TO TOMPKINS COUNTY LEGISLATORS

FROM: JOE MAREANE

DATE: MARCH 3, 2015

RE: GOVERNOR'S CIRCUIT BREAKER PROPOSAL

Background: As you know, the Governor has proposed a new property tax circuit breaker intended to ease the burden of local property taxes. The basic tenet of the $1.66 billion plan is a sliding-scale income tax credit for homeowners and renters whose property tax bill exceeds 6% of their household income. The credit would be phased in over a four-year period and presumably continue for the long-term. The credit is tightly linked to the property tax cap.

This memo attempts to summarize the way the circuit breaker would work; notes concerns with the way it may impact the County's ability to provide services in the future as uncontrollable factors impact our budget; and recommends that the $1.66 billion be re-directed to pay for the cost of State programs and obligations that have been shifted to counties. Through such mandate relief, the State could reduce county property taxes by fully one-third and provide broad-based property tax relief to all property taxpayers rather than to only some homeowners and renters.

The Mathematics of the Circuit Breaker: While the calculation of benefits is complex, there is a rule of thumb that can be applied in Tompkins County. If the assessed value of a person's home is more than twice his or her household income, it is likely that person will qualify for a credit.

Some of the major elements of the formula are as follows:

1. Who is eligible?

   Eligibility is limited to homeowners with a household income (adjusted gross income) less than $250,000, and renters with household income less than $150,000.

   Renters earning less than $150,000 are also eligible if 13.75% of their annual rent exceeds 6% of their household income. (The State has estimated that property taxes paid by tenants averages 13.75% of their rent.)

2. What counts toward the 6% of income threshold for the income tax credit?

The program looks **only** at taxes levied by "tax cap compliant" jurisdictions--schools and local governments that stay within the State-imposed tax cap. In the example below, the combined taxes of the school district, county, and town amount to 6.7% of the homeowner's income—enough to qualify for a credit.

Example					
Home Value	$160,000				
Household Income	$75,000				
	Tax	Tax	Percent	Cap	Counted Toward
Jurisdiction	Rate	Bill	of Income	Compliant?	Circuit Breaker
School	$18.09	$2,894	3.9%	Yes	3.9%
County	$6.89	$1,102	1.5%	Yes	1.5%
Town/Districts	$6.60	$1,056	1.4%	No	0.0%
Total	$31.58	$5,053	6.7%		5.3%

However, in this example, the town was not able to stay within its cap. Therefore, town taxes would not be counted toward the credit threshold. The "cap compliant" taxes would amount to just 5.3% of household income, below the threshold to qualify for a credit.

3. What is the value of the credit?

This is where the plan becomes more complex.

Income Threshold: The credit is phased-in over the next four years, beginning with returns for 2015 (filed in 2016.) Because the only new property tax levy in 2015 is the Fall levy for schools, only school taxes are eligible for the credit in the first year. A partial credit will be available to homeowners whose 2015 school tax bill exceeds 3.75% of his or her household income, so long as the school district is tax cap compliant.

For subsequent years, the credit is available when the sum of all property taxes levied by tax compliant jurisdictions exceeds 6% of the homeowner's income.

Amount of Credit: Additional complexity relates to phasing-in of the circuit breaker and the fact that it is a graduated, sliding-scale credit.

Value of credits rises over the next four years: The phasing of the circuit breaker program is reflected in the value of the credit issued by the State. As shown on the chart to the right, the portion of "excess" property taxes returned via the credit starts relatively small and ramps up to as much as 50% of the "excess" property taxes in paid 2018. There are also dollar limits on the amount of the credit issued. These, too, ramp-up over the next four years.

Phasing of Credits: Maximum for Households Earning Less than $75,000			
Year Taxes Paid	Year Credit Received	Maximum Credit	Maximum Dollar
2015	2016	14%	$500
2016	2017	23%	$1,000
2017	2018	36%	$1,600
2018	2019	50%	$2,000

The credits are graduated: When describing the program, the State generally refers to the benefit received by a homeowner earning under $75,000. In the final year of the phase-in (2018 property taxes recorded on the 2019 State income tax return), that homeowner would be eligible for an income tax credit equal to 50% of the property taxes paid to "tax cap compliant"

school districts and local governments in excess of 6% of his or her household income, up to a maximum of $2,000.

However, the amount of the credit declines as income rises. As shown in the table below, in the final year of the phase-in, a household earning $150,000 would be eligible for a credit of 40% of the "excess" property taxes, up to a maximum $1,500; a household earning $250,000 would be eligible for a 15% credit, up to $1,000.

