured very differently from STAR and for many reasons

has much less chance of fostering "budget creep". (Details in attached paper).

5) SOLUTION: ELIMINATE THE PROPOSED FREEZE AND REPLACE IT WITH IMMEDIATE TARGETED RELIEF THROUGH A MODIFIED CIRCUIT BREAKER THAT INCORPORATES HOMEOWNERS AND RENTERS AND IS BASED ON NE

The temporary "freeze" is not a logical use of \$1 billion, especially if the goal is to reduce the burden of the property tax on individuals. Rather than proposing to replace just the Governor's proposed circuit breaker with a better circuit breaker, we would propose to replace:

- (1) the Governor's proposed Circuit Breaker that has a \$1,000 Maximum credit and costs \$1 Billion when fully phased in after the two-year freeze;
- (2) the Governor's proposed renters credit (\$410 million annually);
- (3) the Governor's proposed property tax freeze (\$1 billion) and;
- (4) the \$350 "flat amount credits" for families with children in 2014, 2015 and 2016 (\$410 million a year for three years – Governor proposes to turn this into an income tax credit post 2014 Election – could be incorporated into Circuit Breaker in second year).

with a **meaningful circuit breaker** that covers both homeowners and renters in a fair, even-handed and effectively targeted manner and that includes a 5-year residency requirement and a \$5,000 maximum credit.

The Circuit Breaker/Renter bill would be phased in over three years in order to take the state's fiscal situation into consideration while ensuring that the most overburdened property taxpayers – based on the percentage of income they are paying in property tax on their home – will get as much relief as possible as quickly as possible.

During the first year, resident homeowners with household income of \$100,000 or less who have lived in their homes for at least five years will be eligible for an income tax credit equal to 70% of the amount by which the total ad valorem taxes on their home exceeds 9% of their household income.

(GO TO "IMPLEMENTATION SCHEDULE" WHICH HAS CHART OF HOW CIRCUIT BREAKER WOULD BE PHASED IN.)

(Similar to the Krueger-Engelbright Bill (the one cited by the Governor in his 2010 campaign), it would limit income eligibility in first year to \$100,000 with a 9% threshold, effectively limiting the benefit to those most overburdened, but providing them a more meaningful benefit. The eligibility limit would be increased and the threshold reduced in subsequent years to include more taxpayers as more resources are available. This approach is in stark contrast to the Cuomo proposal that distributes roughly the same amount of funding in a far less targeted way. That undermines the basic circuit breaker concept, provides little meaningful help to anyone, and caps the benefit at levels which particularly disadvantage those most overburdened by property taxes. The paper includes several examples comparing our proposal with the Cuomo proposal.)

(We'll be fine-tuning our proposal with the help of our legislative friends who have been sponsoring and supporting circuit breaker legislation.)

John Whiteley, Legislative Affairs Officer, NYS Property Tax Reform Coalition