

The Property Tax in New York State

Condition Report Prepared for the
Education Finance Research Consortium

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Executive Summary

The Education Finance Research Consortium posed this research question:

“The real property tax is a highly visible and largely unpopular source of significant levels of revenues for the public schools in New York State. Policy makers face complaints from taxpayers about the burden of the tax and need up-to-date and accurate answers about the actual incidence of the tax. In recent years, changes have been made in the design of the real property tax in an effort to provide tax relief for certain categories of taxpayers. Policy makers need to understand the impact of these reforms and the degree to which actual relief has been provided. These policy makers also need to know if the relief enjoyed by some taxpayers has come at the expense of additional burdens for other taxpayers.”

“The Education Finance Research Consortium seeks a study of the real property tax in New York State that will include a historical examination of changes in the design and burden of the tax over the past 10 years. The study should also document changes in the degree to which the public schools have been dependent on the tax during this period along with assessments of the incidence of the tax across different categories of taxpayers, including taxpayers located in different regions or types of school districts (e.g., rural vs. urban). Of particular interest are changes in the incidence of the tax burden that have been occasioned by the various reforms that have occurred. Emphasis should be placed on identifying who has benefited and who has been harmed because of the changes that have taken place in the operation of the property tax in New York State during this period.”

In response to the Rockefeller Institute study team’s proposal, EFRC provided this follow-up guidance on priority directions for the paper:

- a. From 1993-2005 look at the property tax base and revenue by type of property for each year in every district.
- b. Aggregate this data by the point raised in your question, “How has the property tax share of public-school funding changed, and how has the proportion of school funding from other major resources changed for various types of school districts (categorized by indicators of need, size, type and region)?
- c. Identify any trends seen and benchmark this against ability to pay or relate to need.

Methodology

Our research focused on two primary sources of property-tax data: the state Education Department's ST-3 series, and the Office of Real Property Services' data on property values and property tax levies by property class (residential, commercial, etc.). We analyzed changes in overall distribution of tax payments by region, by property class and other factors. To assess property tax burdens in the context of ability to pay, we ranked all school districts into deciles by income per pupil and property value per pupil, and analyzed effective property tax rates within each decile. We gave particular consideration to the role of STAR, the School Tax Relief program that was implemented during our study period, and examined whether school district revenues from the program should be considered analogous to state aid or to property tax revenue for analytic purposes.

Key Findings

Broad changes in the distribution of the property tax during the study period included:

- Among property classes, the proportion of taxes paid by residential property owners rose from 51.1 percent to 58.5 percent while the proportion paid by commercial and industrial property owners declined.
- Overall effective property tax rates rose sharply in New York City and Upstate during the period, and dropped significantly on Long Island and in the Westchester-Rockland region.
- Statewide, average effective tax rates rose for both residential and commercial properties, the two largest property classes. The statewide increases in overall average property tax rates, in average tax rates for residential property, were driven by especially large increases in New York City, where market values rose sharply but were outpaced by increases in effective tax rates.
- Overall, the school property tax in New York became more regressive from 1993 to 2005, as indicated by effective property tax rates. Effective tax rates in poorer school districts rose relative to income over the period, while those in higher-income districts generally declined in relation to income. Conversely, overall tax collections in the highest-income districts increased by more than twice the rate of increase in the lowest-income school districts, in part because property values in higher-income districts rose rapidly.