The Property Tax in New York State

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Condition Report

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Executive Summary

The property tax burden in New York State increased from 1993 through 2006, whether measured in inflation-adjusted dollars or in taxes paid as a proportion of property values. Total levies for school districts, including New York City, rose from $12.1 billion to $22.4 billion during the period. After accounting for inflation as measured by the Consumer Price Index, property tax collections by school districts rose 31.8 percent, while student enrollment increased by 4.8 percent for the period.[1] After adjusting for both enrollment and inflation, property taxes rose by one-quarter, or 25.7 percent. At the same time, state aid to school districts increased by 35.7 percent; and total school expenditures by 39.3 percent, both adjusted for inflation and enrollment increases. The overall average effective property tax rate for schools rose by roughly 13.7 percent from 1993 to 2005, from $13.98 per $1,000 of value to $15.89.

These broad changes in the distribution of overall property tax burdens occurred during the study period:

- 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.
- Effective tax rates (tax levies as a proportion of property values) rose in 77 percent of school districts, while declining in 23 percent. The average effective property tax rate rose sharply in Upstate school districts, while effective rates dropped significantly on Long Island and in the Westchester-Rockland region. The difference among regions was driven primarily by property values, which more than doubled in the Long Island and Westchester-Rockland regions while rising by smaller proportions in Upstate districts. Expenditures and tax levies rose by well over the rate of inflation in all regions.
- Statewide, average effective tax rates rose for both residential and commercial properties, the two largest property classes. The statewide increase in overall average property tax rates, and the statewide increase in average tax rates for residential property, were driven by especially large increases in New York City, where taxable values rose but were outpaced by increases in spending and tax levies. The effective school property tax rate on residential property in New York City rose by two-thirds, although the city's average residential effective rate in 2005 was still lower than rates outside the city.
- Outside New York City, overall average tax rates and tax rates on residential property rose during the mid- and late 1990s but then declined to around their 1993 level by 2005. Average effective

[1] Enrollment figures are based on NYS Education Department's Duplicated Combined Adjusted Average Daily Membership or DCAADM, which is based on the number of students receiving their educational program at district expense. For more information, please see http://www.oms.nysed.gov/faru/Profiles/18th/revisedAppendix.html.

tax rates on commercial property rose modestly outside New York City over the period, and rose sharply within the city, contributing to a significant average increase in commercial property tax rates statewide.

- 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.
- Property taxes generated, on average, only 18 percent of total revenue among the Big Four urban school districts, and 23 percent in high-need rural districts, in 2006-07. The Big Four districts saw large declines in combined wealth ratio compared to most other districts statewide. Property values for the school districts in Buffalo and Rochester declined by nearly 15 percent from 1993 to 2005, while the effective tax rates increased by over 30 percent.
- In 2006, according to the Census Bureau's American Community Survey (ACS) data, median property taxes as a proportion of household income were highest on Long Island, at 7.2 percent compared to a statewide average of 4.6 percent. The ACS data confirm the picture of a somewhat regressive property tax distribution, with lower-income households paying a relatively higher level of income in property taxes than higher-income households.

Property taxes in New York are imposed not only by school districts, but by counties, cities, towns, villages and fire districts as well. School districts represent the largest share of overall property tax collections, and raised total tax levies by 92 percent over the study period, more than twice the average increase for other taxing jurisdictions. Outside of New York City, school districts were responsible for 71 percent of the total increase in property tax collections from 1993 to 2005. Because of the Education Finance Research Consortium's particular interest in school finance, this report focuses primarily on property taxes collected by school districts.

Among the six Need Resource Categories of school districts established by the state Education Department, effective school property tax rates rose most noticeably during the study period in New York City and among high-need rural districts. As of 2005, average effective tax rates among the six NRC categories were clustered in two groups. The Big Four city school districts, and Low-Need districts, both had overall effective tax rates around 1.3 percent of value. New York City, and districts in the NRC categories of High Need Rural, High Need Urban/Suburban, and Average Need all had effective property tax rates around 1.7 to 1.8 percent. Such ratios can add up to substantial differences in tax bills – an effective tax rate of 1.8 percent on a $100,000 home would represent $500 more in annual taxes than a 1.3 percent effective rate.

While effective tax rates on property owners rose during the period, the property tax's share of overall school funding declined slightly (to characterize this observation another way, overall expenditures and revenues rose more rapidly than effective property tax rates). Such comparisons are complicated because the state's School Tax Relief (STAR) program was created in the middle of the study period, and STAR revenues to districts are difficult to classify purely as either state aid or property-tax equivalents. Throughout this report, unless otherwise noted, references to property tax revenues do not include STAR payments to school districts and homeowners. Setting STAR revenue aside, property taxes declined from 51.9 percent of total school revenues in 1993-94 to 45.4 percent in 2006-07.

I. Overview

Locally imposed property taxes represent a key funding source for local governments and school districts in New York State. (Unlike some states such as California and Washington, New York does not have a state-level real property tax.) Across the state, property taxes provided 29.9 percent of total revenues for schools, counties, cities (including New York City), towns, villages and fire districts in 2005. At $37.2 billion, property tax revenues collected by school districts and other local governments were nearly equal to combined revenues from federal and state grants, and far surpassed other individual revenue sources, according to data from the Office of the State Comptroller (OSC).[2] School districts collect the largest share of property taxes, $15.5 billion outside New York City in 2005, according to OSC data. (Appendix A shows property tax collections by major classes of local governments.) Including property tax revenues for the New York City School District brings the school total to $23.1 billion, or 62 percent of all property taxes in the state that year.[3]

This paper reports on research and analysis of trends in the property tax in New York State conducted on behalf of the Education Finance Research Consortium by the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York. The study examines both statewide trends and variations in trends among local school districts, as well as the role of the School Tax Relief (STAR) program.

Data Sources

The primary study period is 1993 to 2005, with some additional data from more recent years. The research and analysis of school districts are based primarily on two sources of data – the New York State Education Department's (NYSED's) ST-3 reports on school district revenues, and the New York State Office of Real Property Services (ORPS) data on property values and tax levies. The Education Department's ST-3 data are publicly available through the 2005-06 school year, and department staff provided the Rockefeller Institute with preliminary ST-3 data for the 2006-07 school year. ORPS' data extend as recently as 2005. For analysis of statewide property tax collections by all classes of local governments, and of school district revenues in relation to other local entities, we rely on data from the Office of the State Comptroller; we have placed this analysis in Appendix A to minimize potential confusion among the NYSED, ORPS and OSC data. In addition, the Institute supplemented its analysis with the Census Bureau's 2006 American Community Survey data, for certain analysis of property tax burdens at the individual household level. The Rockefeller Institute expresses its appreciation to staff at the Education Department, Office of Real Property Services, and

[2] See "2007 Annual Report on Local Governments" and "Financial Report on School Districts, Fiscal Years Ended 2005" both published by the Office of the State Comptroller and available at: http://www.osc.state.ny.us/localgov/datanstat/index.htm.

[3] The $23.1 billion figure is from the Office of the State Comptroller, while most references in this report rely on data from the New York State Education Department or the Office of Real Property Services.

Department of Taxation and Finance for their assistance. We are grateful to the Education Finance Research Consortium for sponsoring the study.

II. Major developments in property taxes statewide

In New York and elsewhere, the property tax is frequently criticized as excessively burdensome and often inequitable. Currently, Governor Paterson and a gubernatorially appointed Commission on Property Tax Relief are urging enactment of a statutory limit on annual growth in school property tax levies.[4] Some legislators have called for going further by abolishing the property tax outright and replacing such revenue with unspecified new revenues provided by the state.[5]

Supporters of the property tax note that it generates the largest proportion of funding for public schools, and that revenue from the property tax is less volatile than either the second-largest source of education funding – state assistance – or the other two major sources of state and local tax revenue, income and sales taxes. During the period the Rockefeller Institute examined for this report, those two characteristics of the property tax – its role as the most important source of education funding, and the stability of revenue – were clearly in evidence.

From $12.1 billion in the 1993-94 school year, property tax revenues collected by all school districts statewide (including New York City) rose 84 percent in nominal terms, to $22.4 billion, as of 2006-07, according to New York State Education Department data. After accounting for a slight increase in enrollment and for inflation, school property tax levies rose an adjusted 31.8 percent during the period.[6]

Property taxes as a share of overall school revenues

School districts in New York rely primarily on two major sources of revenue – property tax levies and state aid. Federal aid, and local revenue other than property taxes (chiefly sales tax and utility tax revenue), contribute a combined total of roughly 10 percent of overall revenue for school districts. The proportion of total school revenue from state aid tends to fluctuate with the state's fiscal position. From 1993-94 to 2001-02, state assistance rose from 38.7 percent to 41.6 percent of all revenues, according to the Education Department's ST-3 data. In the wake of the September 11, 2001, terrorist attacks and the resulting damage to state revenues, state aid declined sharply as a share of total revenues. The state has provided major increases in aid to schools over the past two years. While available data do not allow calculation of the impact on

[4] The principal investigator for this project, Robert Ward, is a non-voting special adviser to the Commission.
[5] See, for instance. A.4746 by Assemblyman Cahill et al., introduced February 6, 2007.
[6] Inflation adjustments are based on the Consumer Price Index.

overall school revenues for all districts, it appears that districts outside New York City and the Big Four city districts used some of the new state aid to reduce their reliance on property taxes.[7]

The role of STAR

Assessing the contribution that property taxes make to overall school revenues has become more complicated since creation of the state's STAR (School Tax Relief) program for homeowners in 1998. From the 2001-02 school year through 2006-07, STAR represented a consistent 7 percent or so of total revenues to all school districts.

Conceptually, STAR might best be considered as additional state aid to schools, given that the dollars come from the state's broad-based general revenues and are used to offset the costs that local taxpayers bear for public education. Treating STAR this way portrays an important change in the relationship between state assistance and locally generated revenue. Throughout most of the 1990s, property taxes and other local revenue provided more than 50 percent of school funding, while state aid was around 40 percent. In the first year of our study period, 1993-94, property taxes were just below 52 percent of the total, and state aid 38.7 percent – a gap of more than 13 percentage points. In 2006-07, the final year for which we have complete data, Education Department data show property taxes at 45.4 percent and state aid 36.6 percent of total revenue. Assigning STAR dollars to the state-aid portion of revenue in that year shrinks the gap between property taxes and state aid to less than 2 percent. The role of property taxes still exceeds that of state assistance, but not by much. If STAR is considered state aid, then, creation and expansion of the program have significantly increased the state share of overall education costs.

Alternatively, STAR may be considered as property-tax revenue to school districts, rather than state aid. When he initiated the program, Governor Pataki portrayed STAR dollars as direct substitutes or reimbursement for homeowners' property tax payments, a characterization echoed by supporters in the Legislature. Homeowners receive the benefit as a reduction in the tax payments they would otherwise make to their local school districts. As a technical matter, school districts continue to set their overall tax levies just as they have for decades – and they do not subtract STAR dollars from those levies in their official reports, or treat such revenue as state aid. If STAR is viewed as part of the property-tax total, school districts' reliance on property taxes has become even more predominant. Property taxes plus STAR totaled 52.6 percent in 2006-07, fully 16 percentage points more than aid from Albany.

Yet a third method of accounting for STAR – considering it partly state aid, and partly property tax revenue –is also be worth considering, and may be the most useful way to analyze the program. Several

[7] In 2008, some 630 school districts that submit proposed budgets to voters reported to the state Education Department that property tax levies would make up an average 58.5 percent of those districts' total expenditures for 2008-09. That was the lowest proportion among these districts since 2001. These figures are from the Property Tax Report Cards school districts submit to the department before school budget votes each year. Such submittals do not include New York City or the Big Four districts (because residents in those districts do not vote on school budgets), but represent more than 90 percent of tax levies outside the largest five districts.

researchers have concluded that STAR leads to higher school spending and higher property tax rates.[8] If such is the case, STAR should not be regarded as entirely equivalent to state aid for analytical purposes. While increased state assistance may lead to higher spending, it tends to reduce local tax rates rather than increase them. From the perspective of local school officials, the main practical impact of STAR is that it reduces the cost of education for local homeowners, and thus likely increases voter support for any given increase in school spending. Given these characteristics, it may be worthwhile to "label" as state aid that proportion of STAR funding that reduces local costs, and to classify as property taxes the proportion of STAR that is consumed by otherwise unexpected increases in local tax levies and spending. Eom, Duncombe and Yinger find that "extra" tax increases stimulated by STAR offset some 40 percent of savings the program is intended to provide local taxpayers. If we consider 40 percent of STAR dollars as increases in local property taxes, that would add roughly $1.4 billion to the Education Department's count of total property tax collections in 2006-07—and raise the property tax proportion of overall school revenues to 48.3 percent. With the remaining 60 percent of STAR considered as state aid, the state assistance share of overall school revenues would total 40.9 percent.

Thinking about STAR's role in school finance in different ways may influence the way it is treated in public policy discussions. Concerns over both rising property taxes and inequity of resources among school districts have prompted many advocates to call for increasing the state's share of overall education funding, or to move away from reliance on the property tax toward the more progressive income tax, or both. In that context, the three alternative approaches to analyzing STAR that are outlined above lead to significantly different estimates of Albany's contribution to school budgets. That share in 2006-07 was 36.6 percent if STAR is treated as the equivalent of property tax revenue; 40.9 percent if 60 percent of STAR is treated as state aid and the remainder as property tax; or 43.8 percent if STAR is regarded entirely as state aid. In some recent years, the combination of state aid and STAR dollars has approached half of total school funding.

Table 1: Major Revenue Sources:
Varying Ways To Measure Proportions of Overall School Revenues

	1993-94	**2006-07**
State Aid	38.7%	36.6%
…including all STAR revenue	38.7%	43.8%
Property Taxes	51.9%	45.4%
…including all STAR revenue	51.9%	52.6%
STAR	NA	7.2%
State Aid with 60% of STAR revenue	38.7%	40.9%
Property Taxes with 40% of STAR revenue	51.9%	48.3%
Source: ST-3 data; Rockefeller Institute calculations.		

[8] See, for example, "The Unintended Consequences of Property Tax Relief: New York's STAR Program," Tae Ho Eom, William Duncombe and John Yinger, Center for Policy Research, Syracuse University, January 2007. The researchers also found that STAR resulted in small decreases in student performance and efficiency of educational services, while "magnifying existing inequities" in New York's education finance system.

The following figures show two different groupings of revenue, where revenues from the STAR program are treated as state revenue (Figure 1) and as local revenue (Figure 2). If STAR revenues are treated as state revenue, the trends show convergence between state and local revenue until the early 2000's, and a divergent trend after 2002. If the revenues from the STAR program are treated as local revenue, then the convergence and divergence trends between state and local revenue are less pronounced but still observable. In either case, property taxes and other local resources remain the most important source of revenue for school districts.

