

The Omnibus Tax Reform Bill - Restoring Fairness to Taxation

Short Term Relief and Long Term Solutions

Many reformers have called upon the state for years to make New York’s overall tax system more equitable by reducing the state’s reliance on local property and sales taxes and increasing its reliance on state taxes based on ability to pay. Unfortunately, nothing has been done to date to either address the long term structural problem (that New York State policies put an undue amount of pressure on the property tax) or to effectively address the critical short term problem of people being taxed out of their homes.

During the last two years, local real property tax reform groups, fiscal watchdogs and unions have been successful in making the idea of a middle class circuit breaker a front burner issue in New York State government and politics. Large portions of the public understand what a circuit breaker is, and there is broad public support for the idea of a middle class circuit breaker as a way to deal with situations in which homeowners are significantly overburdened by their property taxes. It is important that New York policymakers seize this opportunity to phase in an effective middle class circuit breaker. But it is equally important that they adopt a long term strategic approach to moving a significant amount of costs from the local to the state levels in a way that achieves true tax reform.

The omnibus bill addresses both of those goals. In addition, the bill provides for the creation of a tax reform study commission, with members to be appointed by the Governor and all four parties in the Legislature, and the establishment of a statutory requirement for both a periodic study of the incidence of the overall state-local tax system and analyses of the distributional impact of proposed tax legislation. These are all essential steps if New Yorkers are to have real tax reform.

Short Term: Circuit Breaker Relief

Significant work has been done in the Legislature regarding the development of a circuit breaker bill by Assemblywomen Galef and Senator Little. The Omnibus Tax Reform bill builds upon these wonderful ideas to create a relatively generous middle class circuit breaker (limiting a person’s property taxes to a fixed percentage of their income) that would be phased in over a period of four years. Governor Paterson has proposed eliminating the STAR rebates checks in his budget proposal as one means of closing our state’s large budget deficit. The omnibus bill proposes to use the money from the elimination of the Star Rebate Program to finance its proposed reforms. But the move from the current rebate checks program to an effective middle class circuit breaker would not have a financial implication for the state until SFY 2010-11 and, therefore, would in no way detract from the Governor’s proposed use of this money in the current fiscal year for deficit reduction.

Calendar Year	Household income	Circuit Breaker would cover property taxes over the following percentages of household income	The refundable credit would cover the following percentage of property taxes over the percentage limit:
2009	\$100,000 or less	9%	70%
2010	\$100,000 or less	8.5%	70%
2011	\$100,000 or less \$150,000 or less	7.5% 8.5%	70%
2012 and beyond	\$100,000 or less \$150,000 or less \$250,000 or less	6% 7% 8.5%	70%

The omnibus bill’s circuit breaker would limit the cost of the proposed middle class circuit breaker by adopting the Galef-Little bill’s proposed 5-year residency requirement. The costs would also be phased in by gradually increasing the program’s income limits and by phasing in coverage for renters during the second and third years of the phase-in. By

replacing the STAR rebate check program with an effective middle class circuit breaker, the omnibus bill would replace a program that provides relatively small checks to virtually all homeowners in the state with a circuit breaker credit that will target more meaningful relief to those homeowners who are truly overburdened by their property taxes. The multi-year "phased in" approach is designed to be sensitive to the state's fiscal situation while recognizing that homeowners most overburdened by unreasonable levels of property taxation are part of the overall financial crisis and need help immediately.

Long Term: Tax Reform

The omnibus bill proposes to significantly decrease the pressure placed on the local property tax base (municipal, school and county) by gradually shifting \$10 billion of costs from the local level to the state level. This shift from the local level to the state would represent a shift from the regressive local tax base to more progressive state taxes based on ability to pay. This shift would cover \$6 billion in school costs, \$1 billion in local Medicaid costs and \$3 billion in the cost of basic municipal services.

Education:

The foundation formula reform plan, enacted into law in 2007, represents an important breakthrough in the way that the state government shares in the cost of education with local school districts. The new formula establishes a foundation funding level for each school district in the state and provides a basis for estimating the cost of providing a sound, basic education. The formula also provides a basis for making sure that we treat all school districts in the state in a fair and equitable way.

Current law provides that the foundation formula be fully funded in 2010-11. The total foundation funding level for the 2010-11 school year under the foundation formula as enacted in 2007 and as modified earlier this year, is an estimated \$36.6 billion. Based on the statutory formulas by which responsibility for funding this foundation amount is divided between the state and the local school districts, it is anticipated that in 2010-11 that the state will provide an estimated \$18 billion in foundation aid to local districts, or just about 49 percent.

The omnibus bill proposes that once the initial 4-year phase-in of the new foundation formula is completed in 2010-11 and the State Education Commissioner has completed an updating of the basic "per pupil foundation amount," that in addition to paying its current share of the foundation amount, that the state also gradually increase its share of the total foundation amount. The omnibus bill includes a commitment to shift \$6 billion of such responsibility from the local property tax base to the state tax base over the course of the decade beginning with the 2012-13 school year.

Local Government Assistance:

For general-purpose local governments, cities, towns and villages, the primary pressure that the state has placed on local governments has been negative because the state is not sticking to its revenue sharing commitment. The underlying law, which gets notwithstanding every year, is that the state is supposed to share 8 percent of revenue with local governments. In the 1980s, when Hugh Carey was governor, NYS had its first freeze on revenue sharing in order to allow one of the state's earliest multi-year income tax cuts to be phased in as scheduled despite the recession that the nation was then experiencing. In the budget problems of the early 1990s, no major state program was cut more than revenue sharing—from over \$1 billion a year to less than \$500 million. The omnibus bill provides that over ten years beginning with the 2012-13 state fiscal year that the state phase in a \$3 billion increase in revenue sharing with its cities, towns and villages.

Medicaid:

In regard to Medicaid, the state should honor its commitment to picking up increases in the local share in excess of 3 percent per year. But in addition to this, the omnibus bill would gradually increase the state share of Medicaid costs in a way that bases each county's share of Medicaid costs on objective measures of each county's relative "ability to pay" and, in the course of doing so, shifts an additional \$1 billion in costs (over and above whatever may be the costs of the 3% cap) from the local property tax base to the state tax base.