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## Tax Deal Provides Added Relief To Middle-Income Homeowners

By **DANNY HAKIM AND FORD FESSENDEN**

Middle-class homeowners in Westchester County will get nearly \$3,000. In Albany, they will receive \$994, and in Erie County, \$842.

That is a sampling of the tax relief that homeowners will receive under a plan hammered out this week by Gov. Eliot Spitzer and legislative leaders that would add \$1.3 billion to the state's School Tax Relief program, known as STAR. Under the plan, the state would spend nearly \$5 billion on STAR in the coming year.

The agreement, which emerged during state budget negotiations, would direct more relief -- through rebates and property tax adjustments -- to middle- and lower-income taxpayers than in the past. The largest benefit would go to homeowners with annual incomes up to \$120,000 in the downstate region and up to \$90,000 upstate.

"People come to New York and look at the price of a house and say, 'Gee, the price is good, but the property tax hit is troublesome,' " Mr. Spitzer said on Friday. "So when we begin to ratchet down on that property tax bite, people will find it more economically viable to stay here."

In New York City, where property tax rates are low because city income taxes are the principal means of financing schools, homeowners have received relatively small benefits from STAR. For that reason, the Legislature agreed as part of the deal to increase the personal income tax credit to \$290 from \$230 for married couples filing joint returns, and to \$145 from \$115 for individuals.

It is far from clear that the increased benefits will address longstanding criticisms about STAR. Many homeowners have expressed dismay that their property taxes have continued to rise, often sharply, despite the program. Critics on the left assert that STAR gives too much money to higher-income neighborhoods; critics on the right say it has done nothing to control property taxes, despite doling out huge sums of money.

And some independent analysts say that STAR, created in the late 1990s, has had the perverse effect of encouraging localities to raise property taxes. Since 1998, property tax levies in New York State have risen 41 percent, nearly twice the rate of inflation.

"It's an inefficient use of funds that basically encourages what it's supposedly trying to fix," said Edmund J. McMahon, director of the Empire Center for New York State Policy, a conservative group. "When you subsidize something, you get more of it."

STAR exempts at least \$30,000 of a home's value from tax, an amount that can be higher, and sometimes far higher, in counties where the home values are above the statewide average. Homeowners who are 65 or older receive higher benefits.

Initially, STAR aid was sent directly to school districts and was used to adjust property tax bills. But starting last year, the Legislature also sent rebate checks directly to homeowners. The rebates would roughly double under the new agreement, to \$1.3 billion. Homeowners will continue to receive adjustments to their property tax bills. People who have already enrolled in the STAR program with their local assessors will have to apply for the new rebate checks through the state's Department of Taxation and Finance.

According to numbers released by Governor Spitzer's office, homeowners who live in Westchester County, where property taxes are particularly high, and who earn up to \$120,000 would get \$1,094 rebate checks and another \$1,823 deducted from their property tax bills. The agreement calls for taxpayers making more than \$250,000 to receive no rebates.

Some homeowners were not impressed with the rebate checks last year.

"We need real relief," said Laurann Pandelakis, a former teacher living in Manhasset who received a \$300 check last year. In the past seven years, her annual property taxes have risen to \$13,500 from \$6,000, causing her to become an outspoken critic of school spending.

"It's insulting to people who are seeing increases of 6 or 7 percent," Ms. Pandelakis said, referring to the spending increase projected in her district this year.

Studies show that school districts spend the largest portion of their budgets on personnel costs, supporting teacher salaries that are among the highest in the nation. Unions have been strong supporters of STAR.

School board presidents say that while they do not raise taxes because of STAR, the program makes it easier for homeowners to swallow increases.

"People are squeezed, and because of STAR they feel less pressured and less squeezed," said Bruce G. Miller, the president of the Port Jefferson school board on Long Island. "I think it does help. As president of a board of education who has to present a budget to voters, you're aware of what the limitations are and how careful you have to be.

"Would I like to have the money as direct state aid? Definitely," Mr. Miller said. "In the past, when we've had large state aid payments, we've reduced taxes."

Liberal critics of the program say STAR is not always equitable. A review of STAR spending shows that wealthy districts receive a higher percentage of aid from STAR than from traditional educational aid programs, which favor lower-income districts.

Homeowners with the same incomes and home values can also receive very different STAR savings, based on where they live. And because STAR ignores commercial properties and multifamily dwellings, businesses and landlords -- and ultimately renters -- lose out.

"It is school aid, but it's perverse," said Frank Mauro, executive director of the Fiscal Policy Institute, a left-leaning budget watchdog group. "Places like Buffalo, Rochester, Syracuse do so poorly because

they have high percentages of renters."

Massachusetts and New Jersey have moved to cap local property tax levies, a practice that Mr. Spitzer opposes but that Republicans have supported. A cap successfully reduced the tax burden in Massachusetts in the 1980s. In 1977, Massachusetts had the nation's third-highest state and local tax burden as a percentage of income, after Alaska and New York, mostly because of property taxes that consumed 6.5 percent of income, the highest percentage in the nation. (Property taxes in the New York City suburbs currently consume 5.8 percent of income.)

Proposition 2 1/2, passed in Massachusetts in 1980, put a 2.5 percent ceiling on yearly property tax increases, which voters are able to override in municipal elections. Although the cap has often been overridden, overall property tax collections as a percentage of income have fallen drastically since it was implemented.

Eastchester, in Westchester County, and Newton, Mass., each had a median home price of about \$700,000 in 2005. In Eastchester, the median tax bill was \$12,348, a figure that has increased 36 percent in inflation-adjusted dollars since 1995. In Newton, the median tax bill was \$6,138, and it has increased just 3 percent in real dollars since 1995.

While Massachusetts is now 31st in terms of its state and local tax burden, New York ranks first, according to the Tax Policy Center, a joint project of the Brookings Institution and the Urban Institute.

Mr. Mauro said a tax cap would lock in, and even increase, disparities between rich and poor school districts. He would prefer also limiting property tax bills based on how high they are relative to the homeowners' incomes.

Paul E. Francis, the state's budget director, said, "The problem with the cap is that at the end of the day, for all the efforts you can make to design one, you're taking away local control over how much money they want to spend on schools."