



Between a Rock and a Hard Place

The money that comes from local property taxes pays for priorities like educating our children and maintaining local roads. These investments, in turn, provide the foundation for thriving communities and a robust economy.

Rising property taxes tend to be affordable for households with higher incomes – and the increased funds help pay for important investments in their communities. But for too many New York families making ends meet on an average income¹, local property tax bills have grown too big.

One in five New York families with a household income under \$250,000 now pays more than 10 percent of its income toward property taxes. Among households with incomes under \$100,000, one in four pays more than 10 percent.² For these families, a property tax bill that eats up more than ten percent of annual pay can turn into a real crisis.

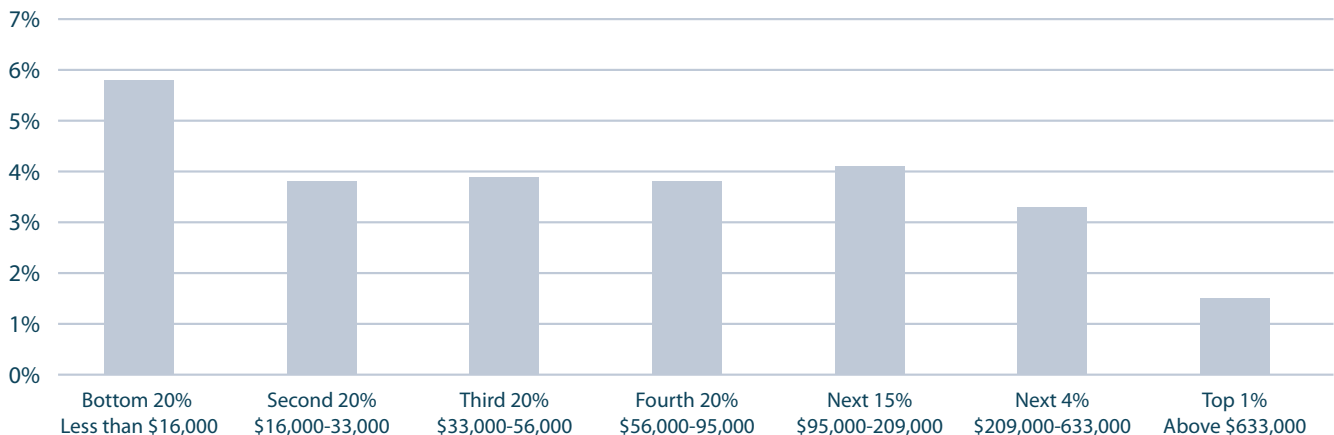
Some families forgo necessities – like college fees, car payments, or childcare – in order to stay in their homes. Others leave their long-time community for less expensive areas.

New York's Property Tax Problem

One problem is the way we collect property taxes. Property tax bills aren't scaled to a household's income. Instead, they are based on the ups and downs of the real estate market, and home values often increase at a different pace than family income.

So a family struggling just to get by pays their property taxes using the same rate as a hedge fund manager in the same district – with no distinction for the big difference in their incomes.³ The result: New Yorkers with lower incomes are spending more of their earnings on property taxes than wealthy New Yorkers.

How much of their annual pay do different New Yorkers spend on property taxes?



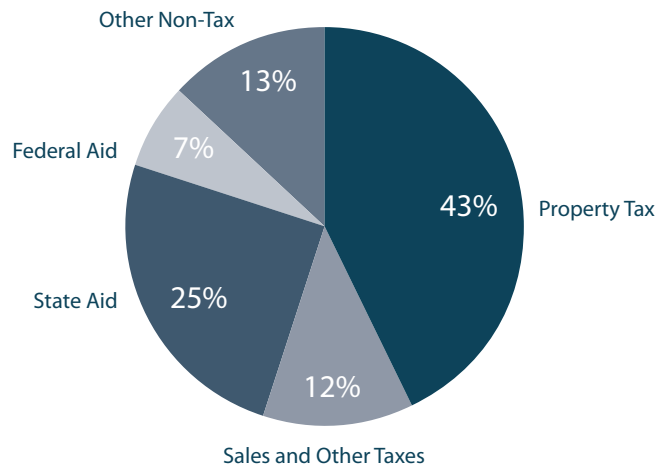
Source: Institution for Taxation and Economic Policy

Declining state aid: a primary cause of high property taxes

Property tax revenues are commonly used to balance municipal budgets – so they tend to increase more quickly if other revenue sources stagnate or decline.

