Suffolk County Homeowners Tax Reform Commission

SUFFOLK COUNTY LEGISLATURE

December 27, 2006

Table of Contents

I. Executive Summary

The Suffolk County Homeowners Tax Reform Commission was charged with examining improvements and alternatives to the property tax. One motivating force behind establishing this Commission is that property taxes are outpacing the ability-to-pay of an increasing number of residents. This was brought out in a survey contained in "Long Island Index 2006", an annual project conducted by the Rauch Foundation, which found that property taxes have become the single biggest issue in the minds of the public.

School taxes were found to account for most of the property tax increase in recent years. Unlike other major local municipalities (town and county governments), the only viable source of local revenue for school districts is the property tax. Towns have a local mortgage tax and counties have the sales tax. School districts depend more heavily on state aid and must rely on the property tax to make up the difference. To the extent that the State is not responsive to local needs, there is considerable pressure placed on local property taxes. With this in mind, a number of alternative local sources of school district revenue are considered in this report.

An income tax was considered by the Commission as a substitute for the local funding of our schools. This approach was found to be very appealing to large segments of our population but was found to have many flaws that could prove fatal as a replacement funding source. The conclusion of the Commission is that an income tax works best on a statewide basis.

Specific recommendations made by the Commission are:

- The <u>state aid</u> formula as it currently exists should be replaced with a formula that is more equitable to this region. The Commission recommends that the state increase the overall allocation of aid to schools to raise the state share to 50%, just above the national average, and that the state adopt a funding formula that directs an appropriate level of aid to Long Island. The new formula should account for regional cost differences, student needs based upon demographics and outcomes, and a minimum state share for all districts.

  This would provide immediate and significant property tax relief to our overburdened tax payers. Long Island school districts currently raise approximately 65% of their revenue through local real estate taxes with only 33% coming from state aid. State wide (outside of NYC), the average is 45% from state aid, while 51% is raised locally. This inequity needs to be corrected.

- Support is recommended for legislation to <u>increase the level of fund balance that school districts can retain</u>. Last year, legislation (A.949-A/S.6383) to raise the limit from 2% to 4% passed the legislature but was not signed by the Governor. The Commission recommends that the legislature again pass these bills and that the Governor sign the change into law.

- To prevent the imposition of <u>unfunded mandates</u> the State should codify into law the principal that "if an activity is important enough for the state to mandate, it must be important enough for the state to fund."

- Support State Assembly Bill No. A00184A to enhance "circuit breakers" within the state income tax structure, providing relief to lower income homeowners.

- Support State Assembly Bill No. A- 03114 to create a "commercial assessment ratio" to establish more equitable and realistic market values for commercial property. The new law would correct an inequity in how the current commercial assessment ratio is computed. By doing this the number of successful commercial tax certiorari suits could be dramatically reduced. This alone could mean a savings of up to $500 in the average residential property tax bill in Suffolk County.

- The Commission recommends the establishment of a local income-based Suffolk STAR Program to provide tax relief to targeted over-burdened taxpayers. This program could be funded by a mix of new local revenue sources that are recommended by the Commission. In particular, the Commission supports

  - ✓ A local excise tax on cigarettes – a tax of $2 per pack of cigarettes would raise an estimated $65.2 million. Based on the existing arrangement that NYC has with the State, 46% of these revenues are retained by the State. As a result, the County would receive $35.2 million or 54%. This proposal is currently under discussion with a coalition of downstate counties. Given the intended purpose of these revenues, school property tax relief, the Commission recommends that, net of a modest administrative charge, efforts be made for the County to retain almost all of the $65.2 million.

  - ✓ A "luxury tax" or "mansion tax" on home sales that are above $1 million – a 1% "luxury tax" could generate an estimated $36.2 million for school property tax relief in Suffolk County.

  - ✓ Bring video lottery terminals (VLT) to Suffolk County – The Commission estimates that if a VLT franchise was granted to Suffolk OTB, revenue generated for school property tax relief in Suffolk County would amount to $73.9 million in direct relief to homeowners in Suffolk County, which the Commission recommends disbursing through the proposed Suffolk STAR Program. In addition, an estimated $6.3 million share of additional state aid would go directly to school districts in Suffolk County.

  - ✓ Assuming all three of these alternative sources of local income are instituted, the proposed Suffolk STAR Program could generate $145.3 million to $174.9 million per year in revenue. The Commission estimates that a $500 Suffolk STAR credit for homeowners with household incomes of under $60,000 would cost $151.3 million annually.

II. Overview

The Suffolk County Homeowners Tax Reform Commission was established by the Suffolk County Legislature for the purposes of studying alternatives to our current system of real estate taxation. The Commission was formed by resolution in March 2006 and sponsored by a bi-partisan coalition of legislators; spearheaded by Legislator Lynne Nowick and Presiding Officer William Lindsay and co-sponsored by Legislators Ricardo Montano, Jon Cooper, Louis D'Amaro, Daniel Losquadro, Edward Romaine, Jack Eddington, Wayne Horsley, Kate Browning, Elie Mystal, Steven Stern and Vivian Viloria-Fisher.[1]

The Commission is made up of 17 members representing various organizations and interest groups from across Long Island. The 17 members are:

1) William J. Lindsay, the Presiding Officer of the Suffolk County Legislature;
2) Patrick Byrne, the designee of the County Executive;
3) Legislator Lynne Nowick, the designee of the Minority Leader of the Suffolk County Legislature;
4) Robert Lipp, Ph.D., Deputy Director, Budget Review Office, Suffolk County Legislature;
5) Michael Bernard, the representative from the Suffolk County Assessor's Association;
6) Ester Bivona, President and representative from the Suffolk County Tax Receivers and Collectors Association;
7) Jim Kaden, representative from the Nassau/Suffolk School Boards Association;
8) Gary D. Bixhorn, Long Island representative of the New York State Council of School Superintendents;
9) Daniel A. Bahr, representative of the Regional Chapter of New York State United Teachers (NYSUT);
10) Joseph Sawicki, Jr., Suffolk County Comptroller;
11) Thomas Kohlmann; President/CEO, Suffolk County National Bank, an individual with mortgage/banking experience selected by the Suffolk Legislature;
12) Lisa Tyson, Director Long Island Progressive Coalition, a recognized taxpayer advocacy organization;
13) Robert A. King, serving as a tax advisor or Certified Public Accountant, selected by the Presiding Officer ;
14) Dr. Pearl Kamer, Chief Economist and representative of the Long Island Association, Inc.;
15) Melvyn Farkas, a representative of the Long Island Board of Realtors;
16) Celine Gazes, a representative of the Suffolk Chapter of the Government Finance Officers Association; and
17) Nicholas LaMorte, a representative from the Long Island Federation of Labor;

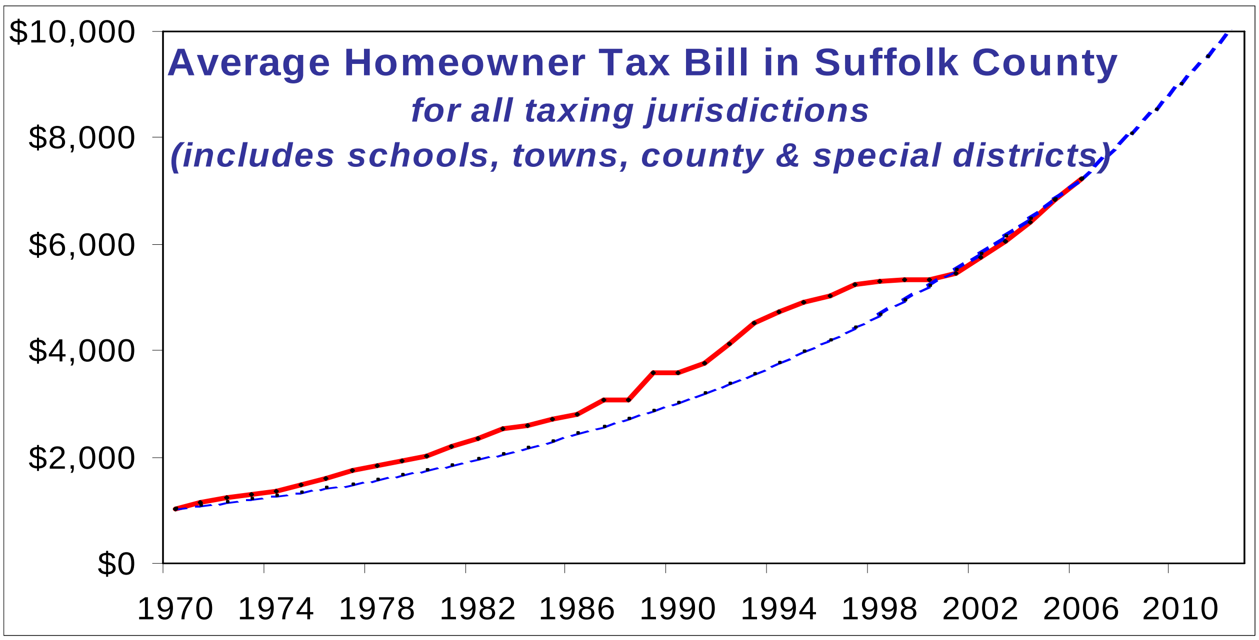
The Commission was charged with examining alternatives to property taxes. The legislation called for the Commission to hold at least three public hearings throughout Suffolk County to ascertain the views, wishes, and opinions of the residents. The first public hearing was held on May 23, 2006 at the William H. Rodgers Legislature Building in Hauppauge. The second of the three hearings was held on June 26, 2006 at Suffolk Community College's Ammerman campus in Selden. The final public hearing was held on Aug 23, 2006 at the Evans K. Griffing Building in Riverhead. These three public hearings provided a forum for all of the interested shareholders, especially the taxpayers, to be heard and to share their ideas and concerns. More than 150 individuals showed up

[1] The resolutions creating and extending the Commission can be found in the Appendix at the end of this report.

at the three public hearings with almost 80 testifying before the commission. Transcript of the testimony is available from the Legislative Clerk's office.

A. <u>The Financial Cost</u>

Since 1970 the average homeowner tax bill in Suffolk County for all taxing jurisdictions (which includes schools, towns, county & special districts) has risen at a compounded rate of 5.61% per year. In comparison, inflation over the same period was a more modest 4.75%. If property taxes continue to increase at the long-run trend growth rate of 5.61%, they will increase from an average of $7,237 in 2006 to over $8,000 by 2008, over $9,000 by 2010 and over $10,000 by 2012.



B. <u>The Human Toll</u>

A recent study by the Long Island Index found that more than 80% of residents in Nassau and Suffolk Counties find high property taxes to be a very serious or extremely serious problem. In fact, Long Islanders rate high taxes as the region's number one problem.