Example: Credit for "Excess" Property Taxes, Various Incomes, Phase-In Period

Year Taxes Paid	Year Credit Received	Household Income (AGI)							
		$75,000	$100,000	$125,000	$150,000	$175,000	$200,000	$225,000	$250,000
2015	2016	14%	13%	11%	9%	8%	6%	5%	3%
2016	2017	23%	20%	17%	13%	12%	10%	9%	7%
2017	2018	36%	34%	31%	27%	23%	19%	15%	10%
2018	2019	50%	47%	44%	40%	35%	29%	22%	15%

Who will benefit most? The credit favors high property value-to-income ratios. Not surprisingly, therefore, the Governor's Office projects average savings of $1,100-$1,200 on Long Island and in the downstate suburbs where property values and taxes are highest. The projected average credit in Upstate is slightly less than $800, or about 50% less than downstate.

At least one analyst has stated that retirees will generally realize the most significant savings, as their incomes are relatively low compared to the value of their homes.

Small businesses and all other owners of non-residential properties are not eligible for the credit.

Concerns: The proposed circuit breaker is another, and certainly the most powerful, cudgel the Governor has used to reduce the size and number of local governments. Far more than the $7 rebate check for staying within the County's cap, the circuit breaker offers the potential of significant savings for many local homeowners and renters. It is reasonable to assume that the public pressure on local governments and schools to cut costs, even at the expense of core services, will be greatly elevated.

Moreover, since it is unlikely that a homeowner or renter will have taxes that exceed 6% of their income if *any* of their taxing jurisdictions fails to be "tax cap compliant", it is reasonable to expect local governments and schools will pressure each other to stay within their tax cap.

Applying pressure to reduce taxes is not inherently a bad thing. However, as it has throughout the tax cap era, the State is again attacking the symptom rather than the cause of high local property taxes. Time-and –again it has been demonstrated that State mandates—particularly the direct transfer of the State's programmatic and cost burdens to counties—is a major reason property taxes are higher in New York than in other states. Fully 48% of the combined tax levies of all Upstate counties is collected by counties and sent to Albany to help pay the State's Medicaid bill.

The proposal for a circuit breaker has not been accompanied by proposals for meaningful, real-dollar mandate relief. Nor has the Governor proposed changes in the tax cap formula that would recognize the need to invest in infrastructure, or that our cyclical economy will inevitably fall into a recession that will drive up the cost of State human service programs that are paid by the counties.

Imagine a mild recession. As we know from recent experience, County sales taxes would likely stagnate or fall, and human service costs would likely rise. State's pension fund investments inevitably fall during a recession, resulting in much higher premiums for local governments. In the past recession, the State cut aid and reimbursements to local governments and schools. All of these uncontrollable, and quite predictable, events would make it nearly impossible for the County to stay without its 2% tax cap.

Yet exceeding the cap would cause homeowners, who are also impacted by recessions, to lose hundreds or thousands of dollars in circuit breaker credits because the County fell out of "tax cap compliance," thus exacerbating the effect of a recession.

And because the tax cap is set at a maximum of 2% (with adjustments), a similarly untenable situation would exist if the nation entered a period of high inflation. Staying within a 2% cap when inflation is at even 4% would be impossible without significant cuts in core, non-mandated services.

As has been stated many times, a tax cap combined with uncontrolled, and uncontrollable, State mandates means that a growing share of the County budget will pay the State's human service bills, leaving less for local services.

Recommendation: If the Governor's objective is to reduce the burden of local property taxes in order to stimulate economic development, and if he is willing to devote $1.66 billion of State tax dollars to do that, the money should be used to pay for State programs that are now paid with local property tax dollars—programs such as Medicaid, PreK and Early Intervention, Temporary Assistance, Child Welfare, and Legal Aid to the Indigent.

By taking over $1.66 billion in mandated expenses that have been shifted from the State to counties, the Governor could cut county property taxes in New York State by fully one-third. (Counties currently levy $4.9 billion in property taxes.)

If that approach is taken, the Governor's goal of reducing the burden of local property taxes by $1.66 billion would be achieved, but the benefit would be spread to owners of all taxable property, including small businesses and other owners of commercial and industrial property. Moreover, that approach would also attack a principal cause of high local property taxes—the mandated expenses shifted from the State to counties--rather than the symptom. If the Governor's concern is the effect of property taxes on economic development, then a plan to extend the relief to business and industry would seem to make more sense than a break available only to certain homeowners and renters.

If the Governor's paramount goal is to reduce the size and number of local governments, he should propose legislation to achieve that goal. That is a far more honest course than to drive local government costs up on the one hand, and reduce their capacity to pay those costs on the other.

A few years ago, when the Governor was asked to pick up the cost of Medicaid, he said there wasn't money to do that. Now, apparently, there is. With $1.66 billion set aside for property tax relief, the State has the capacity to return $1.66 billion of its program costs to its own budget. With the stroke of that pen, and without causing the State budget to go up by a penny more than the Governor has proposed, the State will have acted to cut county property taxes by one-third; reducing the burden of local property taxes by $1.66 billion.