Figure 1: Revenue Distribution, New York State (STAR treated as State Revenue)

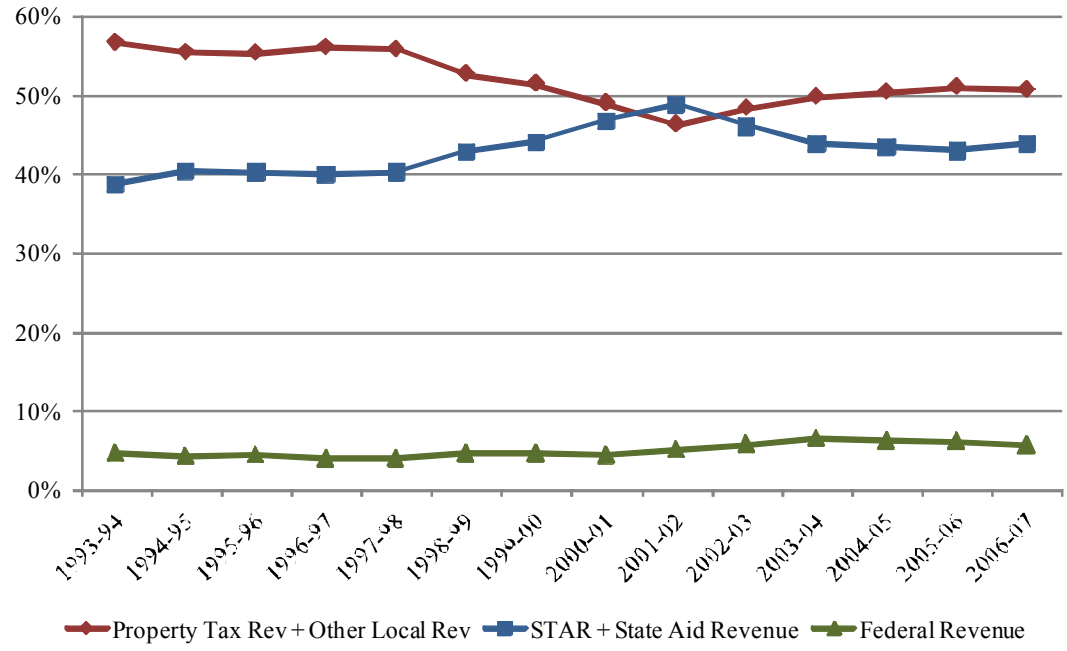
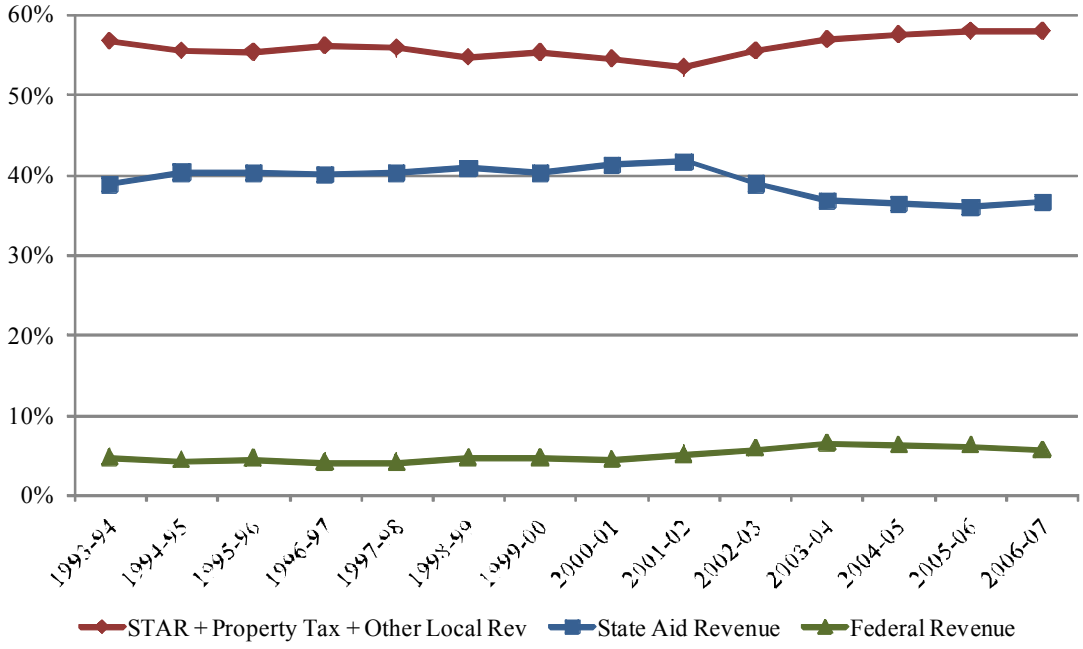


Figure 2: Revenue Distribution, New York State (STAR treated as Local Tax Revenue)



Overall effective property tax rates for schools

Property tax levies reflect the interplay of tax rates and taxable value. While overall taxable property values rose during the study period, school tax levies increased at a faster pace. The result was an increase in overall effective property tax rates.

According to ORPS data, the overall effective property tax rate for school districts statewide in 1993 (tax levies as a proportion of taxable value) was 1.40 percent. As shown in Figure 3, he overall average rate reached a high of 1.72 percent in 2001 before declining to just below 1.6 percent in 2005 – a level roughly 14 percent higher than in 1993.[9]

Figure 4 shows that, measured as a proportion of adjusted gross income (AGI), the average effective property tax rate on residential property fell modestly from the early 1990s to 2001, a period of dramatic income growth driven largely by the boom on Wall Street. After the recession of 2001, this measure of property tax burdens rose again to a level 18.4% higher than the start of the study period as of 2005. The sharp increase in taxes relative to income, starting in 2001-02, results from a dramatic drop in AGI following the 9/11 terrorist attacks and national recession. This measure of tax burden remained relatively high through

[9] For most of the 1990s, ORPS' reported data on property values lagged current values because of poor assessment practices in many localities. Because property values generally rise over time, ORPS' data for most such years understated actual values slightly. Thus, our measures of property burdens are slightly overstated for the earliest years studied, and our measure of long-term increases in property burdens are somewhat understated. ORPS' data reflect actual current values starting in 1999.

2005-06 because residential property tax levies rose at annual rates of 8 to 9 percent, far outpacing income growth for most of the period.

Figure 3: Statewide Effective Property Tax Rate, 1993-2005
Property Tax Levy As a Proportion of Total Value

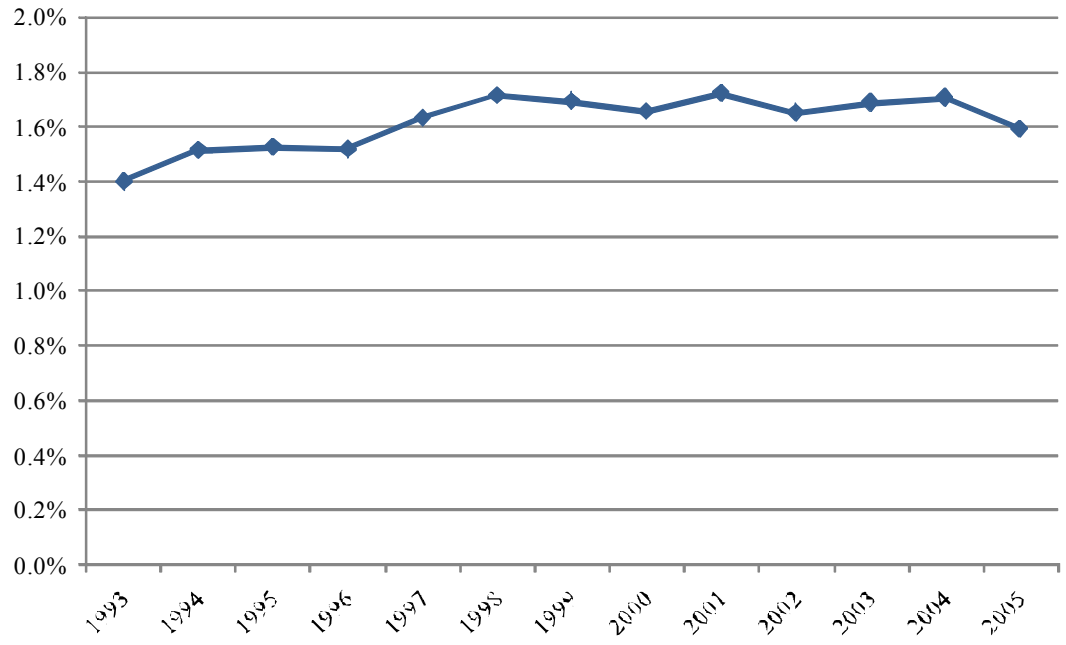
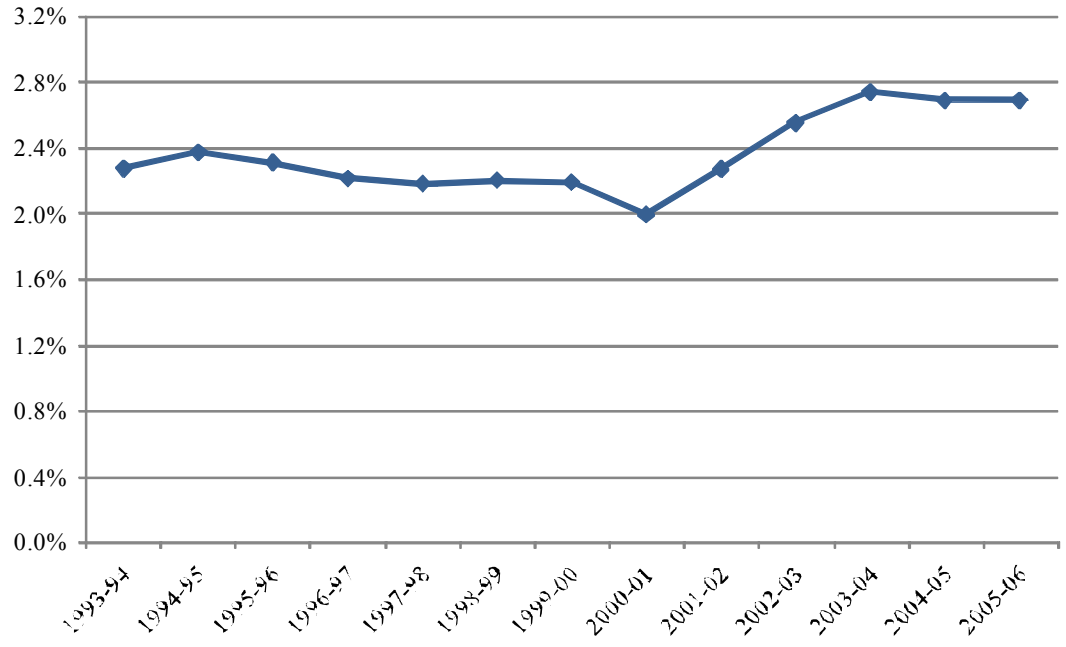


Figure 4: Residential Property Tax Levy as Percent of NYSAGI, 1993-2005



What drove the increases in effective tax rates?

Among the 674 districts for which we have data, 77 percent saw overall effective tax rates (total tax levies as a proportion of total property values) rise over the study period, while effective rates fell in 23 percent of districts. (A similar picture emerges if we analyze residential property taxes only, measuring levies as a share of adjusted gross income.)

To analyze relationships among effective tax rates, revenues and expenditures, we divided all 674 districts outside New York City into quartiles – Quartile One including the 23 percent of districts where effective rates declined; Quartile Two where effective rates rose by up to 20 percent; Quartile Three, where increases ranged from more than 20 percent to 40 percent; and Quartile Four, where increases in effective tax rates were above 40 percent.

Table 2: Factors in Effective Tax Rates, 1993-2005

Quartile	Expenditures	State Aid	Tax Levy	Property Value	Effective Tax Rate
Quartile 1	43.1%	36.3%	95.4%	148.5%	-21.4%
Quartile 2	42.4%	31.4%	100.5%	85.9%	7.9%
Quartile 3	44.0%	25.4%	96.0%	58.0%	24.1%
Quartile 4	29.2%	28.7%	83.5%	23.3%	48.8%

In most districts, the level of spending increases over the period was remarkably similar. In Quartiles One, Two and Three, average per-pupil spending increases (adjusted for inflation) were 43, 42 and 44 percent, respectively. Districts with the largest increases in effective tax rates – those in Quartile Four – tended to have the lowest levels of spending increases during the period, an average of 29 percent after adjusting for inflation and enrollment.

Increases in state aid over time were relatively similar among the groups, ranging from an average 25 percent to 36 percent in adjusted terms. Such aid rose most sharply in those districts where effective tax rates declined, perhaps reflecting wealthier districts' greater ability to spend local resources that would be matched, in part, by state assistance.

Tax levies also rose by fairly similar proportions among the quartiles of districts. School districts with decreases in effective tax rates reported average increases in tax levies of 95 percent, while those with the largest increases in effective rates saw levies rise by 83 percent.

The most striking difference among districts was the change in property values over time. Among districts where effective tax rates declined, property values rose an average 149 percent. Districts in Quartile Two, with relatively low increases in effective tax rates, saw property values rise by 86 percent. Districts with the highest increases in effective tax rates (Quartile Four) reported that property values rose by an average of only 23 percent – an indication that districts with relatively slow growth in their taxable base sought to pay for new spending by imposing heavier additional burdens on local property owners.

In sum, districts in Quartile Four reported the smallest increases in expenditures; increases in state aid that were nearly the average for all districts outside New York City; relatively low increases in total tax levies; relatively high increases in effective tax rates; and property values that grew at less than one-quarter the rate of growth in other districts.

We also analyzed relationships among effective tax rates, revenues and expenditures across school districts in New York City, Long Island, the Westchester-Rockland-Putnam region and Upstate New York. The level of spending increases in real terms over the period was highest in Westchester-Rockland-Putnam at 62 percent and lowest in Upstate New York at 30 percent (see Table 3).

In terms of real state aid trends, New York City saw the largest increases at 65 percent, while Upstate New York had the lowest increases at 26 percent. Increases in tax levies over time were relatively similar among the school districts in different regions, ranging from an average 82 percent in Upstate New York to 107 percent in Westchester-Rockland-Putnam region in real terms. Long Island and Westchester-Rockland-Putnam regions saw the largest declines in effective rates but the largest increases both in tax levies and property values.

Table 3: Factors in Effective Tax Rates, 1993-2005

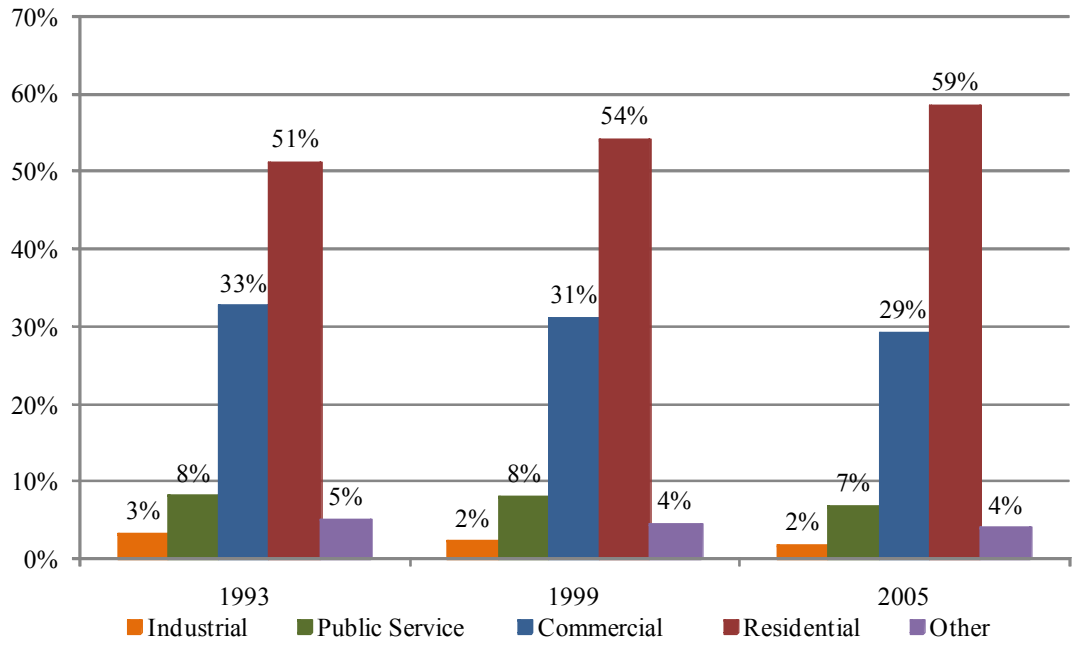
Region	Real Expenditures	Real State Aid	Tax Levy	Property Value	Effective Tax Rate
New York City	60.4%	65.4%	99.0%	37.0%	45.3%
Long Island	45.5%	40.7%	102.6%	141.0%	-15.9%
WRP	62.3%	55.2%	106.8%	130.6%	-10.3%
Upstate	29.9%	26.1%	82.3%	44.1%	26.5%

Changes in major sources of property tax revenue

Well over 80 percent of all property taxes in New York State are levied on two types of property – residential and commercial. From 1993 to 2005, home values rose and the proportion of total taxes paid by residential property owners jumped from 51.1 to 58.5 percent, according to ORPS data. Taxes on commercial properties fell slightly as a proportion of overall revenues, from 32.6 to just under 30 percent (see Figure 5).