Families are having problems paying the bills. A survey by the Long Island Index 2006 found that the percentage of residents who reported it is somewhat or very difficult to meet monthly rent or mortgage payments rose from 35% in 2003 to 54% in 2005. Long Island's property taxes are 2.5 times the national average. This was also found to be the case in other mature, prosperous suburban regions.

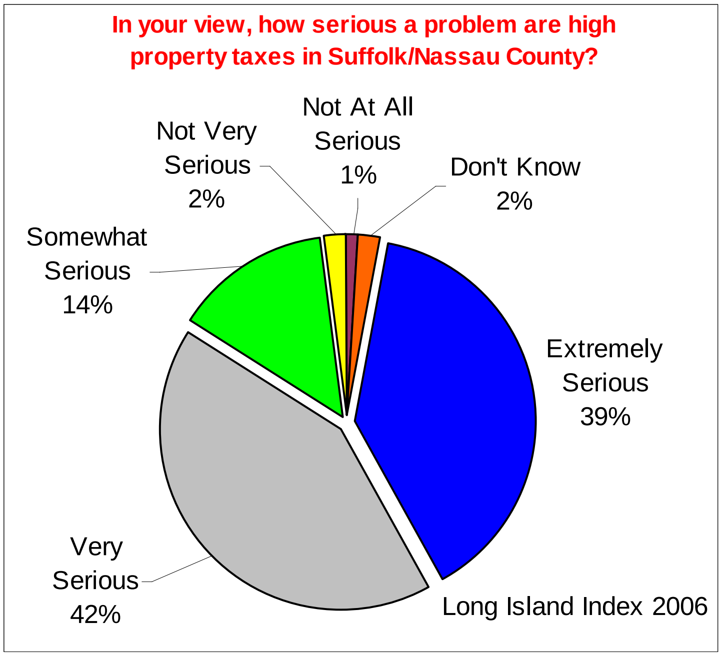
The Long Island Index study also showed that because of this crushing burden of property taxes more than half of Long Island residents are considering moving. Senior citizens and our young

MR. BIANCULLI *40-year resident of Deer Park*

"Very dear people to me are leaving Long Island; relatives, not relatives, dear people in any case. And it's my opinion that if we don't fix, and soon, the tax situation, better people than me will leave this place."

people are the most severely affected. 64% of 50-64 year olds and 70% of 18-34 year olds said they are somewhat or very likely to move in the next five years to an area with lower housing costs and property taxes.

Long Island families are fractured as a result. Our parents can't afford to stay; our children can't afford to stay. Less often are we seeing multiple generations of the same family on the same block, let alone in the same town, county or Island. Grandma isn't around the corner anymore. Sunday night family dinners with Aunt Barbara and Grandpa Joe require weekend trips to Florida or South Carolina. Visits that we promise to make every few months become once a year, if we can afford it. Intergenerational bonding becomes more and more difficult and our families are suffering.



The Long Island Association and the L.I. Works Coalition have long expressed alarm that Long Island's college graduates cannot afford to return to Long Island to establish careers and raise families. As a result, Long Island families and the talented youth we educated are spread out across America.

C. The Economic Cost

Young new homeowners face the burden of high taxes on top of jumbo mortgages. The long-time resident, with a house now worth much more than purchased for, may feel a strong incentive to "cash out" and move off the Island where real estate prices and taxes are lower. These are the two age groups most likely to leave. The younger group is the economic future of Long Island, while the long-time residents who have not yet retired are today's highest income earners in our region. When these people leave, they take their purchasing power with them.

> **MR. STARK** resident of Huntington since 1979**:**
>
> *"You've got a system that's really going off the tracks, very badly off the tracks. We have a fine education system on Long Island, but I'm paying for their education and then they take their knowledge and they go somewhere else and use it."*

The "brain drain" on Long Island has been called alarming. Long Island is exporting its most valuable product - its well educated, talented youth. Long known as a region of families and children, Long Island is losing much of its younger generation, and the median age of residents is rising. In the 1990's, census figures show that the number of people age 18 to 34 decreased by 143,184, or twenty percent, in Nassau and Suffolk Counties. While this age group also decreased nationwide, reflecting the "baby bust" that followed the baby boom, the Island's drop was five times the national decrease of 4 percent. As the young have left and their parents have lingered into retirement, the Island's median age has steadily risen. Now more than 30 percent of the population is older than 50.

The region's "brain drain" is also one of the most pressing issues facing Long Island business, education and health-care institutions that depend on recruiting and retaining talented young people. Long Island, as a region, is also dependent on service workers who are struggling to meet Long Island's high cost of living on moderate incomes. If the current trend continues: Who will pick up our garbage? Fight our fires? Police our streets? Cut our lawns? Sell or serve us our food? Who will teach our children? Care for our sick?

D. Ready for Something New

The current system is so burdensome to residents that it has caused a shift in the landscape. People are now ready to discuss options considered taboo in the past. People are willing to consider dramatic changes to our system of property taxation to finance public education.

According to the Long Island Index a majority of Long Islanders are ready for something new. Approximately 55% of Long Islanders favor replacing a portion of the school property tax with an income tax. Another 76% of Long Islanders favor pooling commercial property taxes and distributing them evenly across all school districts.

> MR. DONATO:
> *"I feel I am the victim of tax abuse… it's absurd, it's gouging at its highest…our tax system is stupid… assessed value, real estate value, I think it's wrong. I think it should be taxed on income, this way older people get a break, younger people get a break and it's fair for everybody."*

The Suffolk County Homeowners Tax Reform Commission investigated numerous alternatives to the current system of taxation. Several experts gave detailed presentations before the Commission on alternate taxes and other revenue producing alternatives. Experts who spoke before the Commission included: Frank Mauro, Executive Director of the Fiscal Policy Institute, Harvey B. Levinson, Nassau County Chairman of the Board of Assessors, Jeff Casale, President/CEO Suffolk Regional Off-Track Betting Corporation and Gary Bixhorn, Andrea Grooms & Shane Higuera of Eastern Suffolk BOCES and preparers of the "Innovate Long Island – Report on K-12 Costs and Outcomes".

Sample of Alternatives discussed by the Suffolk County Homeowners Tax Reform Commission
Increase the share of public school costs supported by state aid
Generate a supplemental local source of revenue for schools, such as a regional lottery
Enact a local income tax to replace all or part of the school property tax
Dedicate an increase in the sales tax for school districts to replace a portion of the property tax
Craft a combination of alternative tax sources to replace and/or supplement a portion of the school property tax
Enhance the state circuit breaker program
Regionalize the non-residential portion of property taxes
Enact a regional cost-of-living adjustment for state aid to school districts
Revamp the state aid formula for education to give Long Island a more equitable share
Consider what role the State's STAR program should play
Establish uniform assessment standards

E. Potential Solutions: What Can Be Done?

The Commission spent a great deal of time debating potential solutions. It should be pointed out that some of the proposals did not receive the unanimous support of the Commission members. Having stated that, the proposed solutions fell into three distinct areas:

1. Work within the framework of the existing funding and tax assessment system, with the state funding part of school costs through state aid and the remainder being funded through a local real estate tax, for which the rate determined by the local school district and the value of property is determined by the Town Assessor. The solutions that will be discussed are to revise the existing formula for state aid taking into account several factors, including *(a)* regional cost differences, *(b)* recognizing differences in school district needs (as determined by demographic achievement and wealth data), *(c)* formula simplification, *(d)* multi-year state aid appropriations, and *(e)* a guarantee of every school district getting a minimum “state share” of revenue. In addition, all local school districts should be allowed to have larger reserve funds to stabilize their taxes over the course of the business cycle. Finally, we will also discuss developing more equitable assessment formulas for both residential and commercial property.

   In terms of property assessment without radical reassessment initiatives, there is state legislation pending that if passed could give the average residential homeowner an average of $500.00 savings at the expense of the commercial rate payer. Again, an in-depth analysis of pros and cons will be discussed later in the Commission report along with a specific proposal.

2. Eliminate the existing school property tax system and replace it with a County or Bi-county income tax. This was the most popular suggestion from the citizens that addressed us. However, the problems in switching from one system to another are monumental. A great deal of time was spent on trying to come up with solutions to the problems. Under the income tax section of the report, the problems and potential solutions will be discussed at length. The conclusion of the commission is that an income tax works best on a statewide basis and should not be established at the local level. Rather than implement a new regional income tax, either a surcharge should be assessed against all state tax payers or the State’s income tax rates should be raised with the stipulation that the additional revenue is dedicated totally to education.

3. Create a countywide pool established to stabilize the school tax burden. Several funding sources were identified to fund the program including a regional estate tax, mortgage tax increase, sin taxes and video lottery terminals.

   If the funding could be found, the big question is, “How should the money be distributed?”

   a. As supplemental aid directly to the school district; or,
   b. Directly to the taxpayer through a local Star Program or a county “circuit breaker” system with relatively high income limits.

III. Statement of the Problem: Why the System Isn't Working

In this section of the report the Commission documents the problem that exists with respect to the mounting property tax burden on Long Island and how the existing system to fund school districts exacerbates this problem. Consideration of both total property taxes for all municipalities, as well as for school districts, will be considered.

On Long Island the tax burden has recently become the single biggest issue in the minds of the public. Based on a poll accompanying the "Long Island Index 2006", the danger of high taxes to our region's future is growing.[2]

- Long Islanders rate taxes our biggest problem by far.
  - ✓ 51% of those polled in Nassau and 32% polled in Suffolk rated taxes the biggest problem, with no other issue in either county considered to be nearly as important a problem.
  - ✓ Although people are generally willing to pay more for quality services, only 35 percent of those polled rated the quality of local services as good or excellent in relation to what they are paying in taxes.

Property taxes on Long Island are among the highest in the nation. Data compiled for the "Long Island Index 2006" found that:

- In 2002 per capita property taxes averaged $969 nationwide compared to $2,450 on Long Island.
- In Nassau County per capita taxes were $2,815 and in Suffolk they were $2,115.
- The report found that high taxes appear to be typical of mature, prosperous suburbs like Long Island. Per capita property taxes in Nassau were found to be the highest among a group of select peer counties included in the analysis, while high taxes in Suffolk were found to be in line with those of peer counties.[3]
- One problem, as discussed below, is that since 2002 there have been substantial increases in property taxes on Long Island that are fast becoming a burden which in turn is adversely affecting the local economy.

The property tax warrant for all taxing jurisdictions in Suffolk County is growing faster than many persons can afford.