If Albany provided adequate aid for local services, New Yorkers wouldn't be facing this problem. But in the 1980s and 1990s, Albany drastically cut income taxes for high-income New Yorkers - reducing the funds available for things like education and local infrastructure. By 2008, New York ranked 31st among 50 states in terms of the state's share of funding for education, leaving localities to pick up the rest.⁴

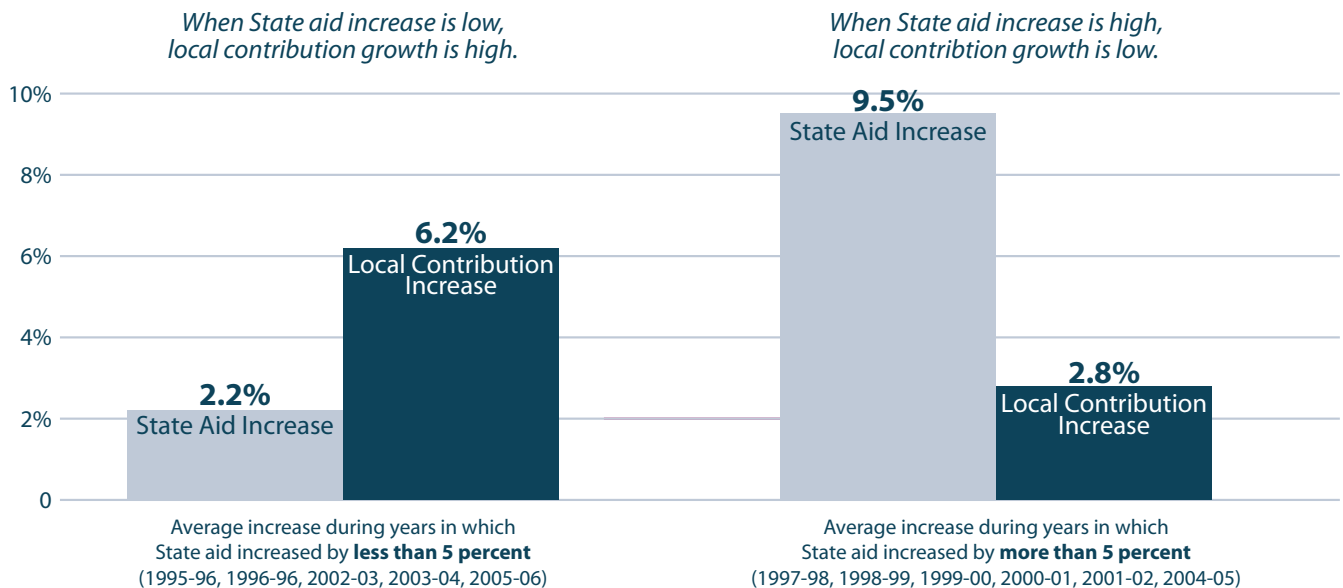
The result? Towns, cities, and counties are forced to rely on local property taxes as their primary revenue tool. In New York, local taxes pay for a higher share of public goods than in all states other than New Hampshire, leaving too many moderate-income households out in the cold.⁵



Revenue Sources for Local Govts

2004, Excluding New York City
Source: New York State Office of the State Comptroller

When State Aid Drops, Local Taxes Spike



1995-2006, avg increase for NYS school districts, excluding NYC.
Source: New York State Department of Education, Fiscal Profiles