One striking development during the period was the increase in residential property taxes. The total value of residential property in the state doubled, while taxes paid by residential owners rose by 124.2 percent in nominal terms, from $6.2 billion in 1993 to $13.8 billion in 2005. Commercial property values rose by one-third, and taxes levied on those parcels by 75 percent, to a total of $6.9 billion in 2005. (The proportion of increased levy to increased assessment is higher for commercial property because the majority of commercial property value in the state is in New York City, where tax rates on most business properties are significantly higher than those on residential properties.)

Figure 5: Tax Levy Distribution by Property Type, New York State School Districts



After residential and commercial property, the next-largest share of property taxes falls on utility properties – electrical generating plants and power lines, telecommunications lines, railroad tracks and others – which ORPS classifies as "public service." Such property represented 8 percent of taxes in 1993, falling slightly to 7 percent in 2005, despite a 63 percent increase in total property taxes paid. Industrial property declined slightly, as well. Combining commercial, industrial, public service and agriculture and forestry, properties used in various business activities fell from 45.1 percent of the tax levy in 1993 to roughly 38.5 percent in 2005. Other types of property – agricultural, community service (largely government property), recreation, forested lands and vacant lands – make up a small fraction of overall value, some 4 percent in 2005.

Changes in property tax burdens relative to income and property wealth

Measuring changes over time in effective property tax rates relative to taxpayers' income is difficult because of limitations in available data. The two primary data sets used in this report, the state Education Department's ST-3 data on school districts and the Office of Real Property Services' statistics on property parcels, do not allow analysis of incomes at the household level. The Census Bureau's American Community Survey reports both income and property tax payments at the household level, but the Census Bureau cautions against comparing its most recent ACS data with those from earlier years. (We analyzed the 2006 ACS data to provide a recent picture of tax burdens in relation to income and other factors, as discussed below.) In recent months, staff at the New York State Department of Taxation and Finance have worked to allow combination of their data sets on incomes in individual households with ORPS data on property taxes and values at the

individual parcel level. Taxation and Finance staff provided useful information to the study team on variations in incomes at the school district level, data that we expect will be useful in future research. For confidentiality and other reasons, it was not possible to use the department's data for analysis at the household level.

To develop a more complete understanding of statewide trends, we examined ST-3 data at the school-district level, segmenting all districts into groups based on income and property wealth. Such analysis shows that effective tax rates rose during the study period in school districts with relatively low average incomes and low property wealth, but declined in districts with the highest levels of income and property wealth.

To analyze effective tax rates relative to income and poverty, we divided all school districts into deciles based on income per pupil, and on property value per pupil (districts were not weighted by size). Effective tax rates rose from 1993 to 2005 in all but the two highest-income deciles, and all but the three highest-property value deciles; in those groups, effective tax rates fell slightly. Differences among the deciles were not very large – Decile 5 in the rankings of districts according to income per pupil had the highest increase in average tax rates, 0.6 percent. Still, there was a clear tendency for tax rates to rise in lower-income and lower-wealth districts, while the opposite was true in wealthier districts.

On the following pages, we show five complementary graphs illustrating the relationships among effective property tax rates, income and wealth.

Figure 6 shows the decline, over time, in effective tax rates among districts with the highest levels of income per pupil and property value per pupil. As mentioned above, effective tax rates in districts with relatively lower incomes and property wealth rose. (At the same time, tax collections in wealthier districts rose at more than twice the rate of those in poorer districts. For example, tax revenues in the top 10 percent of districts ranked by income per pupil rose by 113 percent, while revenues in the lowest ranked 10 percent of districts rose by 48 percent.)

Figure 6: Change in School Districts' Effective Tax Rates, 1993-2005, by Wealth Groups
Deciles of School Districts Ranked by Income and Property Value Per Pupil

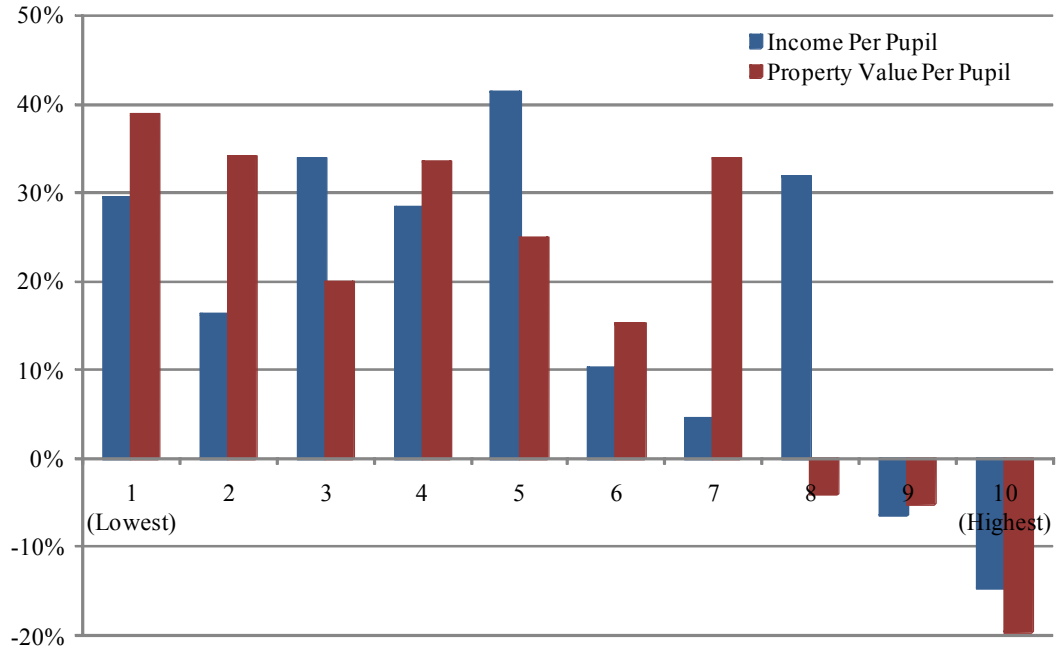
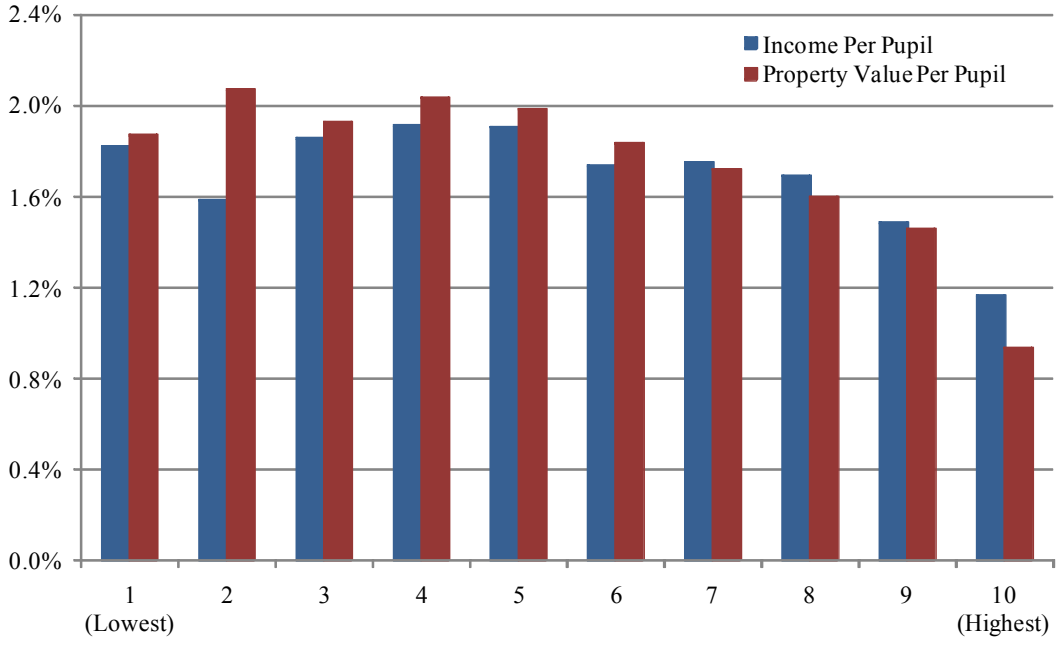


Figure 7 presents effective tax rates in 2005 for each decile of school districts, based on income and property value per pupil. By both measures, average tax burdens are significantly lower in districts with the highest levels of resources, while tax burdens in the second-highest decile are also lower than those in most districts.

Figure 7: School Districts' Effective Tax Rates by Wealth Groups, 2005
Deciles of School Districts Ranked by Income and Property Value Per Pupil



The next group of figures, Figure 8 through Figure 10, are scatterplots that illustrate the effective tax rate in all school districts throughout the state -- first relative to income per pupil, then relative to poverty rates and property value per pupil. Districts with higher incomes and higher property values per pupil tend to have relatively lower tax rates, while those with higher poverty rates generally have higher tax burdens.

Figure 8: School Districts' Effective Tax Rate vs. Income Per Pupil, 2005

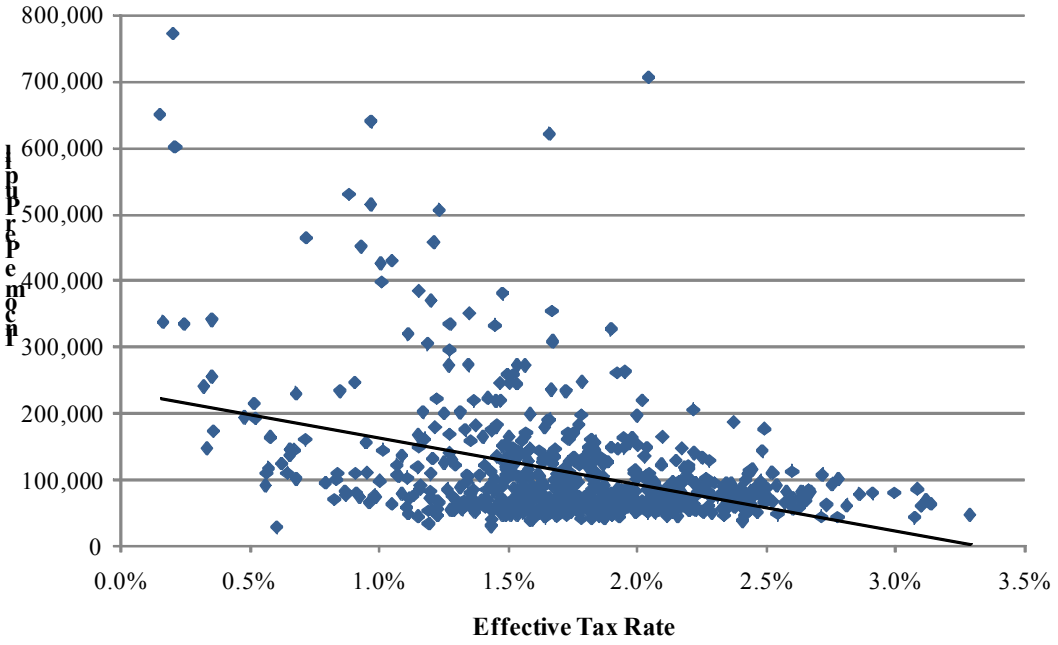


Figure 9: School Districts' Effective Tax Rate vs. Poverty Rate, 2005

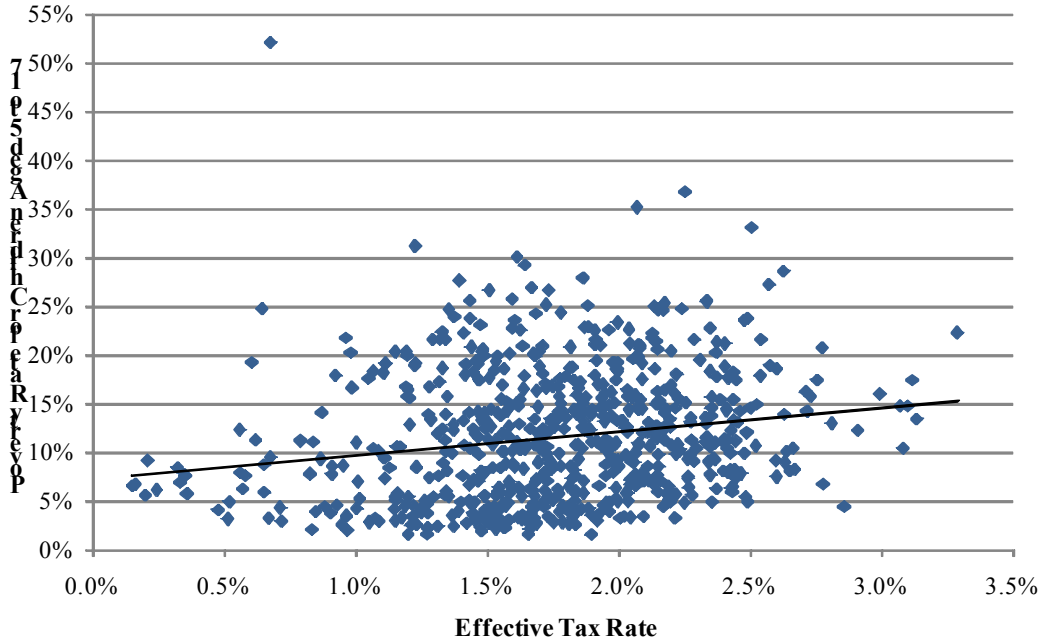
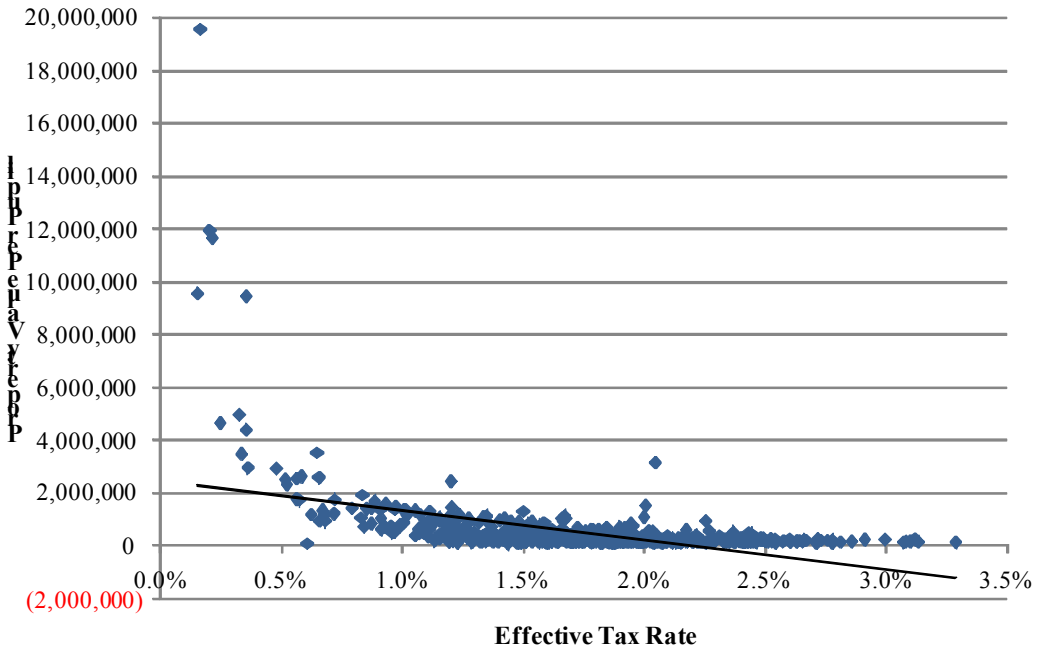


Figure 10: School Districts' Effective Tax Rate vs. Property Value Per Pupil, 2005



The 2005 data illustrated above differ noticeably from the data below, representing the start of our study period. In 1993, higher or lower income per pupil was not particularly associated with higher or lower effective tax rates. Census data for poverty rates at the school-district level are not available for 1993, so we do not attempt such a comparison over time.