- Since 1970 Suffolk County's property tax warrant for all taxing jurisdictions (which includes schools, towns, county & special districts) has trended up at a compounded rate of 7.28% per year.[4]
- In comparison, inflation over the same period was a more modest 4.79%.
- Population in Suffolk County grew at a compounded rate of only 0.8% since 1970.[5]

---

[2] Long Island Index 2006, http://www.longislandindex.org/fileadmin/reports/INDEX2006a.pdf, p. 14.
[3] In addition to Nassau and Suffolk, "peer counties" included in the "Long Island Index 2006" were Westchester, Bergen, Fairfield, and Fairfax.
[4] Based on data compiled by the Budget Review Office, Suffolk County Legislature. Source documents for these data are each year's tax warrant resolution adopted by Suffolk County, with the most recent being Resolution 1265-2005, Authorizing that the Tax Warrants be signed by the Presiding Officer and Clerk of the Legislature and that they be annexed to the Tax rolls for the collection of taxes.
[5] Source: LIPA. Long Island Population Survey, http://www.lipower.org/company/pubs/popsurvey.html

- If property taxes continue to increase at the long-run trend growth rate of 7.28%, they will increase from $4.1 billion in 2006 to over $5 billion by 2009 and to over $6 billion by 2012.

This translates into average homeowner tax bills that outpace the ability-to-pay of increasingly more residents. Rising property taxes have been especially difficult for senior citizens and others on fixed incomes.

- Since 1970 the average homeowner tax bill in Suffolk County for all taxing jurisdictions (which includes schools, towns, county & special districts) has trended up at a compounded rate of 5.61% per year.
- If property taxes in Suffolk County continue to increase at this long-run trend growth rate, they will increase from an average of $7,237 in 2006 to over $8,000 by 2008, over $9,000 by 2010, and over $10,000 by 2012.
- The average 2006 property tax bill in Suffolk is equivalent to a $95,000 mortgage.[6] If interest rates do not change, the above projected property tax bills would be equivalent to taking on a mortgage of over $105,000 by 2008, almost $120,000 by 2010, and in excess of $130,000 by 2012. Even after allowing for increases in interest rates, projected property tax bills translate into the equivalent of a mortgage of about $101,000 by 2008, $107,000 by 2010, and $114,000 by 2012.[7]

School taxes have contributed to most of the increase in recent years.

- As shown in Figure 1, since 2002 the school district share of property taxes in Suffolk County has steadily increased, from 62.4% in 2002 to 66.5% in 2006.
- This is consistent with the picture presented in Figures 2 through 4, where we observe that in recent years rising property taxes in Suffolk County are largely attributed to the school district portion of the tax bill.
- Growth in property taxes over the past 10 years (1996-2006) reveals that over the first 6 years (1996-2002), the average homeowner property tax bill in Suffolk County increased at a compounded rate of less than 2.2% per year.[8]
- However, over the past 4 years (2002-2006), the growth rate increased to 6.0% per year. While non-school property taxes continued to grow at less than 3%, school taxes over this period grew at a compounded rate of 7.7% per year.
- Statewide 50.7% of the average school district's revenue (excluding NYC) comes from local sources. On Long Island, property taxes (the only local source of revenue) account for 64.7% of school district revenue. The breakdown by county is 72.6% in Nassau and 57.6% in Suffolk.[9]

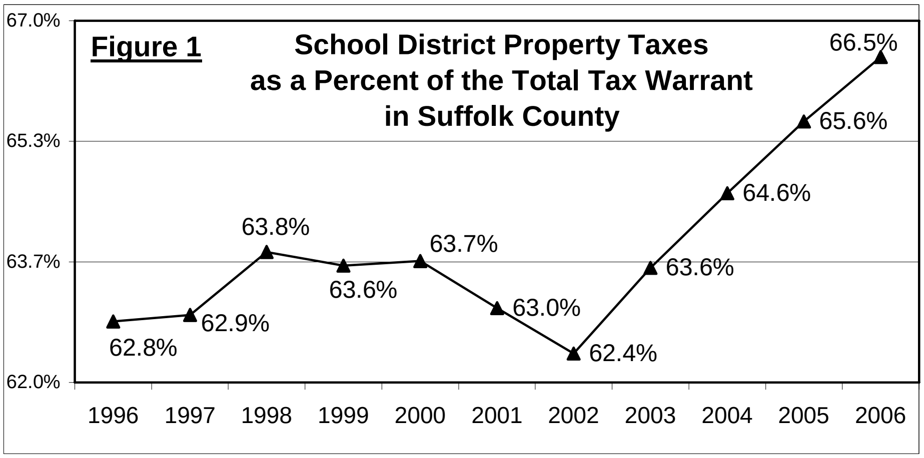
---

[6] This is based on a 30-year fixed rate conventional mortgage at current rates that are about 6.5%.

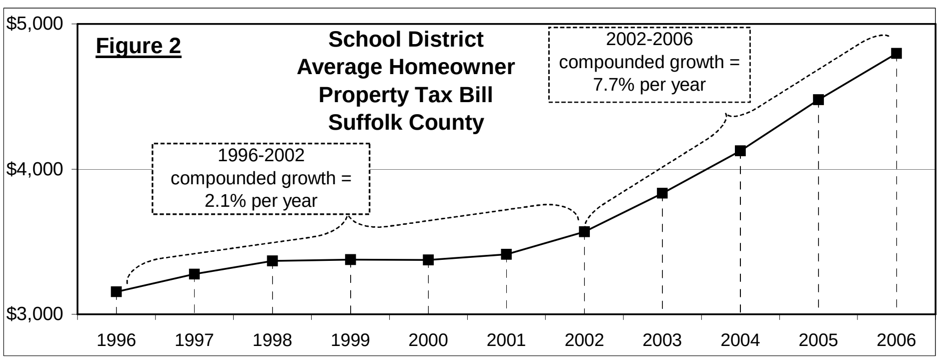
[7] This is based on a 30-year fixed rate conventional mortgage that allows for a modest increase in rates from the current 6.5% to 7.0% in 2008, 7.0%% in 2010, and 8.0% in 2012.

[8] The compounded rate of growth is calculated by using the actual data for the two endpoints, the first year of the period in question (the base year) and the final year. The annual compounded rate of growth, when applied to the base year, will result in a value that is equal to the actual amount experienced in the final year of the period in question.
For instance, the growth rate of 2.2% from 1996 to 2002 was calculated using the following formula:
$2.2\% = 10^{[\,(1/(n-1))\,*\,\mathrm{LOG10}\,\{\text{Tax Bill (2002) / Tax Bill (1996)}\}\,]} - 1$,
where n = 7 = # of years (1996-2002); Tax Bill (2002)=$5,742; Tax Bill (1996)=$5,038

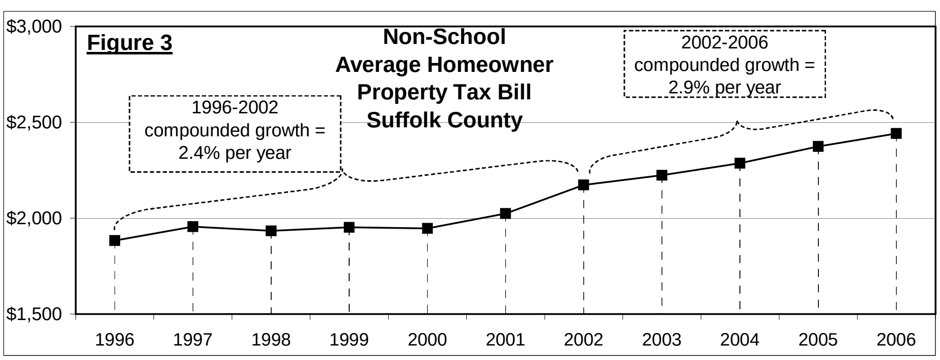
[9] Based on data for the 2003-2004 school year. See "School District Fiscal Profiles", http://oms32.nysed.gov/faru/Profiles/17th/webMasterfile0304.xls



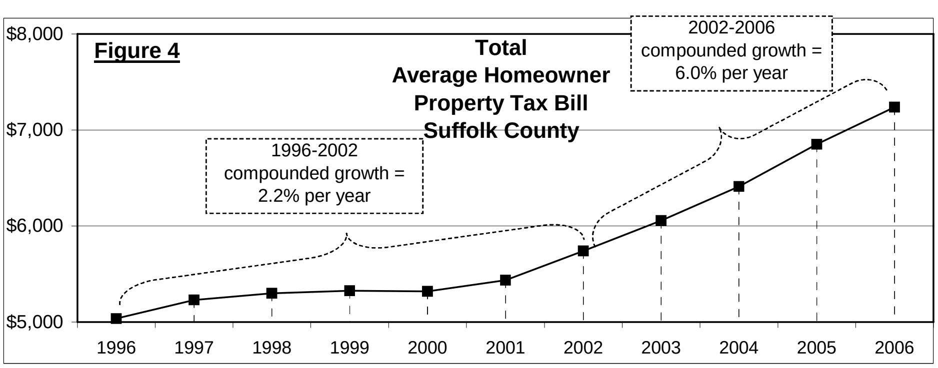
School district average homeowner property tax bill



plus **non-school district average homeowner property tax bill**



equals **the total average homeowner property tax bill**



To explain why school property taxes have been increasing at a relatively high rate in recent years, we need to focus on school district finances. In terms of school district costs[10]:

- Based on New York State Education Department data, purchasing power in the median region (Central New York) is 32.2% greater than in the Long Island/NYC region. Purchasing power in the lowest cost region in the State (North Country) is 49.7% greater than in the Long Island/NYC region.[11]
- School district costs on Long Island are high. However, if we adjust for regional cost differences and enrollment that is not the case. In particular, cost differences are largely attributed to the higher cost-of-living. When per pupil expenditures are adjusted for cost-of-living differences across regions, school district costs on Long Island are 6.6% below the median county.[12]

For a given level of expenditures, the breakdown of local effort/state share for funding education also helps explain why school district property taxes on Long Island are as high as they are. Unlike the other major local municipalities (town and county governments), the only viable source of local revenue for school districts is the property tax. In addition to the property tax, towns have a local mortgage tax and counties have the sales tax. School districts depend more heavily on state aid and must rely on the property tax to make up the difference between expenditures and state aid. To the extent that the State is not responsive to local needs, there is considerable pressure placed on local property taxes.