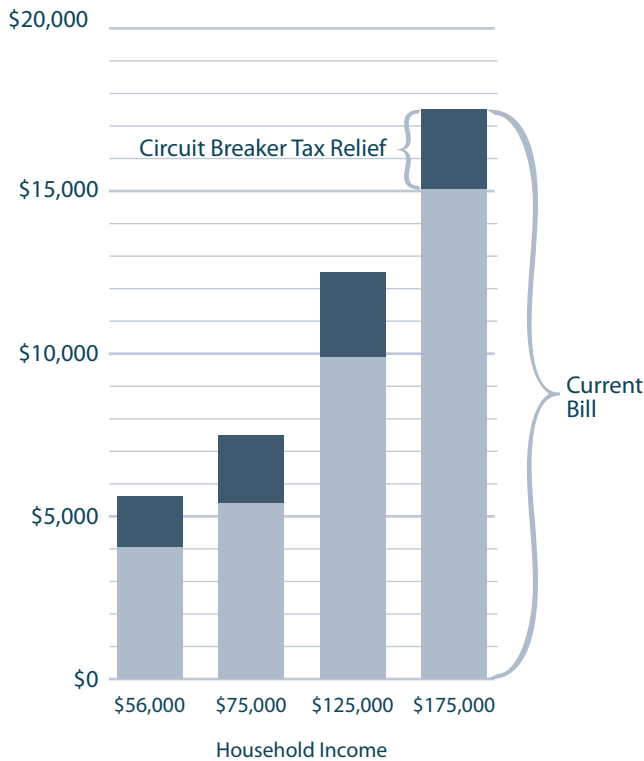
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A Property Tax Circuit Breaker: Real Relief for NY's Working Families

Fortunately, there's a solution – one that makes sure working families have a future in New York State. A property tax "circuit breaker" would provide direct dollar relief for middle and lower-income families. Like a breaker that gets tripped in an electrical surge, a household's property tax bill would be "tripped" if it rises too high for household income.⁶ The relief is provided directly to eligible households as a state tax credit.

The Circuit Breaker Difference



This graph shows sample households currently paying 10% of their household income to property taxes. In the circuit breaker model shown here, households with income up to \$250,000 would get a 70% discount on their bill over a set threshold. For families with income up to \$100,000, the

threshold would be 6% of their household income. The threshold would get gradually higher as family income gets higher: households with income between \$200,000 and \$250,000 would get the discount on anything over 9% of their income.

A Property Tax Cap: The Wrong Answer

A one size fits all property tax cap doesn't provide real relief – and causes serious problems for local communities.

A cap would do nothing for families whose property taxes already eat up too much of their household's income. A cap could slow down how fast a family's bill goes up, but it wouldn't give a single dollar of tax relief. And without increasing state aid, mandated limits on local tax revenues leave towns and communities in danger of ballooning budget holes.

California was renowned for having one of the best public education systems in the country - until the state passed a property tax cap law in 1978. Spending per pupil dropped from well above the national average to well below it, due to an inability for local communities to raise the necessary funds. By 2000, California's next generation of students ranked 48th in the nation on reading and math exams, just ahead of Louisiana and Mississippi.⁷

After passing a cap law in 1992, Coloradans also watched education funding and local services get ratcheted down. A decade later, they voted to overhaul the bill in order to restore service levels and mandated higher state funding for education.⁸

New York can avoid repeating their mistakes. A circuit breaker gives direct property tax relief to people whose property taxes are unaffordable – without hurting local schools, libraries, and roads. Restoring New York's state income tax brackets for the highest earners in order to restore state aid and implement a statewide circuit breaker is the responsible solution to New York's property tax problems.



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Endnotes

1. 60% of NY households have an annual income lower than \$56,000 and 80% have an income lower than \$96,000. In 2008, the median household income for New York State was \$56,000.
2. Fiscal Policy Institute analysis of 2008 data.
3. New York State provides a property tax credit for families with incomes of \$18,000 or less – a level that hasn't been changed since 1985.
4. "Rankings and Estimates," (December 2009), National Education Association. Retrieved on March 1, 2011 at <http://www.nea.org/assets/docs/010rankings.pdf>
5. Source: U.S. Census Bureau, State and Local Government Finance, 2008.
6. Bills currently in the legislature would greatly expand New York's circuit breaker to help families with incomes up to \$250,000.
7. "Local Taxes in New York State: Easing the Burden", (Dec. 6, 2007), Citizens Budget Commission. Retrieved March 1, 2011 at <http://www.cbcny.org/CBC%20%20Local%20Taxes%20in%20NY%20%20FINAL1.pdf>
8. "Is a State Spending Cap the Right Approach for New York?", (October 2010), Citizens Budget Commission. Retrieved March 1, 2011 at http://www.cbcny.org/sites/default/files/REPORT_SpendingCaps_10122010.pdf



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