Remarks to the Tompkins County Legislature, January 21, 2014
NYS Tax Relief Report – Overview and an Alternative Strategy

On December 10, 2013 a New York State Tax Relief Commission created by the Governor nine weeks earlier, issued the attached report that recommends several "targeted tax relief" measures. The Commission called on the State to earmark $1 billion for property tax relief and another $1 billion to support a variety of business tax reductions.

In his January 8 State of the State Address, Governor Cuomo endorsed the Commission's proposals, confirming his intention to make implementation of the recommendations a high priority in 2014.

The centerpiece of the report is a 2-year "freeze" in local property taxes.

The Commission's plan would accomplish a one-year freeze by sending a rebate check to "homeowners in jurisdictions that abide by the 2 percent real property tax cap." The rebate would be equal to the amount of that year's increase in the homeowner's tax bill.

Homeowners would be eligible for a rebate in the second year only if their jurisdictions keep their levies within the cap and also "take meaningful concrete steps toward finding permanent structural savings by sharing services with other jurisdictions or consolidating governments in their entirety."

The cost and complex logistics of the proposal were not discussed by the Commission.

Beyond these inducements to stay within the property tax cap, the Commission made a series of other recommendations pertaining to the property tax including a "circuit-breaker" that would tie the net amount of a homeowner's property tax bill to the homeowner's ability to pay, and a State-funded tax credit for property taxes paid by manufacturers. The Commission also provided a series of recommendations regarding ways to lower the tax burden on businesses, including raising the exemption on the Estate Tax, lowering corporate tax rates for Upstate manufactures, and several other measures.

It is hard to argue with the Commission's finding that local property taxes in New York State are too high. By any objective measure, they are.

However, the Commission's response does not address the problem that has led us to this point—the role of the State itself in pushing costs to counties, municipalities, and school districts whose primary revenue source is the property tax.

At a time when the State is demanding bold new thinking about the alignment of responsibilities among local governments in order to reduce property taxes, it is time to consider how a realignment in the relationship between the State and its counties could produce far more meaningful, and sustainable, property tax cuts than the Tax Relief Commission has proposed.

<u>The Implications of the "Freeze" for Tompkins County and its Taxpayers</u>

To assess how a freeze would affect Tompkins County and its taxpayers, the Commission's methodology was applied to the recently approved 2014 County budget. As you recall, our tax levy rose by 2.95%, slightly above our 2.26% tax cap. The tax bill on the median-priced home in the County rose by $14.81, from $1,108 in 2013 to $1,122 in 2014.

Lowering the levy to the 2.26% cap would have required a local dollar spending cut of $301,000, equivalent to about 5 full-time positions. The County tax bill on a $163,000 home (which is the median value of a single-family home in the county) would have risen by $7.31 rather than 14.81, a savings of $7.49[1].

Under the plan advanced by the Tax Relief Commission, the owner of that average home would have received a State check in the amount of $7.31, offsetting the impact of the County tax increase.

All told, the average County homeowner would have saved $14.81---$7.49 through a lower County tax bill than the one actually passed, and $7.31 in a check from the State.

In the second year, even if the County stayed within the cap, a rebate would be issued only if the County demonstrated to the State that it had developed and agreed to implement a shared-service plan or administrative consolidation.

Observations

The seven-person Tax Relief Commission, co-chaired by former Governor George Pataki and former State Comptroller Carl McCall, did not include a representative of local governments or school districts. Its report acknowledged the importance of the property tax as a revenue source to local governments, but scolded schools and local governments for using it. As noted, its core proposal for property tax relief is a two-year rebate program that would have a modest short-term effect, and no discernable long-term effect on local property taxes.

The Commission's call for a property tax freeze appears to be simply the latest in a series of State policies and actions that cleverly attack the symptom rather than the disease. After years of driving up local property taxes by disguising the costs of State programs (such as Medicaid) as county costs, and imposing unfunded rules and regulations on all local governments and schools, the State is now leading the attack on local property taxes.

The Commission repeats the well-known fact that property taxes in New York are among the highest in the nation and notes that property taxes represent fully 38% of the taxes paid by businesses in New York State, hindering the State's efforts to promote economic growth. However, its report doesn't analyze why property taxes are so high, nor even make a passing reference to the State's role in driving those tax burdens ever-higher by shifting the cost of its own human service programs to counties and their property taxpayers.

Therefore, it is not surprising that the Commission failed to call for the State to dedicate its funds for mandate relief—which would translate into sustained property tax relief—but instead proposed a modest rebate program that will go away after two years, and may cost more to administer than it saves for taxpayers.

[1] Numbers are rounded to the nearest penny, resulting in the two numbers not equaling the $14.81 sum.

By tying the second year of the rebate program to progress in achieving consolidations and shared services, the Commission echoes the Governor's call for realignments of governmental responsibilities.

A Recommendation

There is a different, and I believe better, way than the course recommended to achieve significant and sustainable tax relief in a manner that embraces the Governor's call for bold realignments of governmental responsibilities that produce optimal efficiencies, economies of scale, and a more equitable distribution of costs.

Rather than a one-shot, high-cost, low-impact rebate, I suggest the State initiate a four-year realignment of the relationship with its counties that will result in the State assuming the full cost of its major programs that are now being administered and co-funded by counties.

By doing so, the State will produce the largest property tax cut in the history of the State—a deep, sustained, across-the-board reduction in property tax burdens for the owners of all classes and types of property. The realignment of these responsibilities should produce greater efficiencies in administering the State's programs, opportunities to realize economies of scale, a more equitable distribution of costs, and better decision-making. For the first time in generations, the State will be responsible for the full cost of its program and policy decisions. Decisions are always better when the full cost and consequence of the decision is borne by the entity making those decisions.