While school districts on Long Island receive a below average level of support from the State, the State receives a disproportionately large share of its major revenue sources from Long Island. Excluding New York City, based on the most recent data available, Long Island accounts for nearly 30% of the annual taxable sales in New York State[13] and approximately 36% of state income tax revenues,[14] but receives only 20% of state revenue to school districts.[15]

- Over the March 2002 to February 2003 period, excluding NYC, Long Island accounted for 29.9% of state sales tax revenues ($5,021,890,220), with 14.2%

---

[10] The nine Labor Force Regions (excluding New York City boroughs) were ranked on the cost of goods and services using a cost of living index from the New York State Education Department Regents State Aid Proposal, 2005-2006. See Statistical Profiles of Public School Districts, Chapter 655 Report, New York State Education Department, http://www.emsc.nysed.gov/irts/655report/2005/home.html, July 2005.
[11] Innovate Long Island: A New Plan for the Economic Development of the Long Island Region, Sept. 2006, Long Island Association, Table 9, p. 17, and Appendix B, p. 32.
From Table 9, 32.2% = ($883-$668)/$668 and 49.7% = ($1,000-$668)/$668.
[12] Innovate Long Island: A New Plan for the Economic Development of the Long Island Region, Sept. 2006, Long Island Association, Table 12.
[13] Taxable Sales and Purchases, County and Industry Data. New York State Department of Taxation and Finance. http://www.tax.state.ny.us/pdf/stats/stat_excise/taxable_sales_and_purchases_march2002_february2003.xls
[14] New York State Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence. New York State Department of Taxation and Finance. Table 3: Total Income and Tax Liability of Full-Year Residents by County in 2002.
http://www.tax.state.ny.us/pdf/stats/stat_pit/cor/analysis_of_2002_ny_state_personal_income_tax_returns_by_place_of_residence.xls
[15] These data are based on the most recent available data from the 2003-04 school year, with source data obtained from "School District Fiscal Profiles", http://oms32.nysed.gov/faru/Profiles/17th/webMasterfile0405.xls

coming from Nassau County ($712,195,414) and 15.7% from Suffolk County ($789,141,823).

- Based on 2002 income taxes for full-year residents, excluding NYC, Long Island accounts for 36.8% of state income tax revenues ($10,625,157,806), with 21.0% coming from Nassau County ($2,228,193,404) and 15.8% from Suffolk County ($1,681,018,933).
- In comparison, Long Island receives a more modest 20.0% of state aid to all school districts (excluding NYC) and 29.9% of STAR program revenues. Adding both of these revenue sources, Long Island receives 21.9% of total state revenue to school districts. The breakdown by county is:
  - ✓ Nassau County receives 6.4% of state aid to all school districts (excluding NYC) and 14.7% of STAR program revenues. Adding both of these revenue sources, Long Island receives 7.9% of total state revenue to school districts.
  - ✓ Suffolk County receives 13.6% of state aid to all school districts (excluding NYC) and 15.2% of STAR program revenues. Adding both of these revenue sources, Long Island receives 13.9% of total state revenue to school districts.

The argument for not supporting school districts on Long Island to the same extent that Long Island supports the state through its major revenue sources (the sales tax and income tax) is that Long Island is wealthier than much of the State. The Commission raises the concern that while Long Island is on average wealthier than the rest of the State, the level of support from the State nevertheless shortchanges this region by too much. Among the reasons for this conclusion are:

- As documented above, high and rising property taxes, largely attributed in recent years to the school portion of taxes, is becoming too much of a burden to increasingly more Long Islanders. With property taxes being the only source of local revenue for school districts on Long Island, the level of funding from the State has not kept pace with school district needs. Considering the large disparity between state support and local effort, there is a need for both State and local policymakers to rethink the current system of funding schools.
- While Long Island has several wealthy school districts, many of these districts are small. Contrary to perceptions, there are many large districts on Long Island that are poor. In particular, in Suffolk County, 53.1% of all students are enrolled in school districts that fall below the state average in wealth, as measured by the combined wealth ratio (CWR).[16] Overall on Long Island, 34.0% of all students are enrolled in such school districts. In general, the wealth of Long Island districts tends to fall the further east the district is located, with 66.8% of enrollment below

[16] Combined Wealth Ratio: The Combined Wealth Ratio (CWR) compares district wealth to the State average wealth, which is defined as 1.0. A district with a CWR of less than 1.0 has wealth below the State average. Conversely, a district with a CWR of more than 1.0 has wealth above the State average. The CWR is calculated as follows: (0.5 multiplied by the Pupil Wealth Ratio) + (0.5 multiplied by the Alternate Pupil Wealth Ratio). The Pupil Wealth Ratio is equal to the actual value of property in 1998 divided by a weighted pupil count. The Alternate Pupil Wealth Ratio is equal to the 1998 Adjusted Gross Income of a district divided by a weighted pupil count. The weighted pupil count is based on the adjusted average daily attendance of K–12 students resident in the district plus weightings for students with special educational needs, students with disabilities, and secondary school students; half-day kindergarten students are weighted at 0.5. The CWR is not used in determining State aid for districts with fewer than eight teachers and is not calculated for these districts. Source: Fifteenth Annual School District Fiscal Profile database. Additional information can be found in Part IV, Section 3 of the Statewide Profile of the Educational System.

the state average CWR for schools located in Eastern Suffolk BOCES, 27.3% in Western Suffolk BOCES, and 9.9% in Nassau County.[17]

- Average incomes are somewhat misleading due to the small number of wealthy households that drive up the average and mask the difficulty that many property owners have in paying property taxes.

Finally, the mechanism used to allocate state aid to schools is the state aid formula. Most interested parties would agree that the formula needs to be reformed. Since any change would result in winners and losers, it has been difficult to gain support for meaningful reform. The point to be made is that while wealth should be a consideration in any state aid formula, there is insufficient recognition of the tax burden placed on local property owners.

[17] Innovate Long Island: A New Plan for the Economic Development of the Long Island Region, Sept. 2006, Long Island Association, p. 5, and Appendix C, pp. 34-35.

IV. Fixing the Existing System

A. State Solutions

1. Increase and Reform State Aid

The data demonstrates that Long Island schools do not receive an adequate share of state aid, and as a result, are too heavily dependent on property tax revenue. This situation can be corrected through a two-step process. First, the state must increase its overall support for education by dramatically increasing funds budgeted for aid to education. Second, the state must establish a funding formula that assures adequate funding is directed to all school districts.

The table below, entitled “2003-04 School District Revenues and STAR Subsidies”, indicates that Long Island is far more heavily dependent on property taxes to fund local schools than other regions of the state.

2003-04 School District Revenues and STAR Subsidies

	State Aid Receipts	STAR Subsidy Receipts	Total Receipts from State	Federal Aid Receipts	Property Tax Levy & Other Revenue	Total Revenue
Nassau County	594,038,537	315,008,644	909,047,181	83,648,069	2,627,727,508	3,620,422,758
% of Total Revenue	*16.4%*	*8.7%*	*25.1%*	*2.3%*	*72.6%*	
Suffolk County	1,273,496,395	325,752,911	1,599,249,306	106,496,549	2,317,964,870	4,023,710,725
% of Total Revenue	*31.6%*	*8.1%*	*39.7%*	*2.6%*	*57.6%*	
Long Island	1,867,534,932	640,761,555	2,508,296,487	190,144,618	4,945,692,378	7,644,133,483
% of Total Revenue	*24.4%*	*8.4%*	*32.8%*	*2.5%*	*64.7%*	
Rest of State (excluding NYC and LI)	7,464,867,309	1,501,436,050	8,966,303,359	967,245,040	8,034,484,565	17,968,032,964
% of Total Revenue	*41.5%*	*8.4%*	*49.9%*	*5.4%*	*44.7%*	
New York State (excluding NYC; but including LI)	9,332,402,241	2,142,197,605	11,474,599,846	1,157,389,658	12,980,176,943	25,612,166,447
% of Total Revenue	*36.4%*	*8.4%*	*44.8%*	*4.5%*	*50.7%*	

Description: State Aid Receipts + STAR Subsidy Receipts = Total State Receipts. Total Revenue = Total Receipts from State + Federal Aid Receipts + Property Tax Levy & Other Revenue. Excludes New York City.

Source: *New York State Education Department Fiscal Analysis and Research Unit (FARU). Fiscal Reporting System Masterfile, 2004 [Data file].*

Property tax relief will occur when the state share of school funding on Long Island is increased. If Long Island schools were funded at the same level as others in the “rest of the state” (49.9% excluding New York City), the amount of property taxes and other local revenues would be reduced by $1.3 billion or 26.4%.

In essence, such a shift would reduce property taxes and increase support through the state income and sales tax. The property tax was not designed to generate 70% to

95% of revenues for school districts, and it should not be used for that purpose. The state has an obligation to fund education and should assure that communities in high cost regions receive appropriate support.

The existing system has been widely recognized as dysfunctional. However, the Commission suggests that if the existing formula was fully funded and allowed to "run", it might prove to be a solid foundation for reform.

The Commission believes that reform is necessary and has endorsed the following "Priorities for State Aid Reform" that have been advanced through the *Innovate Long Island* initiative of the Long Island Association.

- <u>Provide property tax relief to Long Islanders</u>. The state must direct significantly more state aid to Long Island schools. Long Islanders are suffering from taxpayer fatigue. On average, more than 3.7% of their gross household income goes to pay their residential school property taxes on Long Island, as opposed to just over 3.1% for all households in New York State (excluding NYC). In comparative terms, Long Islanders use an average of just under 20% more of their gross household incomes to pay their residential school property taxes than New Yorkers in general.

- <u>Significantly increase state aid to education in New York State</u>. The most current data available (2003) indicates that the national average State share of education funding is 48.7%.[18] The New York share is 45.6% with STAR payments included.[19] The Long Island educational community has maintained that while STAR provides tax relief to certain residential propriety owners, it is not state aid to school districts. In order to increase the State share to the national average, without including STAR ($2.7 billion), aid to schools should be increased by an amount equal to STAR plus an additional $1.2 billion or a total of $3.9 billion.

- <u>Recognize differences in school district needs as determined by demographic, achievement, and wealth data</u>. Analysis of district wealth and achievement data indicates that significant performance gaps exist on Long Island. Those gaps should be a significant factor in the allocation of state support.

- <u>Recognize regional cost differences in the operating aid formula, as well as all other non expense-driven formulas</u>. This should be done in a meaningful manner utilizing the professional cost index developed by the State Education Department. Also, it will be important for the State to continually maintain and update this index. A dollar upstate (North Country Labor Force Region) is worth only $0.66 on Long Island.

- <u>Guarantee every school district in New York State a minimum "state share" of revenue</u>. The number of school districts on Long Island that received less than 10%

[18] National Center for Education Statistics (NCES) of the U.S. Department of Education and Institute of Education Sciences, Digest of Education Statistics - 2005, Table 152, http://nces.ed.gov/programs/digest/d05/tables/dt05_153.asp
[19] National Center for Education Statistics (NCES) of the U.S. Department of Education and Institute of Education Sciences, Digest of Education Statistics - 2005, Table 153, http://nces.ed.gov/programs/digest/d05/tables/dt05_153.asp

of the total revenue from state aid in 2003-04 was 39; this was equal to 53% of the 74 districts statewide with less than 10% of total revenue from state aid. Another 55 Long Island school districts received between 10% and 30% of their total revenue from state aid; this was equal to 39% of the 140 districts statewide with between 10% and 30% of their total revenue from state aid.

The average "local share" of revenues for Long Island in 2003-04 was 64.7%; the remaining revenue sources were State Aid (24.4%), STAR (8.4%), and Federal Aid (2.5%).

- Introduce multi-year state aid appropriations to provide an enhanced ability to plan and provide greater stability to the school district budget process.