Figure 11: School Districts' Effective Tax Rate vs. Income Per Pupil, 1993

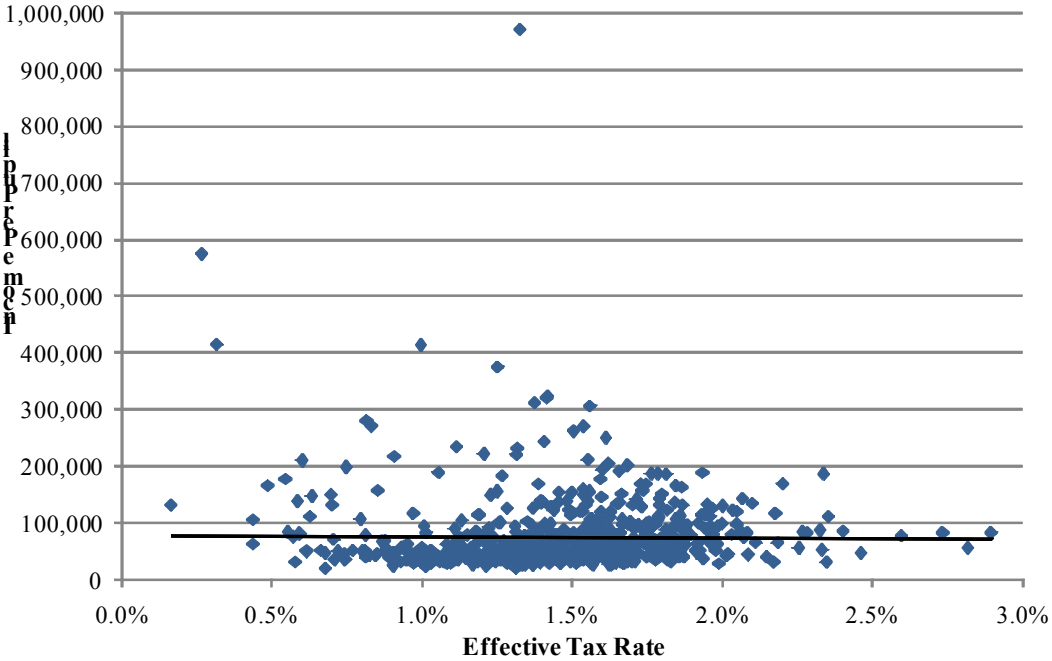
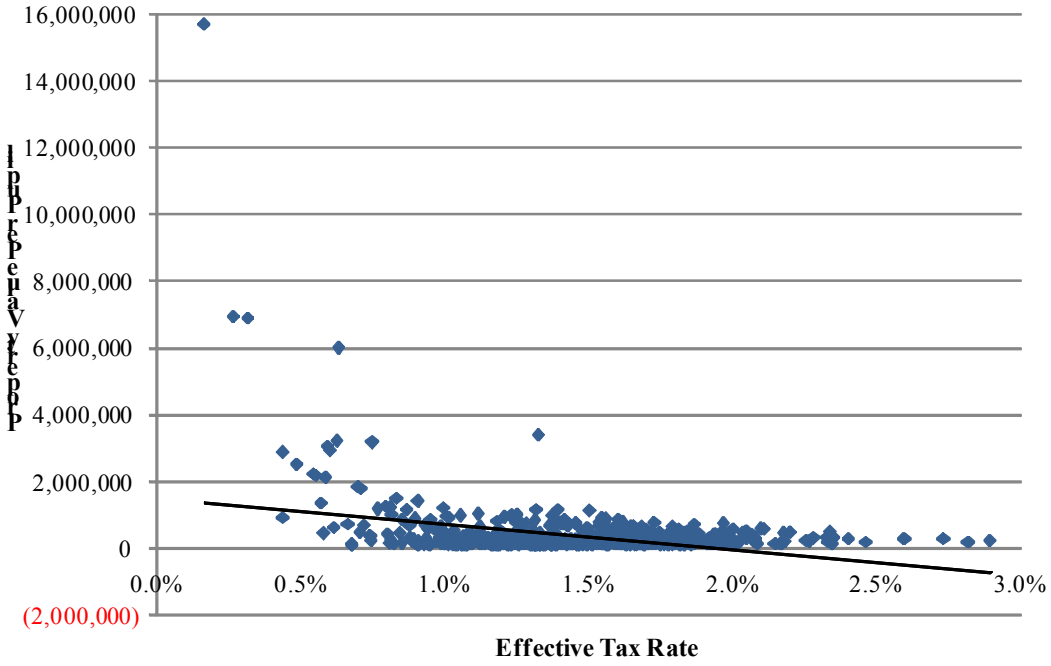


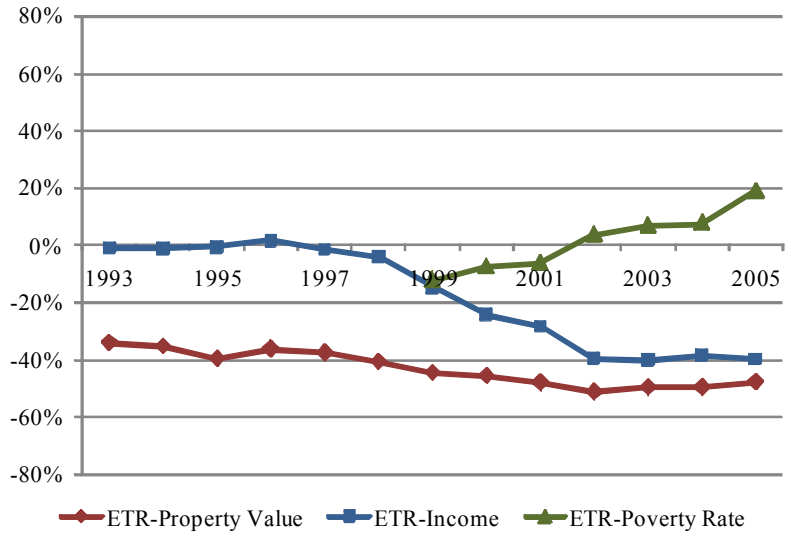
Figure 12: School Districts' Effective Tax Rate vs. Property Value Per Pupil, 1993



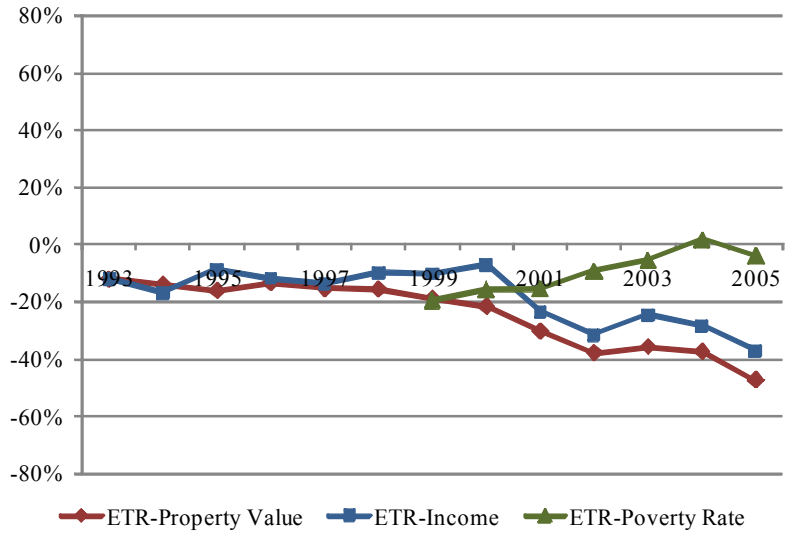
As further illustration of changes over time in the relationship between property tax burdens and economic status, the figures below show trends in correlations between the effective tax rate and three different wealth measures – property value per pupil, income per pupil, and poverty rate for children aged 5 to 17 – for the state as a whole, and for school districts with different need-resource capacity. (Poverty rates are available only from 1999 and later years.) The correlation is calculated based on school district data for each point of time. The blue line rectangles indicates the correlation between effective tax rate and per pupil property value, the red line with diamonds indicates the correlation between effective tax rate and per pupil income, and the green line with triangles indicates the correlation between effective tax rate and poverty rate for children aged 5 to 17.

Figure 13: Correlations between Effective Tax Rate and Wealth Measures, 1993-2005

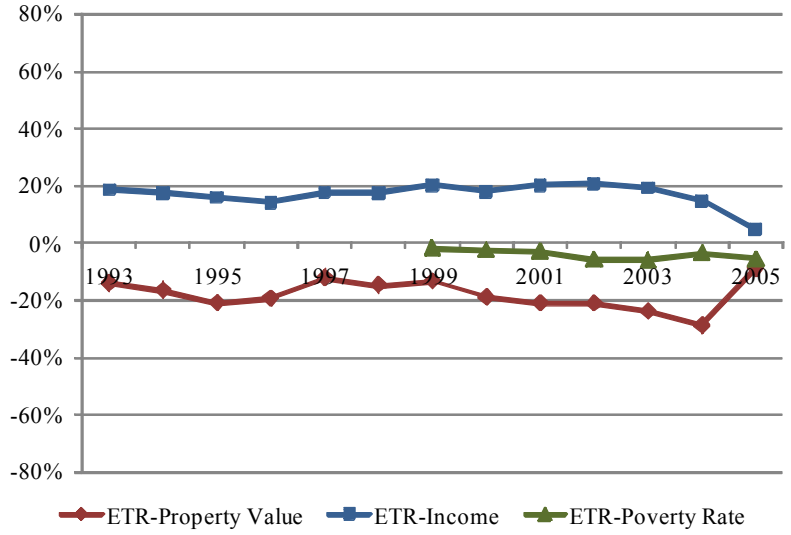
All New York State School Districts



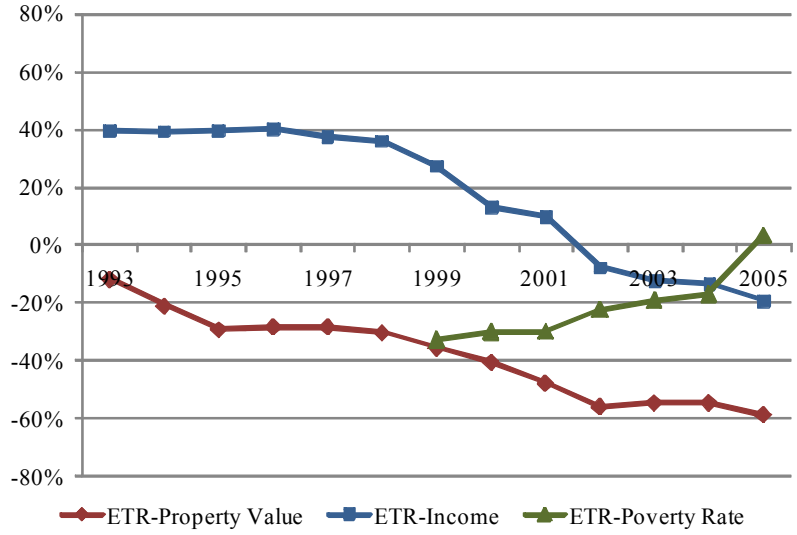
High Need Urban/Suburban School Districts



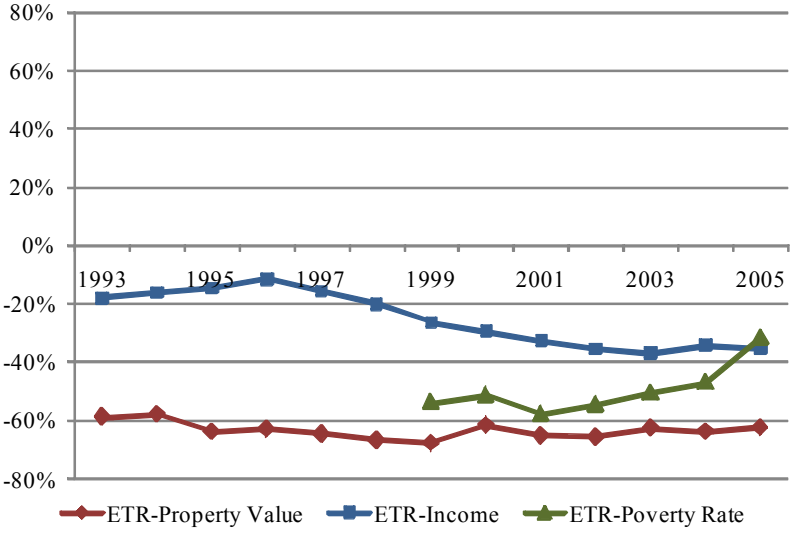
High Need Rural School Districts



Average Need School Districts



Low Need School Districts



In general, there is a negative correlation between effective tax rates and these wealth measures. School districts with higher effective tax rates have lower per pupil income and lower per pupil property value, but higher poverty rates. The gap between effective tax rate and wealth measures has been widening over time, particularly since the late 1990s. This observation holds true for high need urban-suburban, average need and low need school districts. The correlation between effective tax rate and different wealth measures was relatively stable for high need rural school districts.

The above comparisons illustrate that New York's school property tax became more regressive during the study period. School districts with relatively lower income and property value per pupil generally saw significant increases in effective property tax rates, while effective rates in districts with higher incomes and property wealth declined. Observed correlations between effective tax rates, and measures of wealth and income, grew increasingly negative during the period for high need urban-suburban, average need, and low-need school districts.

Further insights emerge from analysis of school districts at the regional level.

III. Major developments among regions and individual districts

School taxes increased at varying rates among regions across the state from 1993-94 through 2006-07. Statewide, after adjusting for inflation, total property tax revenue increased by 32%, state aid to local school districts rose by 42% and total revenue (including STAR, which did not exist at the start of the study period) by 50%. School property tax revenues increased by 45% in New York City in real terms, while the average increase outside the city was 25%. The average effective tax rate rose 45 percent in New York City, and 25 percent Upstate. Long Island and the Westchester-Rockland region saw overall effective tax rates decline, by 16 and 10 percent, respectively.

Statewide, average effective tax rates rose for both residential and commercial properties, the two largest property classes. The statewide increase in overall average property tax rates, and the statewide increase 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. The effective school property tax rate on residential property in New York City rose by two-thirds, although the city's average residential effective rate in 2005 was still lower than rates outside the city.

For all districts outside New York City, overall average tax rates and tax rates on residential property rose during the mid- and late 1990s but then declined to around their 1993 level by 2005. (There were important variations among districts outside New York, as detailed below.) Average effective tax rates on commercial property rose modestly outside New York City over the period, and rose sharply within the city, contributing to a significant average increase statewide.

The map in Figure 14 shows the change in school property tax revenues, in real terms from 1993-94 to 2006-07. Property taxes declined (after adjusting for inflation) in many western and northern New York districts, while rising in the eastern and southern parts of the state.