The time to make these changes is now, as the State has asked for, and is increasingly demanding, a fundamental restructuring of government and governmental responsibilities. Compared to other governmental restructuring proposals, this one is not complex. Over the next four years, the State can simply assume responsibility for the cost of its own programs.

This recommendation addresses county-run State programs, but does not deal with school districts or other levels of local government. It would reduce property taxes by a large enough measure that the pressure for relief from municipal and school taxes would be lessened, without requiring drastic measures from those systems.

The specific proposal is as follows:

Phase I—The State takes over the full cost of its Medicaid program, bringing New York State in line with nearly every other State in the country. Even with the decade-old "cap" on growth and the more recent plan to effectively freeze the growth of county Medicaid costs, the counties' payments to the State to support the non-federal (i.e., State) share of the program remains the largest single expense in nearly every county budget and remains well beyond what other states require of their counties. By simply paying the State Share of Medicaid with its own resources, much of the disparity between county taxes in New York versus other states will disappear.

- In Tompkins County, the State's assumption of its Medicaid costs would result in an $11.8 million (26%) property tax cut that would save the average homeowner $294 per year.

Phase II—The State takes over the full cost of its PreK Special Education and Early Intervention programs.

- In Tompkins County, that would result in an additional $2.6 million property tax cut (8% from the year before), saving the average taxpayer another $64.

Phase III—The State takes over the full cost of its constitutional obligation to provide legal defense to the indigent, and also the full cost of its child welfare programs.

- In Tompkins County, that would result in another $4.2 million property tax cut (14% from the year before), saving the average taxpayer $105.

Phase IV—The State takes over the full cost of its Temporary Assistance programs and remaining programs that have been delegated to county social services departments, including DSS's cost to administer mandated programs and operate programs funded under Purchase of Service arrangements.

- In Tompkins County, that would result in another $6.9 million tax cut (26% from the year before), saving the average homeowner another $162.

At the end of the four-phase program, the realignment of costs would be complete. County taxes could be cut by over $25.5 million, or 57%. The annual County tax bill on an average ($163,000) home would drop from $1,122 to $487—an estimated savings of $636 per year for an average homeowner.

<u>Outcome</u>: If implemented, the proposal would have a profound impact on the financial and programmatic structure of State and county government. In Tompkins County, property taxes would be cut by more than half. In other counties, the impact should be of a similar order of magnitude. The State budget would rise appreciably.

Some will say that this realignment of responsibility would only shift costs from one pocket to another. That is not true.

For the first time in at least a generation, the cost of State programs would be paid by the State itself, and not disguised as County costs paid by local property taxpayers. For the first time, voters would know the full costs, and benefits, of State programs. Decision makers could be held accountable for their decisions. This alone will improve the quality of decision making regarding these major State programs.

Moreover, by funding these State programs with State dollars, the kind of unwieldy and targeted property tax circuit-breakers, abatements, and exemptions that have been proposed by the Commission (and others) can be eliminated in favor of a broad-based State income tax that is already modestly progressive and can be made more-so by the State Legislature.

Rather than create a new, complex, circuit-breaker that attempts to link property tax burdens with the owner's ability to pay, it would make more sense to shift the cost of State programs from county property tax bases to the State's income tax base that is inherently linked to an individual's ability to pay—and that isn't riddled with exemptions (also established by the State.)

Counties rely on just two major revenues—sales and property taxes. Inflation often outpaces sales tax receipts and property taxes do not automatically grow even as property values increase, but must be raised by legislative action. In contrast, the State has a variety of revenues it can employ to most fairly and equitably distribute the cost of its programs.

Just as the State has encouraged regionalism and shared services based on confidence in the benefits produced by economies of scale, it is presumed that the State's assumption of these responsibilities will result in efficiencies and cost savings not possible when funding programs are decentralized among the State's 62 counties.

And, with uncontrollable costs to pay for State programs removed from their budgets, counties could also be held accountable for controlling their own costs and tax levies.

Conclusion

For years, counties have lobbied for, and the State has generally pushed back against, "mandate relief" to lower the local burden of State-imposed costs. Today, the Governor's challenge think first about equity and efficiency—and only then about boundaries—has changed the paradigm. By being willing to rethink the way services are delivered and funded, the State and its counties can engage in an important discussion about realigning our relationship in a way that serves the interests of the State, counties, and the taxpayers.

At a time when State itself has called for governments to look beyond boundaries, realign responsibilities, and seek the optimally efficient ways to deliver and pay for services, it is right for counties to accept that challenge and propose a major, but common-sense realignment that assigns the State the full responsibility and cost of its own programs.

If the State is serious about property tax relief, it must become serious about sustainable, structural solutions that solve the problem. The State had a major role in creating the problem; it must now assume an equally major role in solving it through means other than finger pointing. Counties, in turn, must accept that such a transfer of cost cannot be seen as a windfall that can be spent on other things, but instead as a source of tax relief for local property owners.

A phased-approach to the State's takeover of the costs of its constitutionally-based human services programs will produce historic levels of property tax relief, something that will be of great benefit to the State's economy. Changing the way the State now apportions its costs—some to taxpayers directly, some to taxpayers indirectly through their county property tax bill—will be difficult, as are the consolidations and realignments that local governments and schools are being encouraged to do.

The Governor's goals are correct. He is right to say that property taxes are too high, and right to call for bold realignments of governmental responsibilities. In my opinion, if the State is willing to broaden the scope of the discussion about realignment of responsibilities, the door would be opened to historic levels of sustainable property tax relief in every quarter of New York State.

With your permission, I will submit this proposal to NYSAC for its consideration.