- Consolidate and simplify the formulas to eliminate small categorical aids and make the allocation system understandable.

- In the absence of true reform, and if these priorities are not recognized, the share of state aid (12.7%) directed to Long Island (including NYC) should not be less than the percentage of the State's children being educated on Long Island. This alone would allocate an additional $700 million to Long Island and provide some degree of tax relief (16.7%).

The complete *Innovate* Long Island report, which includes all of the data used to develop these priorities, is available from the Long Island Association.

2. *Enhance the State Circuit Breaker Program*

The state circuit breaker program offers a tax credit to low-income property owners when filing their state income tax return. The current program is very limited and provides little to no tax relief. This can be seen in the accompanying table. In Suffolk County only 4,247 property owners were able to take advantage of property circuit breaker tax credits. That represents just 0.6% of 665,355 NYS income tax returns. Even worse, the average tax credit amounted to only $88.51. With the average homeowner property tax in Suffolk County estimated to be $7,237 in 2006, that's not much relief for income poor homeowners. Another problem with New York State's circuit breaker program, as seen in the accompanying table, is that the tax credit only applies for household incomes up to a maximum of $18,000.

The Commission recommends a change in state law to allow for more generous property tax credits applied to the state income tax liability of low-income property owners. This approach has the advantage of making the system more equitable, which is the main concern of income tax proponents, while avoiding the shortcomings inherent in a local income tax. Loss of income tax revenue as a result of more generous tax credits for low-income filers may have to be offset by other adjustments to the income tax or increases in other sources of revenue.

Currently there is legislation being sponsored in the State Assembly to address this issue – Bill No. A00184A sponsored by Assemblyman Ivan C. Lafayette. This legislation proposes to increase household gross income eligibility for the real property tax circuit breaker credit from $18,000 to $25,000 and to adjust eligible rent maximums from $450 per month to $700 per month. The Commission supports this legislation.

Real Property Circuit Breaker Tax Credit Use - 2003						
	Suffolk County			Nassau County		
	Number of Credits	Amount of Credits	Average Credit	Number of Credits	Amount of Credits	Average Credit
Total	4,247	$376,000	$88.51	3,684	$330	$89.55
Age:						
Under 65	3,166	$173,000	$54.60	2,832	$155	$54.74
65 and over	1,081	$203,000	$187.83	852	$175	$205.28
Type of Residence:						
Homeowner	848	$131,000	$154.07	440	$73	$165.95
Renter	3,399	$245,000	$72.16	3,244	$257	$79.19
Household Gross Income:						
$0 - $3,000	305	$30,000	$99.79	258	$33	$127.69
$3,001 - $5,000	420	$34,000	$80.79	369	$34	$92.66
$5,001 - $7,000	472	$44,000	$93.84	490	$51	$104.04
$7,001 - $9,000	701	$80,000	$114.70	686	$76	$110.39
$9,001 - $11,000	675	$67,000	$99.78	556	$50	$90.10
$11,001 - $14,000	884	$73,000	$82.73	710	$54	$75.51
$14,001 - $18,000	790	$46,000	$58.69	615	$32	$52.62

Number of Income Tax Returns, 2002	665,355		635,844	
Real Property Circuit Breaker Tax Credits as a % of Income Tax Returns	0.6%		0.6%	

http://www.tax.state.ny.us/pdf/stats/stat_pit/rpcb/real_property_circuit_breaker_tax_credit_2003.xls

http://www.tax.state.ny.us/pdf/stats/stat_pit/cor/analysis_of_2002_ny_state_personal_income_tax_returns_by_place_of_residence.xls

Finally, we offer a review of the circuit breaker program in a number of states. No two states appear to have identical programs. One conclusion that can be reached from this review is that New York State's formula stands out as being the most limiting in income levels and least in credit granted.

Connecticut

Connecticut sets the maximum household gross income level for its credit based on age, disability and income. The credit amount is calculated by the local assessor based on a graduated income scale. The maximum credit for married couples is $1,250 and singles is $1,000.

Hawaii

Maui gives an example of Gross Income at $50,000 multiply by 2.5% to result in a real property tax credit of $1,250. In the "Annual Circuit Breaker Tax Credit Application

Instructions" it does not set a maximum household gross income level for this credit, but does set a minimum tax of not less than $60.

Indiana
Indiana's credit will be in full effect by 2010. The credit is based on the property's gross assessed valuation. The example given is that the maximum real property tax cannot exceed 2% of the property's gross assessed valuation. So, if a property is assessed at $200,000, the property owner will get a credit for any amount in excess of $4,000. Real property includes home, business, or vacant land.

Massachusetts
Massachusetts sets the maximum household gross income level for its credit at $46,000 for those filing their income tax as single, $48,000 for head of household, and $70,000 for married filing jointly. To qualify for this credit your real estate taxes must to be at least 10% of your total income. If so, 10% of your income is subtracted from your real estate tax payments up to $870.

New York
New York sets the maximum household gross income level for its credit at: $18,000. Based on 2004 data the maximum credit was $375 and the average credit for homeowners was $103.18 and for renters it was $104.90.

3. *Increase the Allowable Carryover Fund Balance for School Districts*

School districts are limited by law in their ability to retain an unexpended fund balance. The current limit is an amount equal to 2% of the budget. Last year, legislation was proposed to raise the limit to 4%.[20] Other local governments and the state are not limited in the same manner as school districts. Prudent management of a healthy fund balance is an important financial planning tool that enables government to plan and avoid tax spikes.

The New York State Council of School Superintendents summarized their support for the legislation as follows:

> The current 2% limit does not provide school districts with adequate flexibility to manage their operations. During times of fiscal stress, public agencies are sometimes forced to take budgetary actions that disrupt programs, increase costs to taxpayers, or both. Authority to maintain greater reserves would have helped school districts manage through recent spikes in pension and energy costs, reducing the need for sharp tax increases or cuts to student services.
>
> Further, sometimes school districts are forced to borrow funds on a short-term basis due to unforeseen changes to their fiscal environment.

[20] Re: A. 949-A (Tokasz)/S. 6383 (Saland) – APPROVE. June 27, 2006 letter, from the New York State Council of School Superintendents, to the Honorable Richard Platkin, Esp., Counsel to the Governor

Enabling districts to hold greater amounts in reserve will reduce the need for this type of borrowing, sparing taxpayers interest costs.

Unfortunately, the Governor did not sign the bill that was passed by the legislature last year. This bill would have increased the allowable fund balance. The Commission believes that similar legislation should be reintroduced this year.

4. *Unfunded Mandates*

The Commission has heard a great deal of testimony about school district revenues and the property tax. Although school expenses are not within the purview of the Commission, a particular expense related issue, "unfunded mandates", has been the subject of testimony to the Commission.

The Commission has discussed issues and reviewed a January 2004 comprehensive policy report on mandate relief prepared by the New York State Council of School Superintendents (NYSCOSS).[21]

The Commission understands that mandates are generally imposed for important reasons and typically address high priority needs; however, they also drive up costs. Therefore, we support adherence to the following principle from the NYSCOSS report: "If an activity is important enough for the state to mandate, it must be important enough for the state to fund".

B. Modifications to the Existing Property Tax System

1. *Sharing the Commercial Tax Base*

The Commission has examined the property tax system with regard to the inequities that exist between school districts. Given its regressive nature along with disparities in wealth per pupil, the property tax tends to exacerbate inequities. Accordingly, the Commission identified certain changes in the property tax system that would promote equity. One of the changes that the Commission believes should be studied further is the regionalization of the commercial tax base. However, the Commission recognizes that given the current system, implementation will be difficult.

The most extensive review of public attitudes towards such a measure was included in the Long Island Index report, At the Breaking Point? Taxation and Governance on Long Island.[22] The report found that 76% of residents will support "A proposal to pool commercial property taxes and distribute them equally throughout the county's school districts."

The report went on to say the following with regard to sharing wealth:

---

[21] Mandate Relief for New York Schools - Choices Have Consequences. New York State Council of School Superintendents (NYSCOSS). January 2004. www.nyscoss.org.
[22] At the Breaking Point? Taxation and Governance on Long Island. Long Island Index. November, 2005. http://www.longislandindex.org/fileadmin/reports/AtTheBreakingPoint.pdf

Overall, Long Islanders express support for some level of wealth equalization across school districts. This support is especially strong among residents of high need school districts. Of course, it is difficult to gauge how residents would react to a specific proposal in which costs were detailed with greater specificity. Poll respondents were simply asked about “shifting some resources” or “spending roughly the same amount per student.” Residents may be supportive of wealth equalization in the abstract, but less supportive in response to a specific proposal. Nonetheless, in a region deeply concerned about taxes, the willingness of residents to share resources among school districts is noteworthy.

2. *Assessment Reform Options*

Commercial Assessment Ratio: When commercial property owners file Article VII proceedings (tax certiorari cases), growth in equalization rates are used to argue that their property is over assessed. Equalization rates are calculated by the NYS Office of Real Property Services (ORPS) to convert assessed value into market value. Equalization rates are based primarily on residential sales (80% of the rate).

The problem with the existing process is that using equalization rates as an assessing standard for commercial property amounts to an apples-to-oranges comparison. This is because equalization rates are primarily based on residential property. In assessing commercial property comparisons should be made to other commercial property, not to residential property. ORPS already determines a Commercial Ratio for each Town in Suffolk County when calculating their equalization rate.

Since residential values have been increasing at a faster rate than commercial properties over the past several years, commercial property owners have had a good deal of success in reducing their assessment. As a result, the distribution of property taxes has shifted from commercial to residential. It is estimated that currently, due to this skewed methodology, the average residential taxpayer is paying more than $500 per year in additional taxes because of the tax shift that is occurring from the reduced commercial assessments. If the commercial property taxpayer is paying a reduced amount, then the residential property taxpayer has to be paying more.

The Commission supports NYS Assembly Bill No. A- 03114, sponsored by Assemblyman Robert K. Sweeney. This legislation would establish a commercial assessment ratio for major type B property for use in Article VII proceedings. The bill would apply only to counties with a population of more than 1.4 million that are not wholly contained within a city. Currently, this would apply only to Suffolk County.

Countywide Assessing: The Commission reviewed this issue and concluded that there are far too many obstacles and it is far too complex to recommend. The obstacles include the loss of local control through each town and village and placement of an office to handle tens of thousands of exemption applications each year. A Riverhead location would be 45 minutes from the western part of the county and 1.5 hours from the extreme eastern end of the county. Currently there are only 2 out of 65 counties that are Assessing Units in New York State, Nassau County, and Tompkins County. We believe there would be more countywide assessing if it had merit.

Annual Reassessing: The Commission reviewed this issue and concluded it is the responsibility of each of the ten towns to decide to implement a reassessment program, pursuant to the New York State Property Tax Law. Most importantly, annual reassessment would not generate any new tax revenue and would cost over $60,000,000 to the towns.