Figure 14: Change in School Property Tax Revenues (Inflation Adjusted), 1993-94 to 2006-07

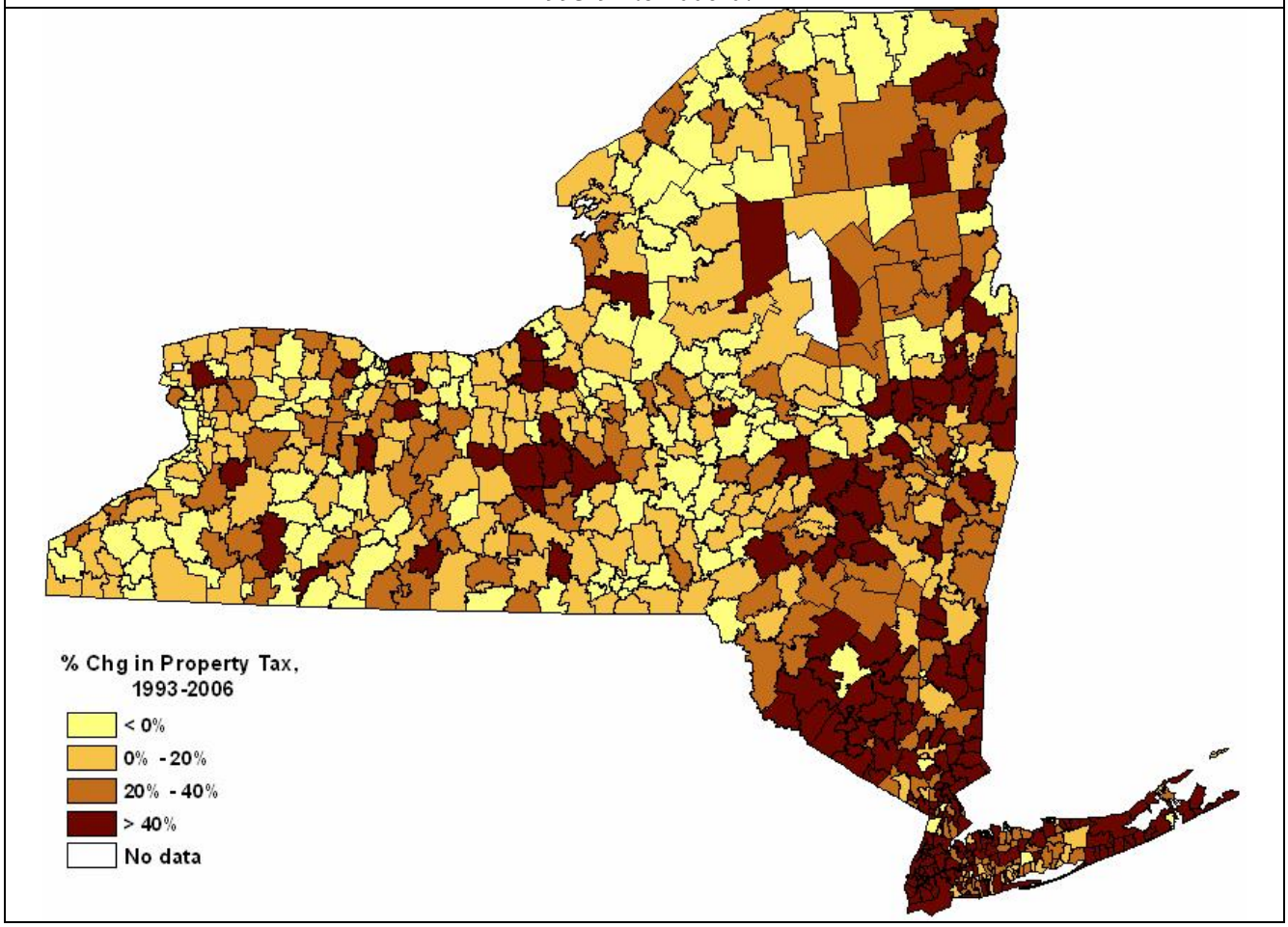


Figure 15 and Figure 16 below show the revenue distribution among all school districts, classified by the Education Department's need resource capacities, for school years 1993-94 and 2006-07. In school year 1993-94, school districts in High Need Rural areas and in the Big Four cities – Buffalo, Rochester, Syracuse, and Yonkers – had the lowest proportion of revenue from property taxes at 28 and 29 percent, respectively. At the same time, they had the highest share of revenue from state aid, at 65 and 54 percent respectively. By 2006-07, property taxes had declined significantly as a share of total revenues in the Big Four districts, falling to only 18% of total revenue. The Big Four districts received nearly two-thirds of total revenue from state aid. That same year, Low Need school districts relied most heavily on property taxes (70% of revenue), and received only 14% of their total resources from state aid.

Figure 15: Revenue Distribution Among School Districts with Various NRC Levels, SY 1993-94

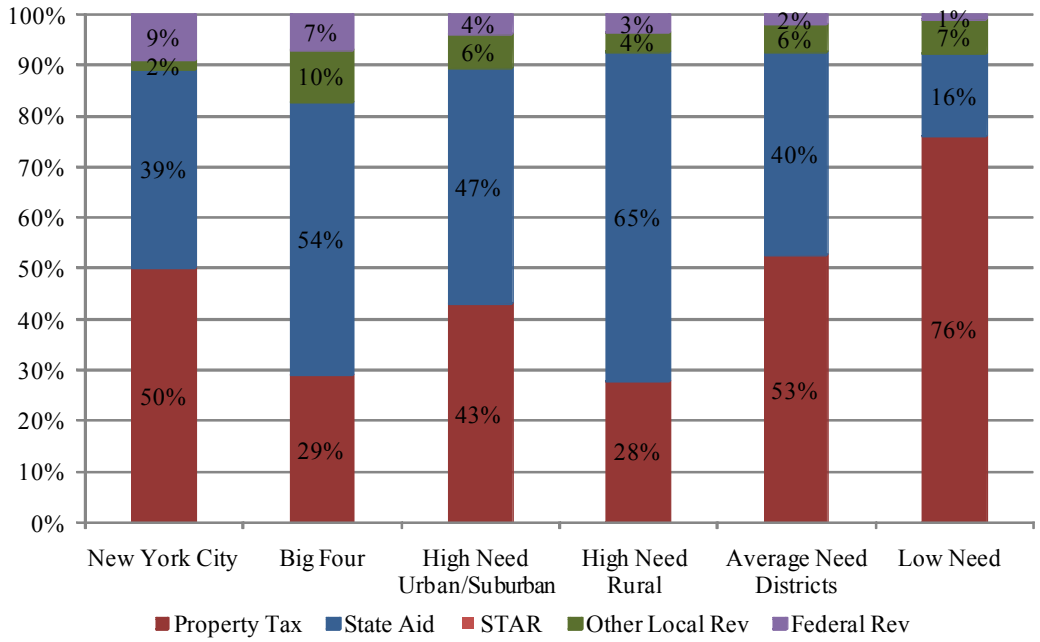
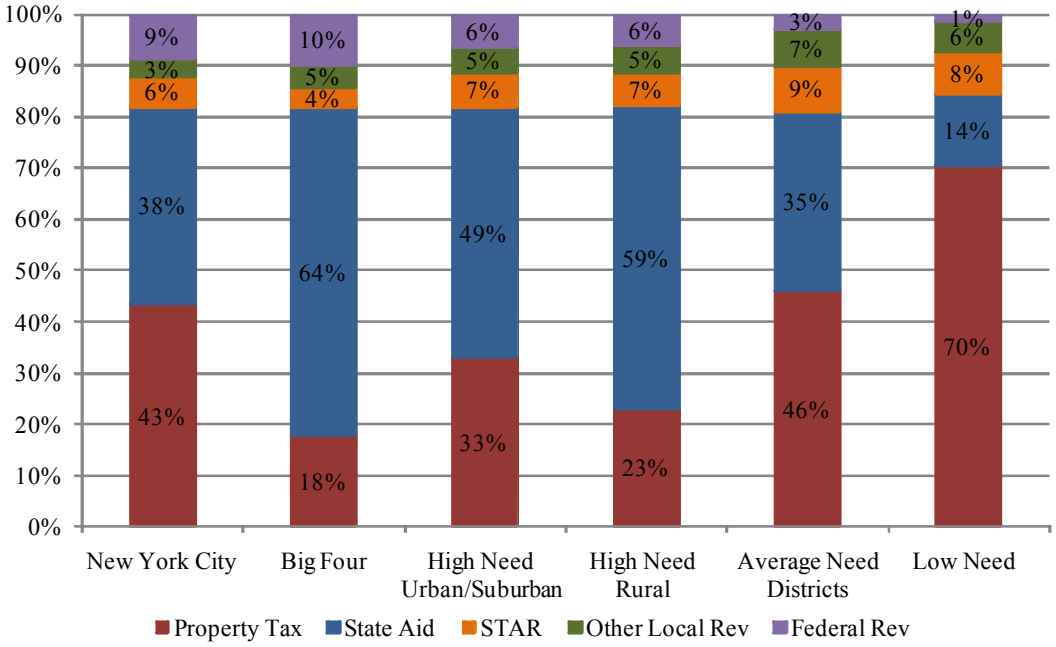


Figure 16: Revenue Distribution Among School Districts with Various NRC Levels, SY 2006-07

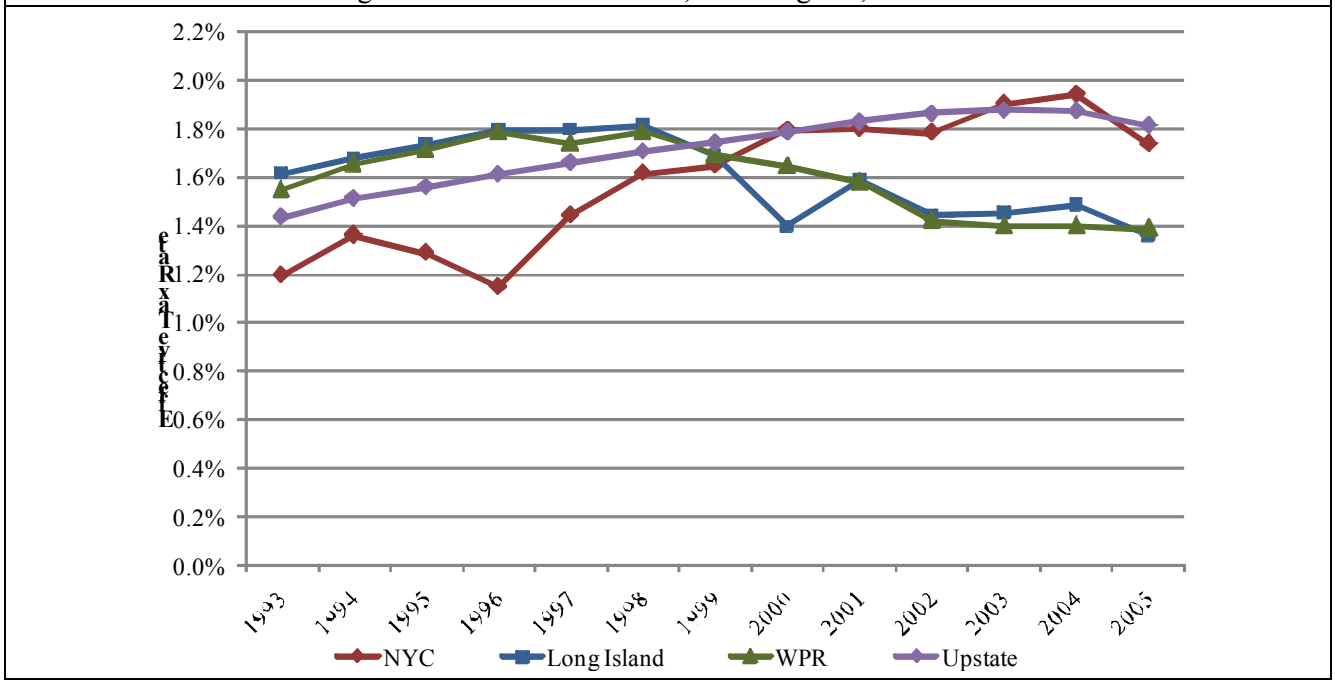


Effective property tax rates among school districts

As shown in Figure 17 and Figure 18, effective tax rates rose and fell at varying levels among different regions of the state, and among school districts in the Education Department's need-resource categories. Effective tax rates declined on Long Island and in the suburban counties immediately north of New York City, while increasing in the city and Upstate. In New York City, taxable values for many

properties are significantly lower than market values because of state law that limits assessment changes. For example, assessment increases on one-, two- and three-family houses cannot exceed 6 percent in a single year or 20 percent over five years, regardless of market value. Because market values in much of the city rose sharply during the study period, the figures for taxable value used in this study are likely to produce higher effective tax rates than would be found with market values. More detailed analysis of effective tax rates in the city is beyond the scope of the study.

Figure 17: Effective Tax Rate, NYS Regions, 1993-2005



Elsewhere in the state, the effective property tax rate steadily increased in high need rural districts from 1993 to 2005, driven by an 83 percent increase in tax levies while property values rose only 37 percent. By 2005, high need rural districts had the highest effective tax rate among the need-resource categories, at 1.83%. Over the same period, average effective tax rates in low-need districts declined. While tax levies in those districts rose by especially high amounts – an average 111 percent – property values increased even more sharply, by an average 134 percent. High need urban/suburban school districts had the second highest effective tax rate in 2005, at 1.8%, while low need school districts had the lowest effective tax rate at 1.3%.

As a group, the Big Four school districts had the second lowest effective tax rate among need resource categories in 2005 at 1.33 percent, which was virtually unchanged from the effective rate in 1993. The Big Four school districts had the lowest increase in property values and tax levies for the study period compared to school districts with other need and resource capacities. There is a wide variation in trends in property values, tax levies and effectives tax rates among the Big Four school districts. Property values in Yonkers increased significantly at 92 percent, while the tax levies increased by only 31 percent, with the

effective tax rates declining by 32 percent from 1993 to 2005. Property values for the school districts in Buffalo and Rochester declined by nearly 15 percent from 1993 to 2005, while the effective tax rates increased by over 30 percent. Syracuse showed the largest increase in effective tax rate among the Big Four districts at 99 percent, reflecting more than a doubling of its tax levy and a modest increase in property values.