V. A local Income Tax

The most spoken-about alternative source of school tax revenue, and the source that was most often brought up by the public at Commission public hearings, was an income tax. Its proponents say it is a fairer way to tax our citizens. The income tax is recognized as being more closely tied to the taxpayer's ability to pay than the property tax. It is a more progressive tax and therefore considered to be more equitable. When a young person is starting out in their work life when their salary is low they would pay lower taxes than in their later years when they are at the pinnacle of their career. Similarly, when our seniors reach their retirement years and their income diminishes rapidly so should their school tax obligation.

Proponents say not only is this fairer, but it would help to solve two major problems:

1. It would make housing more affordable for our young people just starting a career. As has been discussed, we are losing a very important segment of our population, our young people who we need to keep our economy going.
2. It would help our seniors to stay in the homes where they raised their families.

Additionally, it would help to equalize the huge difference between school taxing districts. For example, in Smithtown one may pay double the school tax than an Islip resident pays for a comparable house. The tax bill from district to district doesn't necessarily correlate to property wealth. In affluent communities like Quogue, Lloyds Neck, Southampton and Port Jefferson, real estate taxes are modest compared to other less wealthy communities.

In the Commission's three public hearings the most prevalent suggestion to solve the problem was to substitute a local income tax for the school tax portion of the real estate tax. Like most popular suggestions it isn't quite that easy. There are numerous problems with a local income tax. For starters, how would the tax be distributed and what would we do with industrial and commercial properties? Do we rely on honest reporting of incomes? Do we adopt a complicated tax system with exemptions, deductions and credits like the federal and state systems? How about the owners of vacation homes who pay income taxes in their New York City residences? The loss of real estate tax revenue from second homes without a corresponding income would devastate many of our school districts that are located in resort areas. Additionally, the equity that we are seeking would be lost with a huge tax break going to some of the most affluent in our society. How do we deal with the multi-family housing that is more likely to add to school expenses? Do we trust the landlord to report actual income? What about the renter? Will they face a double tax burden of paying the new local income tax as well as their landlord's tax burden that is already built into rent? What about the wealthy residents in our County? Will a local income tax cause them to "vote with their feet" and leave the area, taking with them their considerable purchasing power? Would it be a disincentive for higher income people to remain on Long Island and would it be a disincentive for people thinking of relocating here? In other words, it may be more difficult to attract and retain business enterprises and their owners. Will the wealthy hide their income or find a way through creative accounting, or cheating, to avoid their share of the burden? How would we deal with the year-to-year volatility of income tax revenues? What would keep income tax rates from fluctuating widely as a result of economic downturns and reductions in state aid? These problems would be even more pronounced should Suffolk County enact an income tax and Nassau County not.

The income tax as a substitute for the local funding of our schools is very appealing to large segments of our population but as previously stated it has many destructive flaws that could prove fatal as a replacement funding source. In order to correct the flaws, some sort of modified system would have to be adopted.

One of the most thought-provoking presentations before the Commission came from the Nassau County Chairman of Board of Assessors Harvey Levinson. His presentation when analyzed consisted of a number of characteristics that a local income tax would need to solve the defects previously discussed as follows:

- The system should be regional in scope. At a minimum it should be Nassau and Suffolk Counties. Nassau's school real estate tax problem is as severe, if not more so, than Suffolk County. In order to get the authorizing legislation from the State, we would stand a better chance if Long Island combined its political might.
- The income tax would have to replace in total the school real estate tax. The only way to guard against the eventual threat of double tax of real estate and income tax is to replace one with the other.
- The replacement income tax would only be on owner-occupied residences. Second homes, industrial, commercial and multi-tenant dwellings would still pay a real estate tax. This would solve many of the flaws that were previously stated in this report as well as other previous reports on the issue. By limiting the income tax to owner-occupied residences, the amount of money that needs to be raised is easily more attainable. We estimate that $1.85 billion would be needed to replace the owner-occupied property tax in Suffolk County. The tax would be uniform across the County with no difference between school districts. It would be a flat tax of one rate applied to income with very few if any deductions. The simpler we make it, the more likely it will be embraced.
- The income tax paid by residents in owner-occupied residences would go directly from the state to the local school district you reside in. The system could be modeled after the city income tax collection system, with payroll deductions and a simple filing form. With multiple wage earners in households the rate could be very modest. To raise the needed revenue would require a rate somewhere between 2-5% of gross income.

- Establish a minimum tax and a cap on taxable income to prevent the very wealthy from moving out of our communities.
- The industrial, commercial, second homes and rental residential properties will continue to pay the real estate tax established by the local tax assessor. The proceeds will be divided between the local school district that the property is located in and a County-wide equalization pool.
- The equalization pool can be used to make poorer districts whole. The equalization numbers could be based on a simple formula of average student costs across the County multiplied by the number of students.
- Since the residential school property tax would be eliminated on owner occupied homes the STAR Program would be obsolete. The huge pot of money should be distributed to the local school districts at the same amounts that were sent to the residents in that district. This pot of money would go a long way toward stabilizing school funding especially in this transition period from Real Estate Tax to Income Tax.
- In the wealthier school districts where income tax revenue raised exceeds budgetary needs, the excess can be placed in a special reserve account, so that all income tax revenue raised in a school district stays within the school district.

In spite of Mr. Levinson's thought-provoking plan it's the feeling of the Commission that a county or a bi-county income tax to replace the property tax still wouldn't work. The idea of a flat tax using the same percentage of tax on a county or bi-county basis to fund 125 separate school districts on Long Island with different costs and different needs and each with autonomous authority on all decisions. What if the school district simply couldn't provide the services the community wants on the regionalized revenue stream? Do you tell that school district to cut programs, administrators, teachers, etc? Remember the one jurisdiction that has a regional income tax in the state is NYC and they have one school district with one central administration.

Additionally, the Commission raised the issue that educating our children has always been a responsibility of the state. By asking for permission to have an additional county income tax for education, are we letting the state off the hook from one of their core missions?

VI. Alternative Local Sources of Revenue to Establish a Local Income Based Suffolk STAR Program

We have observed in this report that the breakdown of local effort/state share for funding education helps explain why school district property taxes on Long Island are as high as they are. Unlike the other major local municipalities (town and county governments), the only viable source of local revenue for school districts is the property tax. In addition to the property tax, towns have a local mortgage tax and counties have the sales tax. School districts depend more heavily on state aid and must rely on the property tax to make up the difference between expenditures and state aid. To the extent that the State is not responsive to local needs, there is considerable pressure placed on local property taxes.

In this section of the report, we will discuss several alternative local sources of revenue that were considered by the Commission.

A. Local Excise Tax on Cigarettes

New York State currently has an excise tax on cigarettes of $1.50 per pack. The only other municipality in the State with such a tax is New York City. Since 2002 the City has charged an additional $1.50 per pack. In 2005 NYC unsuccessfully sought to add another 50 cents. In November of 2006 representatives from NYC, Nassau, Suffolk, Westchester and Rockland Counties met to begin preliminary discussions on a $2 per pack excise tax on cigarettes.

The Commission estimates that revenue generated in Suffolk County from a tax of $2 per pack of cigarettes would raise <u>$65.2 million</u>.[23] Among other things, this estimate takes into account a decrease in the demand for cigarettes attributed to both *(a)* the continuing trend decrease in smoking, due to health and other factors, and *(b)* a decrease in demand that would result from higher prices induced by the proposed tax. Based on the existing arrangement that NYC has with the State, 46% of the revenue generated from a local tax on cigarettes is retained by the State. If the proposed tax in Suffolk results in the same distribution, the County would retain only <u>$35.2 million</u> or 54% of these revenues. Given the intended purpose of these revenues, school property tax relief, the Commission

[23] Assumptions used to derive estimated revenue generated in Suffolk County from a $2 tax per pack of cigarettes:
(1) Net Tobacco Revenues to NYS are broken down into 96% cigarettes and 4% other tobacco products (OTP) (based on “Michigan's Cigarette and Tobacco Taxes 2004”, Exhibit 17, page 27).
(2) NYS revenue generated in Suffolk County from the tax on cigarettes is set equal to the County’s share of total State population.
(3) A 1.6% trend decrease in annual expenditures (set equal to the long-term national trend growth in consumption based on “Michigan's Cigarette and Tobacco Taxes 2004”, Exhibit 7, page 16). The revenue estimate derived in this report is for the NYS fiscal year April 2008 to March 2009. This revenue estimate was based on the most recent actual data for April 2005 to March 2006, which was then trended down by 1.6% per year for three years.
(4) An average price per pack of cigarettes that is set equal to $5.25 (based on “Cigarette Tax”, Memo from Eric Naughton, Director, Nassau County Office of Legislative Budget Review to Hon. Judy Jacobs, Presiding Officer, Dec. 14, 2006).
(5) Price elasticity of demand of 0.744 (based on “Michigan's Cigarette and Tobacco Taxes 2004”, Exhibit 26, page 46).

recommends that efforts be made to have almost all revenues from a local cigarette tax come back to the County. The Commission estimates that State administrative charges could be less than $400,000, as opposed to the $30 million that the State would retain if the NYC arrangement was followed.[24]

The Commission supports a local excise tax on cigarettes and recommends that should it be enacted the revenue be earmarked for homeowner school property tax relief. Not only will this provide additional revenue, but it should also save countless lives.

B. Sales Tax

The sales tax in Suffolk County is 8.625%, with 4.25% going to the County, 4% retained by New York State and the remaining 0.375% received by the New York State Metropolitan Commuter Transportation District (MCTD). The sales tax rate in Nassau County is also 8.625%. In NYC it is 8.375%. Sales tax rates in New York State range from 7% in Hamilton County to 9% in Oneida County.[25]

Some counties in NYS share their sales tax with school districts. In 2004 six of New York State's fifty-seven counties outside of NYC (Cattaraugus, Erie, Madison, Oneida, Warren, and Wayne) shared over $1 million in sales tax revenue with school districts.[26]

One-cent of the sales tax in Suffolk County generates about $260 million in 2006 dollars. Over the past 10-years (1996-2005) the sales tax in Suffolk County has grown by an average of about 6.5% per year. Over the same period school district property taxes have averaged a more modest growth rate of 4.9%. Therefore, enacting a sales tax dedicated for school districts should allow for growth that on average would outpace school district property taxes. It should be noted that this 10-year growth rate in school taxes is lower than more recent growth rates that have fueled taxpayer concerns. Over the most recent 4-years (2003-2006) school property taxes in Suffolk County have grown on average by 8.7% per year.

The Commission does not recommend an increase in the sales tax. The consensus was that the sales tax was already quite high and that an increase would discourage local retail sales and be bad for business.

---

[24] The State would charge the County for administrative expenses. In the case of the State administered sales tax, based on data for 2005, Suffolk County was charged 0.56% or $6.2 million of the $1.1 billion in revenues remitted to the County. If the State charged the County 0.56% of the $65.2 million in estimated revenue from a $2 per pack tax on cigarettes, administrative expenses would be only $369,182. Even if administrative charges were the same $6.2 million as is the case for the sales tax, it would still be considerably less than the $30 million (46% of $65.2 million) that would be retained by the State based on the current arrangement with NYC.

[25] New York State Sales and Use Tax Rates by Jurisdiction, Effective September 1, 2006, Publication 718, New York State Dept. of Taxation and Finance, http://www.tax.state.ny.us/pdf/publications/sales/pub718_806.pdf

[26] 2004 Summary-All Classes of Government by County, Financial Data for Local Governments, NYS Office of the State Comptroller, http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm

C. Mortgage Tax

Currently there is a 1% mortgage tax in New York State. In Suffolk the County Clerk collects this tax. After netting out administrative expenses incurred by the Clerk, the County Treasurer pays 47.23% to the State Metropolitan Commuter Transportation District (MCTD), 1.62% to the State of New York Mortgage Agency, and 51.15% to the relevant towns and villages in Suffolk County. Three-quarters of the mortgage tax is paid by the mortgagor and one-quarter by the lending institution. Payments are based on Section 253 of New York State Tax Law.

Revenue raised from the 1% mortgage tax in Suffolk County was $137.4 million over the one-year period from October 1, 2005 to September 30, 2006. As a second source of local revenue for school districts, an additional 1% mortgage tax should raise a similar amount. Although the real estate market has cooled off lately, real estate prices have trended up at a significant rate. Over the five-year period (Oct. 2001 to Sept. 2005) the mortgage tax grew by an average 40% per year. A decrease was experienced in the most recent year over this period. However, by the time such a tax might be enacted, it is likely that revenues would exceed $137.4 million. One attractive feature of proposing a 1% mortgage tax dedicated for schools is that this tax is likely to generate significant growth that should exceed increases in school spending and property taxes.

The Commission does not recommend an increase in the mortgage tax. The consensus was that it amounted to another form of a property tax. The main difference being that instead of paying the tax annually, it would be collected less frequently, when homes sold.

D. Deed Tax and the Special Case of a Luxury Tax

The deed tax in New York State is equal to $4 per $1,000 of sale price (0.4% of the sales price). This tax, paid by the seller, is also referred to as a real estate transfer tax.[27]

In Suffolk County, the deed tax raised $99.9 million in 2005. These revenues include proceeds from the “luxury tax” noted below. The deed tax is collected by the County Clerk and paid to the State of New York, net of administrative expenses incurred by the County Clerk. Over the past 5 years (2001 to 2005) the deed tax has grown by an average of 24% per year. As is the case with the mortgage tax, one attractive feature of proposing a deed tax dedicated for schools is that it is likely to generate significant growth that should exceed increases in school spending and property taxes.

In addition, New York State has a "luxury tax" (also referred to as a “mansion tax”) that is an additional deed tax equal to 1% of the sales price only for residential property sales above $1 million.[28] Just like the deed tax on all property sales, the proceeds go to NYS. NYC also has both deed taxes. In Suffolk County the “luxury tax” provided $36.2 million in revenue to NYS in the 2005-2006 state fiscal year (April 1, 2005 – March 31, 2006).

---

[27] Section 1402 of New York State Tax Law provides the legal authority for this tax.
[28] The “luxury tax” can be found under Section 1402-a of New York State Tax Law.

Finally, in Suffolk County the five east-end towns also have a Community Preservation Fund, which is a real estate transfer or deed tax. This is a 2% tax on the sales price of property applied to land over $100,000 ($75,000 on the south fork, Riverhead & Southold) and improved property over $250,000 ($150,000 on the south fork, Riverhead & Southold). The buyer pays this tax. The Community Preservation Fund raised $90.5 million for the five east-end towns in 2005. Brookhaven has state enabling legislation for such a tax, but has not yet opted in. Governor Pataki had proposed that all taxing jurisdictions be given the right to impose such a tax.

The Commission does not recommend an increase in the deed tax, but does support a "luxury tax". The consensus was that like the mortgage tax a deed tax was another form of a property tax. However, a "luxury tax" was justified on both equity and efficiency grounds. In terms of equity, it would apply only to affluent property owners. From an efficiency point of view, restricting the tax to high priced properties is not likely to have much of an effect on market conditions.

E. Local Lottery

As seen in the table below, the NYS lottery allocates 32% of gross revenues to aid education statewide. Prizes account for 56% and the remaining 12% pays for various costs and commissions associated with running the lottery. Netting out prize money, the NYS Lottery distributes 72.7% of surplus revenues for aid to education, with the remaining 27.3% accounting for overhead.

Also shown in the table below, statewide, the Lottery accounts for 5.1% of school district revenue. Suffolk County receives only 8.24% of lottery aid to education. Although data were not readily available to determine what share of betting was attributed to Suffolk County, it is likely that it is considerably more than 8.24%. This is based on a number of observations. In particular, including NYC, Suffolk County receives 8.7% of state aid,[29] but accounts for 9.3% of school enrollment.[30] In return, Suffolk provides more in revenue for the State than it receives back, with Suffolk accounting for 9.5% of the State's sales tax revenue[31] and 15.7% of state income tax revenues.[32] When one includes the considerable lottery related payments made to the State that represent leakages from the local economy, Suffolk County does not fair well with respect to the State Lottery.

A local lottery would correct for these discrepancies. Two different approaches could be taken. One would be to introduce a local charge on top of the existing NYS Lottery. Another would be to introduce a separate Suffolk County Lottery. One problem with a separate local lottery is that it may not generate very much revenue. This is because most wagering is on larger pots, such as the popular multi-state Mega Millions. At this point, it is not clear how much could be generated from a local lottery.

---

[29] "School District Fiscal Profiles", http://oms32.nysed.gov/faru/Profiles/17th/webMasterfile0304.xls
[30] Ibid.
[31] Taxable Sales and Purchases, County and Industry Data. New York State Department of Taxation and Finance. http://www.tax.state.ny.us/pdf/stats/stat_excise/taxable_sales_and_purchases_march2002_february2003.xls
[32] New York State Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence. New York State Department of Taxation and Finance. Table 3: Total Income and Tax Liability of Full-Year Residents by County in 2002.

Like all other local sources of revenue for school districts, either approach to establishing a local lottery would require State enabling legislation. Admittedly it would be difficult to convince the State to allow municipalities to control a portion of the State's lottery revenue.

The Commission does not recommend a local lottery. The consensus was that the intent of the lottery is to fund state aid to school districts. As stated in our section on "State Solutions", we believe that New York State should increase state aid. If the State desires to expand the lottery or increase its share of lottery revenues to finance an increase in state aid, that decision would have to be made at the State level. It was also felt that the existence of a local lottery may encourage the State to further reduce its share of state aid to this region.

Lottery Revenue Dollar Allocation, Fiscal Year 2005 - 2006 *

	Percent of Gross Revenue	Percent of Revenue Net of Prizes	
Prizes	56.0%		Over $3.8 Billion
Aid to Education	32.0%	72.7%	$2.203 Billion
Commissions for Traditional Lottery Facilities	6.0%	13.6%	$389 Million
Commissions for Video Gaming Facilities	2.0%	4.5%	$122 Million
Contractor Fees/ Other Direct Expenses	2.0%	4.5%	$149 Million
Other Operating Expenses	2.0%	4.5%	$123 Million
Totals	100.0%	100.0%	Over $6.786 Billion

Where Schools Get Their Money, as of June 2006 for 2004-05 *

Local Taxes	46.3%		$19.99 Billion
State Sources (Other than Lottery)	38.3%		$16.52 Billion
New York Lottery	5.1%		$2.20 Billion
Federal Sources	6.2%		$2.67 Billion
Other Local Revenue and Transfers	4.1%		$1.79 Billion
Totals	100.0%		$43.99 Billion

County by County Distribution **

County/School District	Distribution FY 2004-2005	
Suffolk	$164,840,836	8.24%
Nassau	$73,362,175	3.67%
Total aid to education for the 2004-2005 fiscal year	$2,000,000,000	

* Source: http://nylottery.org/ny/nyStore/cgi-bin/ProdSubEV_Cat_333653_SubCat_337630_NavRoot_305.htm
** Source: http://nylottery.org/ny/nyStore/cgi-bin/ccdist/allocation.php

F. Video Lottery Terminals (VLT)

The Suffolk Regional Off-Track Betting (OTB) Corporation presented a proposal to the Commission to bring video lottery terminals to Suffolk. A bill was introduced in 2004[33] to grant VLT franchises to Off-Track Betting (OTB) regions. However, that legislation did not pass and since then no bill has been sponsored.

The Suffolk OTB presentation to the Commission was based on a franchise being granted to Suffolk OTB. Their proposal would limit video lottery terminals to one facility in Suffolk County. The Commission estimates that if a VLT franchise was granted to Suffolk OTB, revenue generated for homeowner school property tax relief in Suffolk County would amount to $80.2 million per year.[34] The $80.2 million can be broken down into $73.9 million in direct aid for school tax relief in Suffolk County, which could be dispersed through the Commission's proposed Suffolk STAR Program, plus an estimated $6.3 million share of state aid that would go directly to school districts in Suffolk County.

The Commission recommends bringing video lottery terminals to Suffolk County, provided that the revenue is dedicated for education. Currently there is VLT gaming at racetracks. Suffolk is unique in that it does not have a racetrack. As such, the Commission believes that a higher share of surplus revenue could be proposed for the Suffolk region.[35]

---

[33] State Senator Michael Nozzolio introduced Bill No. S5340 (A) in 2004.

[34] This estimate is based on a presentation to the Commission by the Suffolk Regional Off-Track Betting (OTB) Corporation. This estimate assumes 3,000 VLT machines and that each machine generates a surplus of $250 per day over and above the 92% of revenues returned to bettors. Total daily surplus revenues, representing the 8% not returned to bettors is $750,000 ($250 x 3,000). The annual take would be $273.75 million ($750,000 x 365 days).
Based on information from the transcript of the Suffolk OTB presentation to the Commission, the estimated $273.75 million in annual revenues not returned to bettors are proposed to be distributed as follows: (1) 54% to education, with (a) 27% going to NYS for statewide distribution to school districts and (b) 27% going directly to school districts in Suffolk; (2) 29.3% to Suffolk OTB for operating and administrative expenses; (3) 10% to the NYS Lottery for administrative expenses; and (4) 6.7% for marketing expenses.
Suffolk County receives 8.7% of state aid to all school districts (including NYC). This would translate into 2.3% of the 27% statewide distribution to school districts benefiting schools in Suffolk County (= 8.7% x 27%). In total, under this formula school districts in Suffolk would receive 29.3% of surplus revenue from video lottery terminals (= 2.3% + 27%). Revenue generated for school districts in Suffolk County would amount to $80.2 million per year (29.3% of $273.75 million). The $80.2 million can be broken down into $73.9 million in direct aid to education in Suffolk County and an estimated $6.3 million share of state aid that will come to school districts in Suffolk County.