Figure 18: Effective Tax Rate by Need and Resource Category, 1993-2005

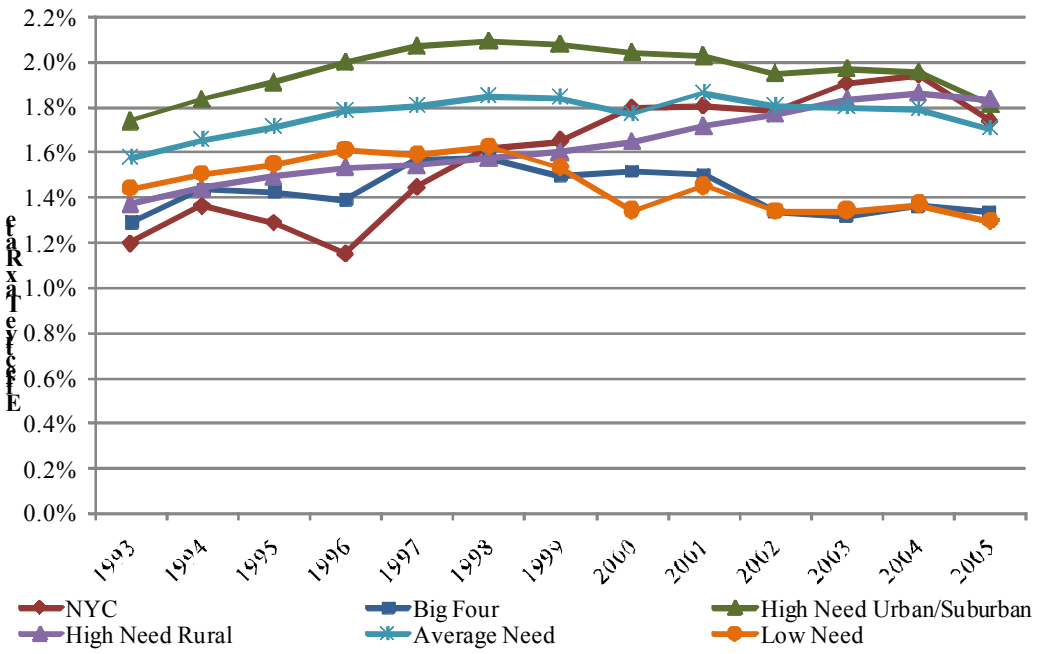
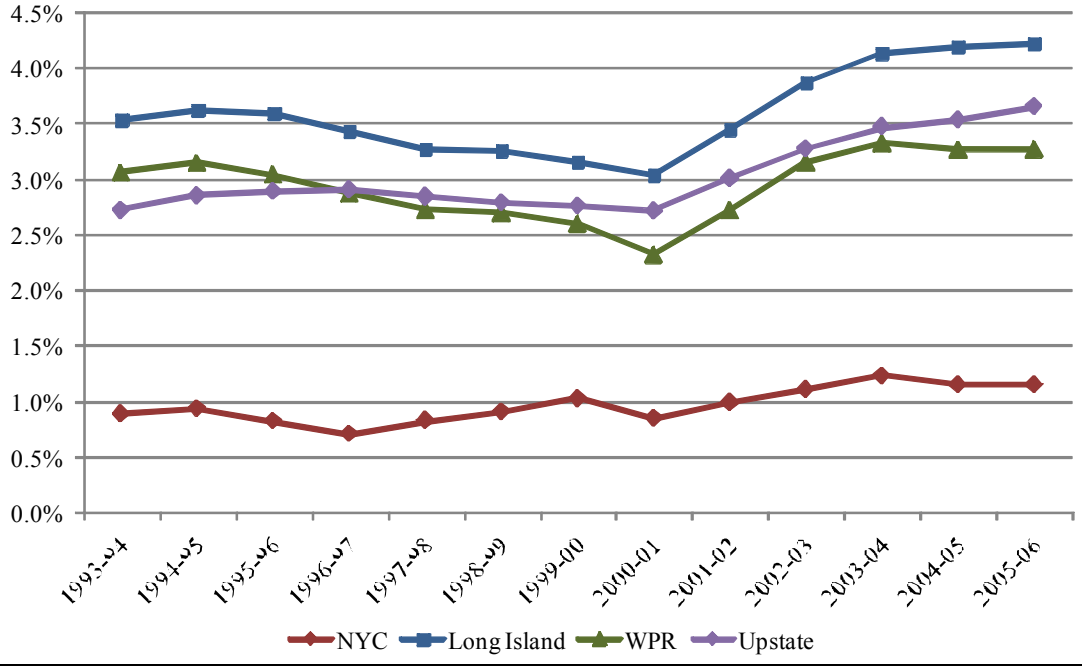


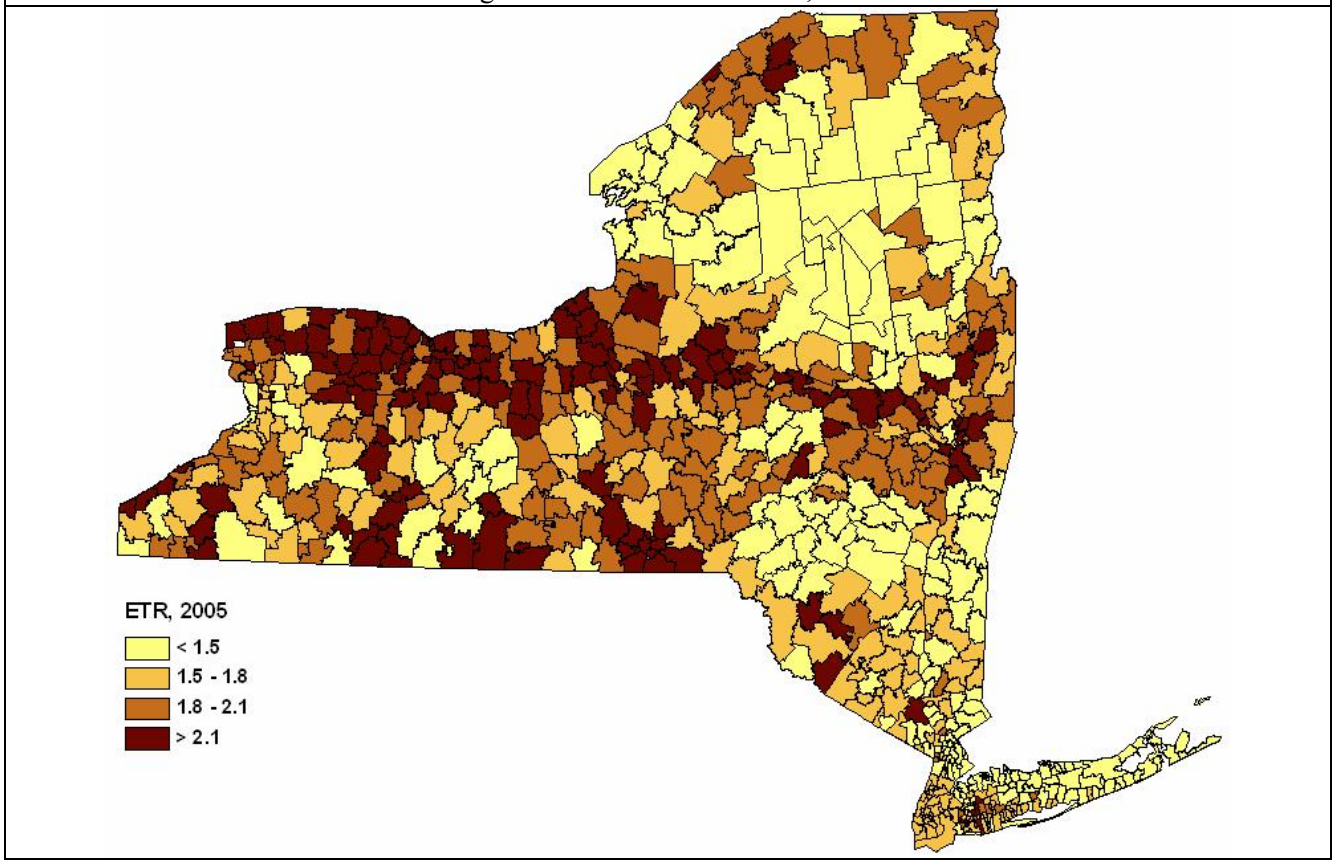
Figure 19: Residential Property Tax Levy as Percent of NYSAGI



As shown in Figure 19, on Long Island, school property taxes represented the equivalent of just over 5 percent of adjusted gross income in 2005, nearly the same level as in 1993. In New York City, its northern suburbs and Upstate, school taxes declined as a share of AGI over the period.

Although property tax revenue has declined as a share of overall revenues in most school districts in western New York, where property values are much lower, those school districts have higher effective property tax rates compared to the school districts in the eastern part of the state (see Figure 20).

Figure 20: Effective Tax Rate, 2005



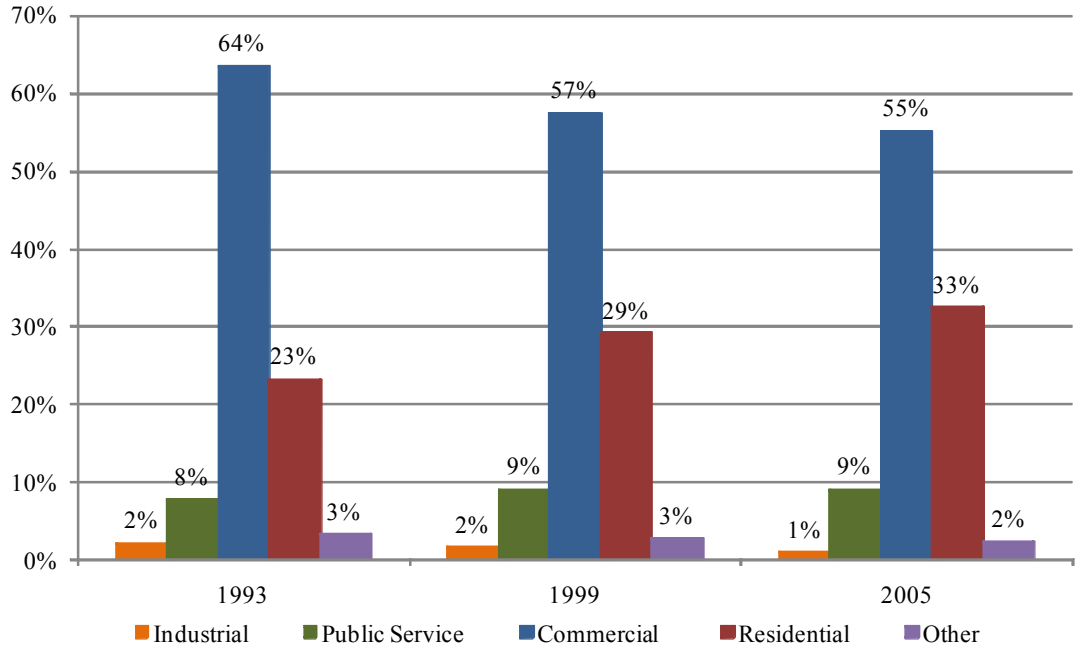
Distribution of property taxes among property classes

In 2005, nearly 90% of all property tax was levied on two classes of property – residential and commercial. The residential share increased by 7%, from 51% in 1993 to 59% in 2005. The share of tax levy for most other property types, including commercial, public service, and industrial properties, declined between the study years, from 1993 to 2005.

The share of property tax levy for different types of property is significantly different in New York City, compared to the rest of the state. New York City relies heavily on property tax from commercial properties, though such reliance has declined over time. In 1993, about 64% of all property tax in the city was

collected from commercial properties, while in 2005 it declined to 55%. Tax levies from residential properties made up about 23 percent of all property tax levies in 1993, but 33% in 2005 (see Figure 21).

Figure 21: Tax Levy Distribution by Property Type, New York City School District



A 2006 study by New York City's Independent Budget Office found that the effective property tax rate for all property taxes in the city fell by half, from 2.26 percent to 1.33 percent, from fiscal 1993 to 2007. Total market value of property in the city doubled during the period, but various exemptions and laws restricting increases in assessments limited growth in "billable" value to 46 percent. Total property tax levies rose by $5.2 billion, or 62 percent, representing a significant share of the statewide increase in overall levies. (These figures represent the city's overall property tax, as the IBO study did not separately analyze taxes collected for school purposes.) Overall effective tax rates for cooperative apartments, condominiums and small apartment buildings dropped most sharply, more than 50 percent each. The effective tax rate on one-, two- and three-family homes fell by 39 percent, and that on most business property (Class 4 under the city's property classification) by an average of 12 percent. The effective tax rate on utility property, on the other hand, rose 30 percent from 1993 to 2007.[10]

As mentioned elsewhere in this report, the effective tax rate for school property taxes in New York City rose during the period, as indicated by the ST-3 reports city education officials submitted to the state Education Department. Unlike most school districts across the state, the city's education budget is included within a municipal budget that also includes significant revenue from income, business and other taxes.

[10] *Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City*, New York City Independent Budget Office, December 5, 2006.

In districts outside New York City, the share of all school property taxes that was imposed on commercial properties remained relatively constant over the period, declining slightly from 18% in 1993 to 17% in 2005 (see Figure 22). On the other hand, the property tax levy from residential properties increased by seven percentage points, or more than 10 percent, from 1993 to 2005.

Figure 22: Tax Levy Distribution by Property Type, School Districts Outside NYC

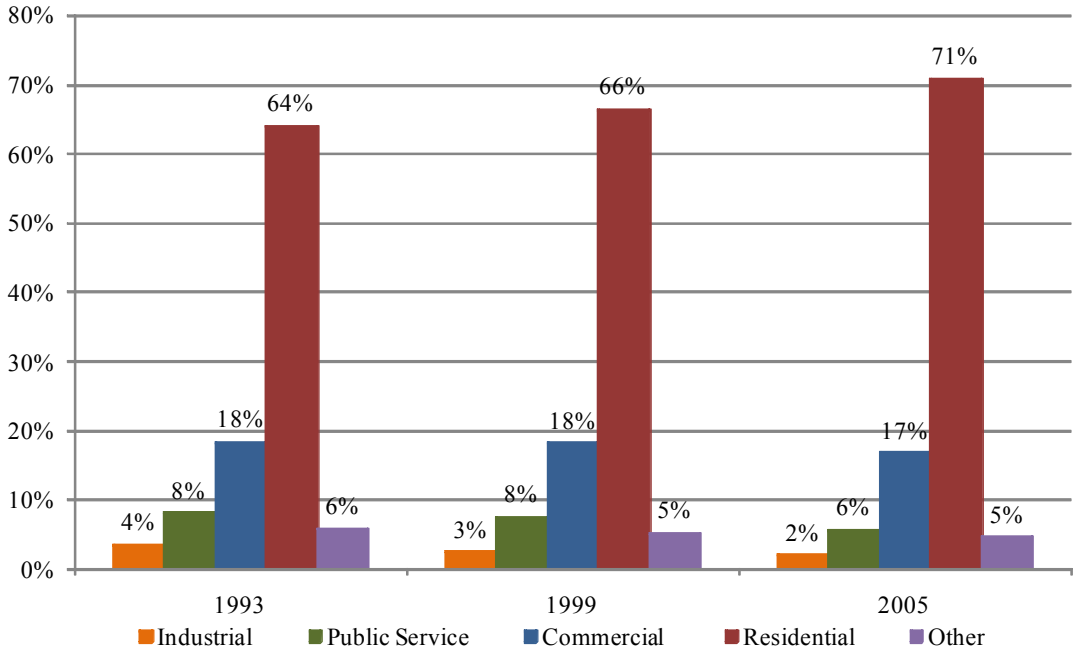
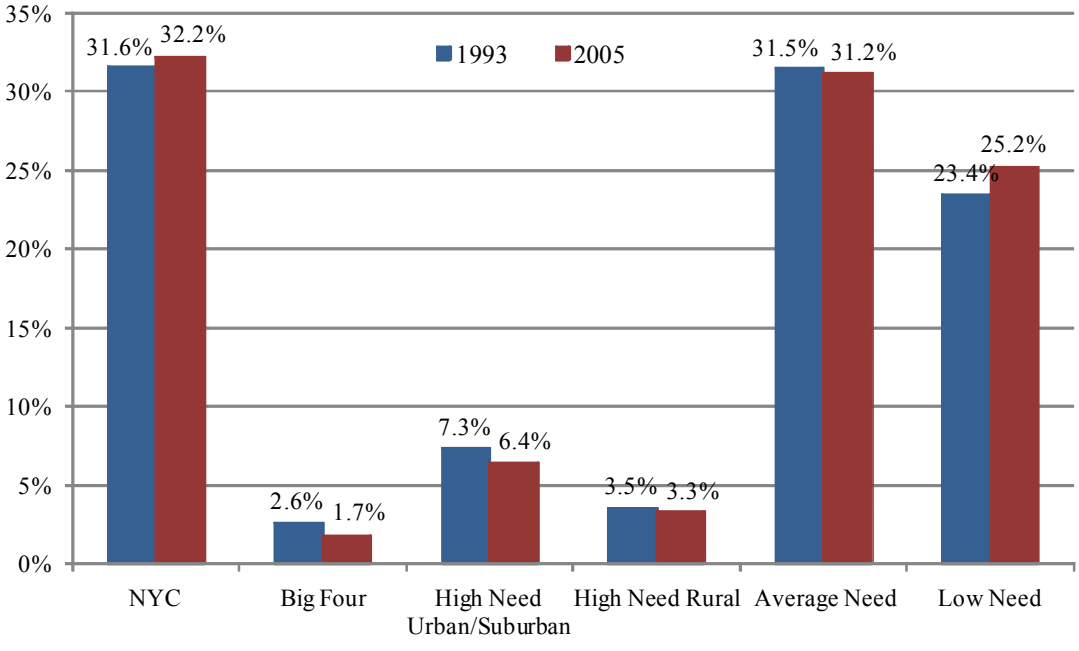


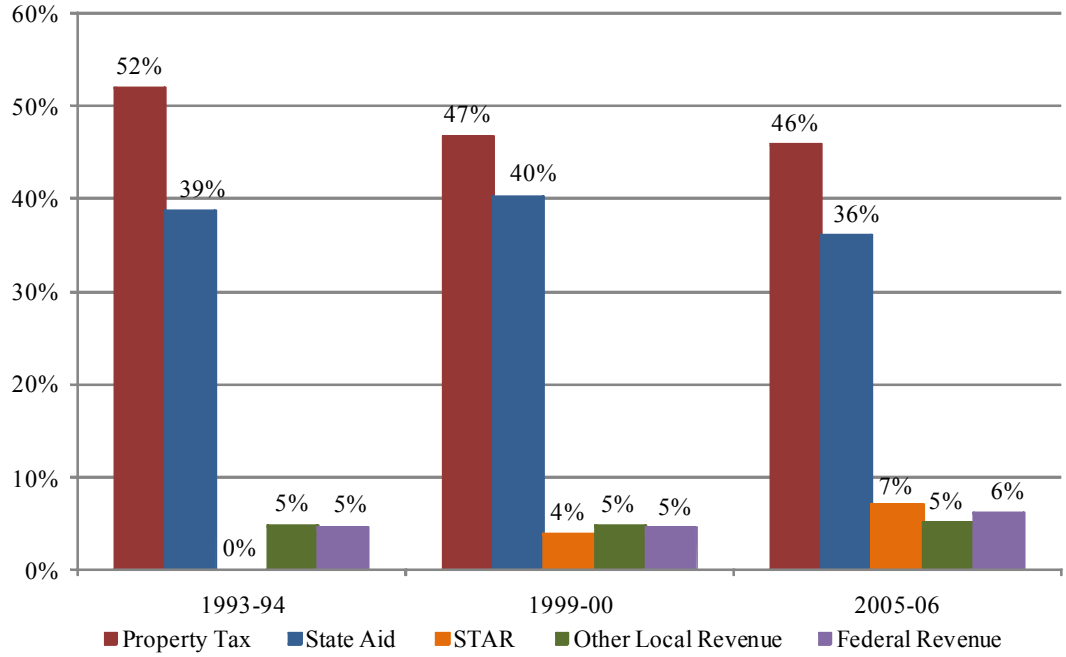
Figure 23: Total School Tax Levy Distribution Across NRC School Districts, 1993 vs 2005



Although effective tax rates have increased among high need rural and high need urban/suburban school districts over time, these school districts combined levy less than 10% of property tax statewide (see Figure 23). However, the high need rural and high urban/suburban districts represent about 30% of all school districts statewide. Nearly one-third of all school property taxes are levied by New York City, and another one-third by districts the Education Department classifies as average need. Low need school districts represent about 20% of all school districts and contribute about 25% of the statewide property tax levy. Such proportions changed little during the study period.

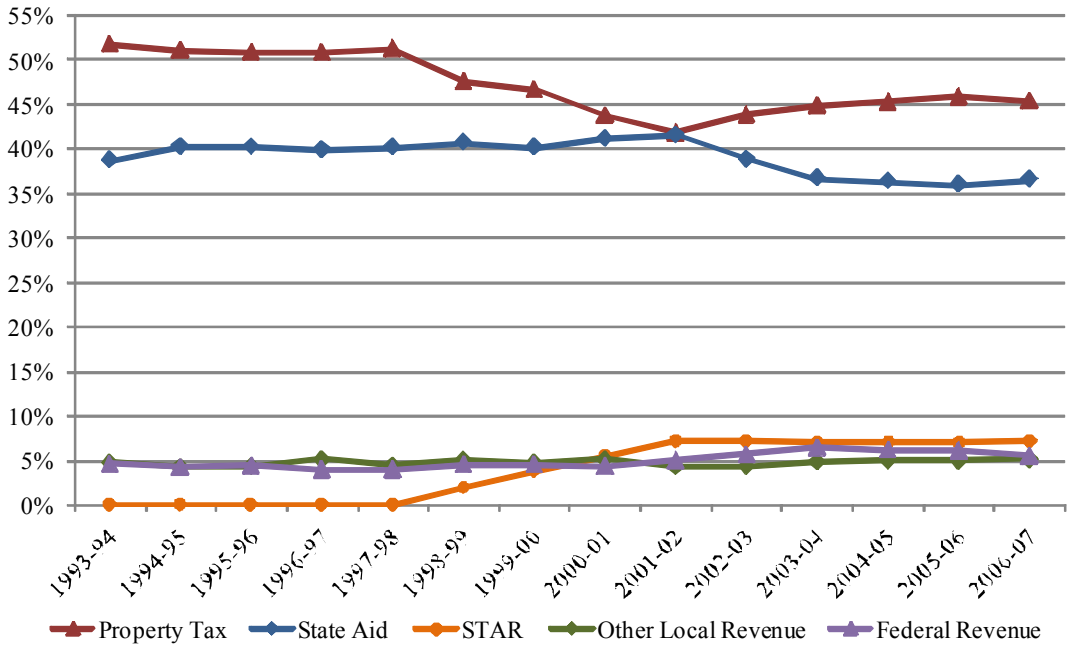
In school year 1993-94, nearly 52% of school district total revenue was raised from property taxes, and another 39% from state aid. Federal revenue and other local revenue made up less than 10% of school districts' total revenue. Both property taxes and state aid as share of total revenue have declined with the introduction of STAR (see Figure 24).

Figure 24: School District Revenue Distribution, New York State, Selected Years



Property taxes as a share of total revenue declined from 1993-94 to 2001-02, while state aid as a share of total revenue increased during that period. Around 2001-02, property taxes and state aid made up roughly equal shares of total revenue. In the years since, the property tax share of overall revenues has risen while the role of state aid has declined (see Figure 25). The share of other local revenue and federal aid has been relatively stable over time. Revenues from STAR have played a stable role in overall revenues since the program was fully implemented in 2001.

Figure 25: Revenue Distribution, New York State, SY 1993-94 - SY 2006-07



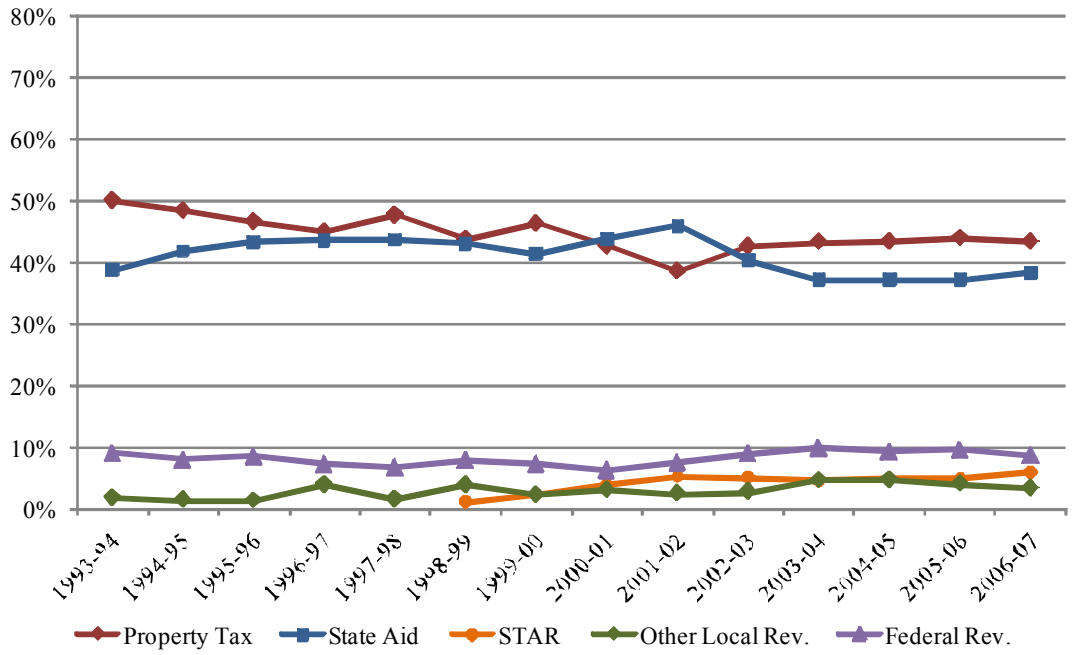
Reliance on different revenue sources, by region

School districts reliance on major sources of revenue varies across different regions of the state. As shown on Figure 26, New York City raises slightly more money from property tax than it receives from state aid. (Fluctuations in such measures for the New York City school district may reflect, at least in part, changes in the city's internal accounting for school revenues relative to those for other municipal programs.)

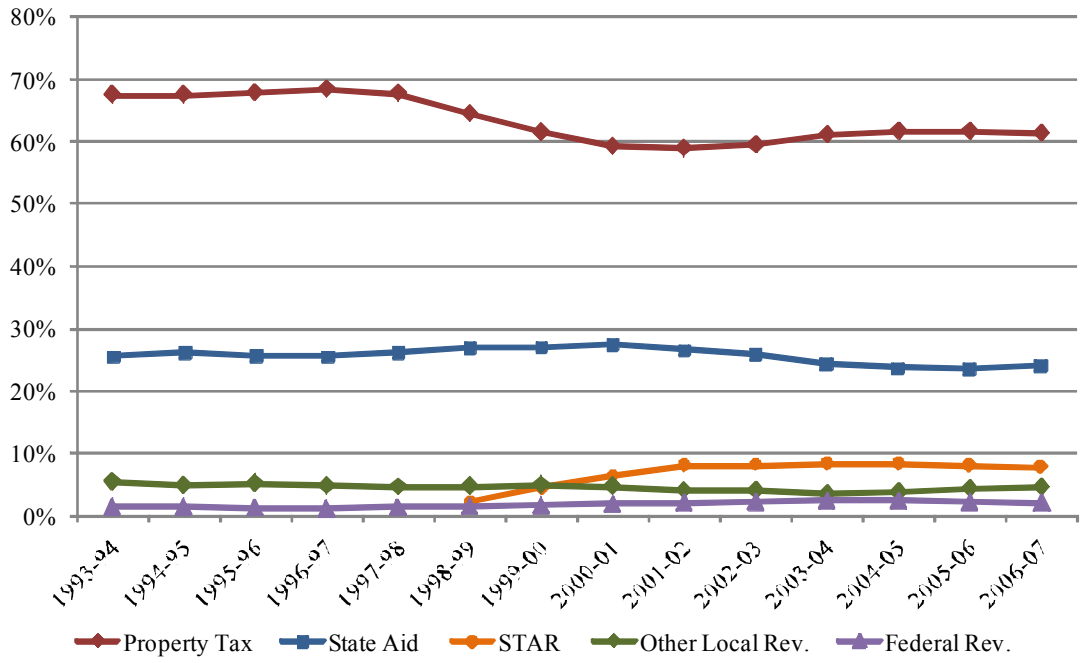
School districts in Long Island and the Westchester-Rockland-Putnam region raise a significantly higher share of revenues from property taxes, while receiving relatively little from state aid, compared to districts elsewhere in the state. Finally, school districts in upstate New York rely far more on from state aid, and raise proportionally less revenue from property taxes, compared to downstate districts. These proportions changed relatively little during the study period.

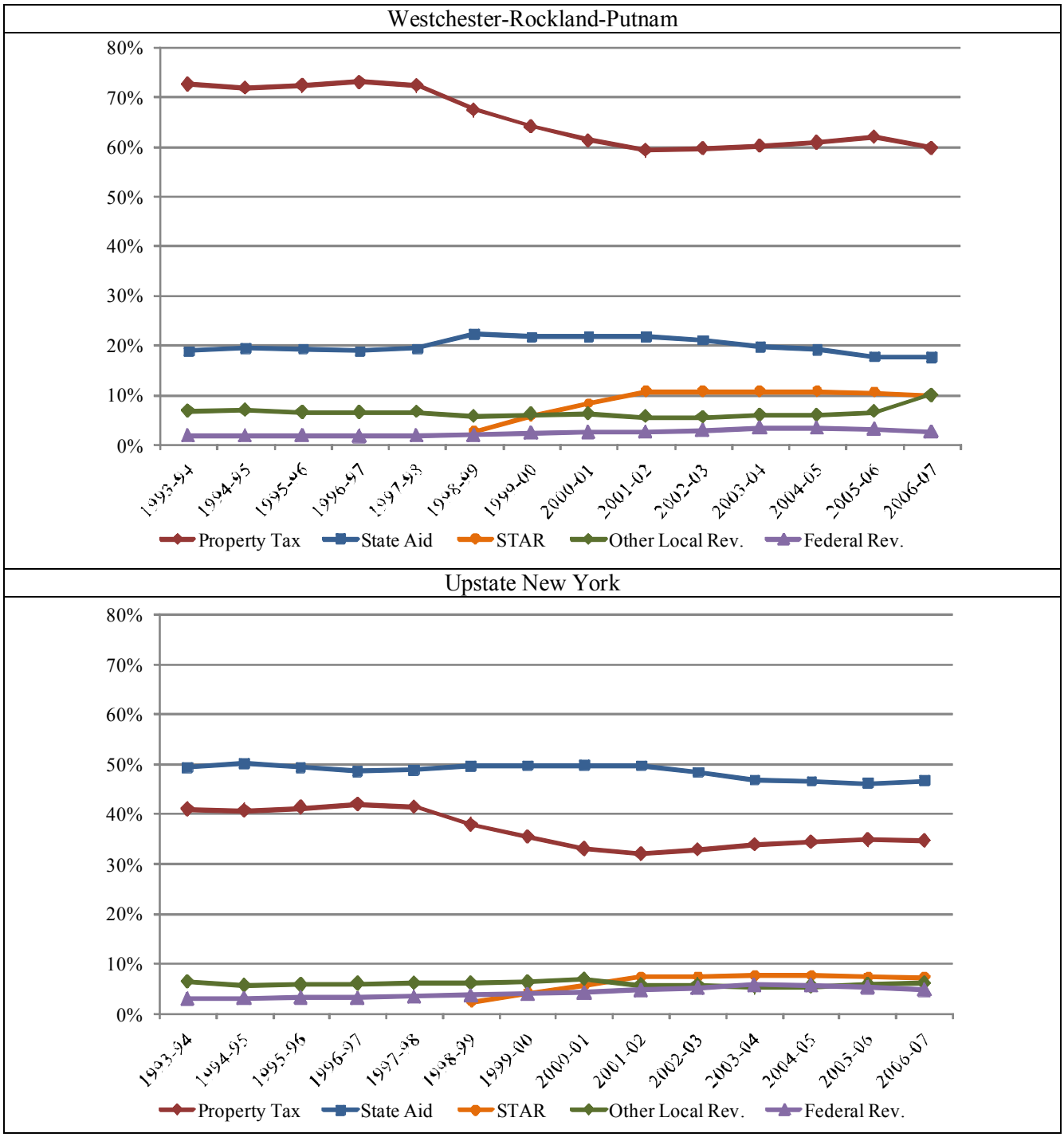
Figure 26: Revenue Distribution Among NYS Regions

New York City



Long Island





IV. Property tax burdens at the household level: ACS data for 2006

To obtain a picture of property tax burdens relative to incomes at the individual household level, and taxes relative to senior-citizen status, the study analyzed the U.S. Census Bureau's American Community Survey (ACS) data for 2006. The ACS data are difficult to compare with previous years because of changes in

survey methodology over time. Nonetheless, they provide useful information about recent property tax burdens at a level not readily susceptible to analysis with data from other sources.

The 2006 ACS data were weighted to represent the estimated universe for New York State and regions. After weighting the number of sampled households and excluding households reporting a negative value or zero for household income, we find a total of 3,914,848 households.

For this part of our analysis, property tax burden is measured as the percentage of property taxes in household income (both self-reported by respondents). Data on actual property taxes are not available from the 2006 ACS data; rather, respondents report the level of taxes paid as one of 64 categories. For our analysis, we used the midpoint of each category range to represent the given category.[11]

New York State is divided into four regions: New York City; Long Island; Westchester, Putnam and Rockland; and all other counties, grouped here as Upstate.[12]

The ACS asks respondents to indicate whether a resident of the household is 65 or older. We use this as a proxy indicator of ownership by senior citizens.

Property tax burden, household income, and property taxes

Table 4 presents regional distributions in the median values of property tax burden, household income, and property taxes. In the State of New York as a whole, the median property tax burden was about $4.56 per $100 of household income, ranging from $2.98 in New York City to $7.24 in Long Island. In the Westchester-Rockland region and upstate, median property burdens were $5.75 and $4.29 per $100 of household income, respectively. Median household income in the state as a whole was $50,010, ranging from $45,610 in the Upstate to $80,000 in Long Island. Median property taxes were $3,050, ranging from $2,450 in NYC to $7,500 in Long Island.

Table 4: Property Tax Burden, Household Income, and Property Taxes, NYS Regions

Region	Median Value		
	Property Tax	Household Income	Property Taxes
Long Island	7.24	80,000	7,500
New York City	2.98	45,800	2,450
Westchester-Putnam-Rockland	5.75	75,000	7,500
Upstate	4.29	45,610	2,550
All Regions	4.56	50,010	3,050

[11] Since respondents who lived in institutional or non-institutional group quarters reported neither property taxes nor household income, responses related to both institutional and non-institutional group quarters (GQs) were excluded for analysis. The ACS data considers co-ops and condominiums as a form of ownership, so they are included in owner-occupied units.

[12] These four regions were constructed from public use microdata area (PUMA) codes (available from 2006 ACS data) and Census 2000 PUMA Maps (available from Census Bureau website, http://www.census.gov/geo/www/maps/puma5pct.htm).

Property tax burden by homeowners' age

Table 5 shows median property tax burdens by homeowner's age status across regions. In the state as a whole, the median value of property tax burden for senior-citizen households was $5.82 per $100 of household income, while it was $4.21 for households with no resident aged 64 or older. In all four regions, senior citizen households paid higher property taxes relative to income than households without a senior citizen. In either category of homeowner's age, households in New York City had the lowest median property tax burden, while those in Long Island had the highest burden: The median property tax burden for senior-citizen households varied from $4.27 in New York City to $9.69 in Long Island per $100 of household income.

Table 5: Property Tax Burden by Homeowner's Age, New York State Regions

Age Group	Long Island	NYC	WPR	Upstate	All Regions
65 or more	9.69	4.27	7.61	5.19	5.82
Less than 65	6.67	2.65	5.38	4.06	4.21
Total	7.24	2.98	5.75	4.29	4.56

Property taxes by household income, New York State

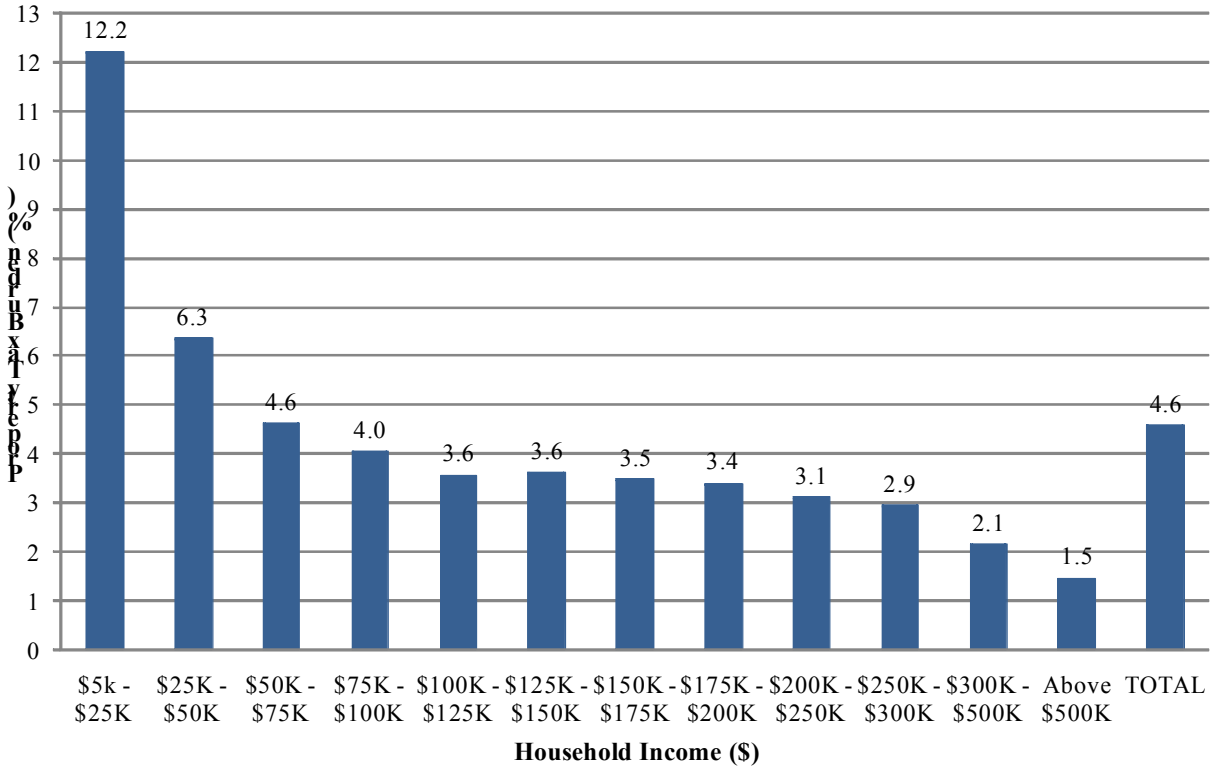
Table 6 shows median property tax burdens by various groups of household income for New York State and across regions. For this analysis, we omit households with income below $5,000 because a number of respondents reported property tax payments that appear inconsistent with reported income.

Table 6: Property Tax Burden by Household Income and Region, 2006

Household Income	Long Island	NYC	WPR	Upstate	Total NYS
$5K - $25K	231.77	13.42	29.13	9.42	12.20
$25 K - $50K	30.31	5.89	13.70	5.40	6.34
$50 K - $75 K	15.87	3.60	9.03	4.11	4.60
$75 K - $100 K	10.44	2.66	7.50	3.69	4.03
$100 K - $125 K	7.98	2.22	6.31	3.21	3.56
$125 K - $150 K	6.30	1.96	5.77	3.09	3.61
$150 K - $175 K	5.78	1.77	5.31	3.03	3.47
$175 K - $200 K	5.15	1.59	5.00	2.83	3.39
$200 K - $250 K	4.31	1.51	4.22	2.53	3.10
$250 K - $300 K	4.03	1.44	3.47	2.04	2.93
$300 K - $500 K	3.50	1.07	2.66	1.90	2.14
Above $500 K	2.63	0.90	1.84	1.26	1.45
TOTAL	**1.69**	**2.98**	**5.75**	**4.29**	**4.56**

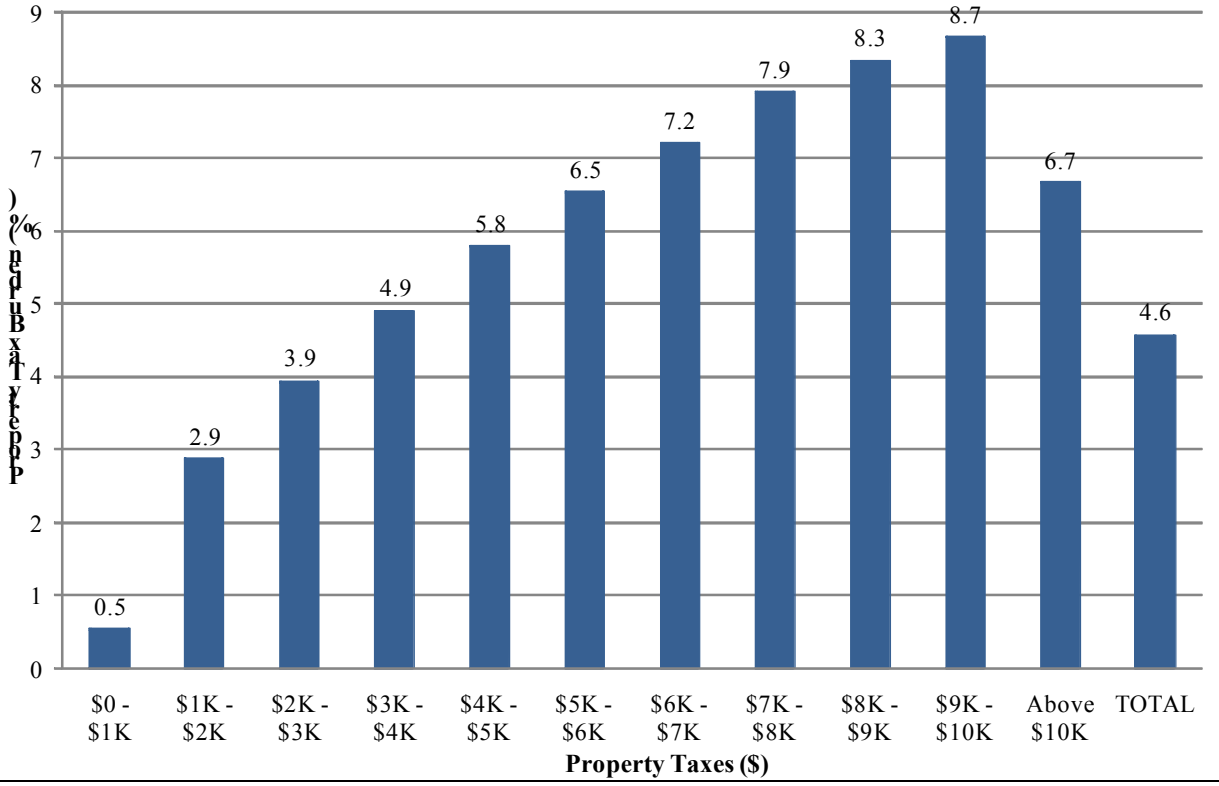
Source: U.S. Census Bureau, 2006 ACS Data.

Figure 27: Property Tax Burden by Household Income, New York State



Source: U.S. Census Bureau, 2006 ACS Data.

Figure 28: Property Tax Burden by Property Taxes, New York State



Source: U.S. Census Bureau, 2006 ACS Data.

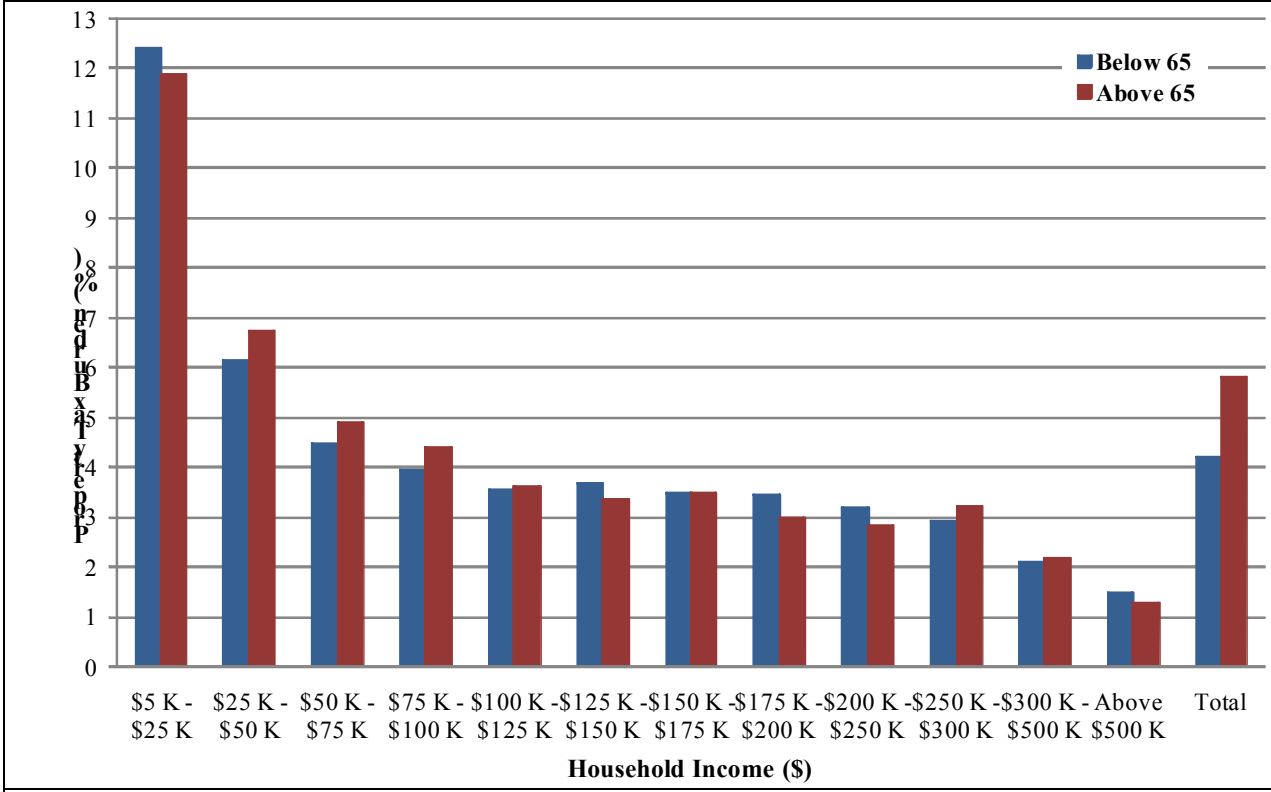
Property tax burdens tend to decline as household income rises, as shown in Figure 27. The tax burden is highest for homeowners with household income of $25,000 or less, declines by two-thirds for households with income between $75,000 to $100,000, and continues to fall as income rises.

Conversely, effective tax rates tend to rise as the total amount of property taxes paid increases, as shown in Figure 28.

Property taxes by household income and homeowner age

Figure 29 shows median property tax burdens by homeowners' age and household income. In general, the tax burden was higher for homeowners above age 65. Regardless of homeowner's age, median property tax burden generally decreased with an increase in household income. In the case of homeowners aged 65 or less, there were larger variations in median tax burden than in the case of homeowners aged 65 or more. But in some groups of household income, tax burdens were higher in the former case than in the latter.

Figure 29: Property Tax Burden by Household Income and Homeowners' Age



Source: U.S. Census Bureau, 2006 ACS Data.

Appendix A

Among major classes of local governmental entities, school districts outside New York City increased property tax collections at twice the rate of other classes of local government from 1993 to 2005, as shown in Table A-1. As a result, the share of total property tax revenues collected by school districts rose from 35 to 42 percent.

Table A-1: Property Tax Collections, Major Classes of Local Government, 1993-2005

	1993	Share of 1993 Total	2005	Share of 2005 Total	Increase, 1993-2005
School Districts Outside of NYC	8,099	35%	15,545	42%	92%
Counties Outside of NYC	3,166	14%	4,385	12%	39%
Cities Outside of NYC	678	3%	987	3%	46%
New York City	8,077	35%	11,914	32%	48%
Towns	2,002	9%	2,885	8%	44%
Villages	610	3%	966	3%	58%
Fire Districts	275	1%	494	1%	80%
Total	**22,907**		**37,176**		**62%**
Total Excluding School Districts	*14,808*		*21,631*		*46%*

Source: Office of State Comptroller data; calculations by Rockefeller Institute of Government.

The Nelson A. Rockefeller Institute of Government

The Rockefeller Institute of Government is the public-policy research arm of the State University of New York. Its researchers conduct studies on policy issues affecting the 50 states, with fiscal studies as one major area of emphasis. The Institute maintains a special focus on New York State issues and programs.

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