[35] One concern raised is that the formula as proposed by Suffolk OTB would not benefit local school districts by as much as it should. Based on Commission analysis school districts in Suffolk would receive 29.3% of surplus revenue from video lottery terminals, with 27% going directly to school districts in the County and another 2.3% coming indirectly as state aid. See the previous footnote for a more in depth discussion.
Another concern was raised by one of the Commission members about the share of revenue that would come to Suffolk County from VLT gaming. As noted in the previous two footnotes, school districts in Suffolk would receive an estimated 29.3% of surplus revenue. When we factor in another 29% of surplus revenue that would be retained by Suffolk OTB, a total of 58.3% (= 29.3% + 29%) or $160.4 million would contribute to the economy in Suffolk County. It should be noted that any net profit earned by Suffolk OTB related to VLT's must be remitted to Suffolk County and would also help to reduce property taxes. Unfortunately, revenue to the County from existing OTB operations has trended down over the years. Finally, the remaining 41.7% or $113.3 million of surplus VLT revenues would benefit the rest of New York State, not Suffolk County.

G. Local Estate Tax

A local estate tax would piggyback off of the proposed federal reduction in the estate tax. The idea here is not to add a new tax, but rather to maintain a tax that would otherwise have expired.

H.R. 5970, referred to as the Estate Tax and Extension of Tax Relief Act of 2006, introduced by Representative William M. Thomas (CA-22), would amend the IRS Code of 1986. This bill would restore the unified estate and gift tax exclusion after 2009 and phase in an increase in the exclusion to $3.75 million in 2010, $5 million in 2015, and adjust the exclusion for inflation beyond 2015. In addition, the proposed legislation would lower the estate tax rate to equal the current long-term capital gains tax rate (i.e. 15% through 2010) for taxable estates up to $25 million. A reduction in the estate tax rate would be phased in, for taxable estates up to $25 million, from 40% in 2010 to 30% in 2015 and thereafter. After 2009 the proposed legislation would also repeal the estate tax deduction for taxes paid to states.

At this point the Commission does not have data on how much this tax could generate or if it would be legally possible to establish a local estate tax. In addition, the economic impact of creating a local estate tax should be considered. In particular, while a federal tax is difficult to avoid, wealthy individuals could opt to move from Suffolk County to avoid a local tax. This could have an adverse economic impact. Based on economic considerations, the Commission does not recommend a local estate tax.

H. Distribution Mechanism – A Local Income Based Suffolk STAR Program

The Commission recommends that any alternative local sources of revenue enacted to provide school property tax relief should be distributed through an income based Suffolk STAR Program. This would allow homeowners to receive a break on their school property taxes based on their income. It would make for a more equitable distribution of revenues collected than under the current system, providing a larger share of the tax break to senior citizens on fixed incomes, to young individuals and couples just starting out, and to other poor, moderate income, and middle class homeowners.

A STAR type program also has the benefit of providing property tax relief directly to the taxpayer. Compared to the case in which additional local revenue sources are distributed directly to school districts, under a STAR Program school taxes are not directly reduced. This may create more of an incentive for schools to control costs, since school budgets would be presented with recommended taxes not being able to net out STAR reductions.

To understand how a Suffolk STAR Program might work, a comparison to the existing State STAR Program is briefly discussed here. STAR is an acronym for School Tax Relief. The State program has two types of exemptions, Basic STAR and Enhanced STAR.

- The Basic STAR exemption is available for owner-occupied, primary residences regardless of the owners' ages or incomes. Basic STAR works by exempting the first $30,000 of the full value of a home from school taxes. In Suffolk County the State estimates that the Basic STAR exemption translates into tax relief of $990 per qualifying homeowner or a savings of 16% of the median home value.[36]

- The Enhanced STAR exemption is available for the primary residences of senior citizens (age 65 and older) with yearly household incomes not exceeding the statewide standard, which is currently $67,850.[37] In Suffolk County the State estimates that the Enhanced STAR exemption translates into tax relief of $1,660 per qualifying senior homeowner or a savings of 30% of the median home value.[38] The State offers an income verification program in which seniors may authorize the tax assessor to verify their income with the State Department of Taxation and Finance, thereby eliminating the need for reapplying with copies of tax returns on a yearly basis.

In comparison, the Commission proposes that an income based Suffolk STAR Program be established. This would be similar to the existing Enhanced STAR Program for senior citizens. Some of the differences are that the Suffolk STAR Program

- Would apply to all owner-occupied, primary residences (not just seniors) that meet the income criteria.
- Would establish income eligibility criteria that may differ from the State's Enhanced STAR Program for seniors.
- Would establish fixed levels of school property tax relief that are not tied to the value of a home.

As an illustrative example, the Commission estimated that a $500 Suffolk STAR credit for all owner-occupied, primary residences with adjusted gross incomes of under $60,000 would cost $151.3 million.[39] Some of the policy issues that the program would have to address include

---

[36] Estimated Average STAR Savings by County, Prorated for Counties with Median Home Values above the Statewide Median of $188,300, http://www.budget.state.ny.us/localities/star/avgSavings0607exec.pdf

[37] For the 2007-2008 property tax year adjusted gross income (AGI), net of IRA distributions, cannot exceed $67,850 of 2005 tax filings.

[38] Estimated Average STAR Savings by County, Prorated for Counties with Median Home Values above the Statewide Median of $188,300, http://www.budget.state.ny.us/localities/star/avgSavings0607exec.pdf

[39] To arrive at our estimate for an illustrative $500 Suffolk STAR credit, the following assumptions were made: (1) 75% of NYS income tax filers would qualify for the State's Basic STAR exemption as owner-occupied, primary residences. In comparison, based on the 2000 Census, 80% of Long Island households are homeowners, as opposed to renters, and 77% of residential properties in 2006 qualified for STAR exemptions. The lower 75% assumption is based on the observation that a number of NYS income tax filers do not own or rent, but rather reside in the homes of others, often their parents. (2) A plausible distribution of homeowners by income class was posited to be consistent with our 75% assumption. This distribution ranged from 55% for the lowest income group (AGI under $5,000) to 99% for the highest income group (AGI $200,000 and over).
Source data that the above observations are based on include: (1) Number of residential properties in Suffolk County (for the Dec. 2005 - Nov. 2006 property tax year) - Suffolk County Dept. of Finance & Taxation. (2) Number of STAR exemptions in 2006 - NYS Office of Real Property Services, STAR Administrative Aid – 2006, NYS Office of Real Property Services (ORPS), http://www.orps.state.ny.us/star/aid/citytown.htm and http://www.orps.state.ny.us/star/aid/county.htm. (3) Table 4: Income Tax Components of Full-Year Residents by Size of Income and County in 2002, http://www.tax.state.ny.us/pdf/stats/stat_pit/cor/analysis_of_2002_ny_state_personal_income_tax_returns_by_place_of_residence.xls

- How large should the credit be?
- Should the credit be higher for lower income homeowners or should the credit be the same for all that qualify?
- What should the income cutoff be?

Administration of a Suffolk STAR Program would need to be worked out. The Commission recommends that a Board of Directors be established to oversee the proposed Suffolk STAR Program. The Board would make decisions concerning policy issues, such as the ones mentioned above. One approach to establishing a Board would be to appoint members by resolution of the Suffolk County Legislature. In all likelihood members would not receive any salary and would serve at the pleasure of the Suffolk County Legislature for specified terms.

In terms of day to day administration, the existing State STAR Program is for the most part administered by the ten town assessors in Suffolk County. In all likelihood this would also be the case for the proposed Suffolk STAR Program. STAR administrative aid from the State to localities in Suffolk County was $466,846.36 in 2006.[40] As a starting point a local STAR Program might incur a similar level of costs.

In closing, it should be noted that alternative distribution mechanisms, not recommended by the Commission, were also considered. The Commission discussed allocating other potential local revenue sources directly to school districts. To control spending, consideration was given to a hard cap on the amount of funding received by school districts from the pool of alternative local revenues. Another mechanism discussed involved tying assistance to restrictions on the amount of property taxes that can be raised. It was felt that these approaches would be too rigid and could compromise the quality of education.

[40] To administer the exiting STAR Program the State provides assistance to localities for STAR exemption administration processing. State aid in 2006 was allocated to towns in Suffolk County as follows: *(1)* at a rate of $1.12 per STAR exemption, plus *(2)* $60 per cooperative apartment building or mobile home park plus *(3)* $.0375 per parcel for tax bill preparation and receipts. In addition, County services are aided at the rate of $.10 per exemption.

References

Analysis Of School Finances In New York State School Districts 2003-04, The University of the State of New York, The State Education Department, Fiscal Analysis and Research Unit, http://www.oms.nysed.gov/faru/Analysis/2005_Analysis.pdf, January 2006.

At the Breaking Point? Taxation and Governance on Long Island. Long Island Index. November, 2005.
http://www.longislandindex.org/fileadmin/reports/AtTheBreakingPoint.pdf

Balancing New York State's 2006-2007 Budget in an Economically Sensible Manner, Fiscal Policy Institute, www.fiscalpolicy.org, January 2006.

Cigarette Tax, Memo from Eric Naughton, Director, Nassau County Office of Legislative Budget Review to Hon. Judy Jacobs, Presiding Officer, Dec. 14, 2006

Income Tax Components of Full-Year Residents by Size of Income and County in 2002, Table 4,
http://www.tax.state.ny.us/pdf/stats/stat_pit/cor/analysis_of_2002_ny_state_personal_income_tax_returns_by_place_of_residence.xls

Innovate Long Island: A New Plan for the Economic Development of the Long Island Region. Long Island Association, www.longislandassociation.org/, Sept. 2006.

Long Island Index 2006,
http://www.longislandindex.org/fileadmin/reports/INDEX2006a.pdf

Mandate Relief for New York Schools - Choices Have Consequences. New York State Council of School Superintendents (NYSCOSS). January 2004. www.nyscoss.org.

Michigan's Cigarette and Tobacco Taxes 2004. Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury. October 2005.
http://www.michigan.gov/documents/Cigarette_and_Tobacco_Taxes_2004_138968_7.pdf

Michigan's Cigarette and Tobacco Taxes 2005 Statistical Update. Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury. July 2006.
http://www.michigan.gov/documents/CigaretteTobaccoTaxes_2005StatisticalUpdate_165040_7.pdf

New York State Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence. New York State Department of Taxation and Finance. Table 3: Total Income and Tax Liability of Full-Year Residents by County in 2002.
http://www.tax.state.ny.us/pdf/stats/stat_pit/cor/analysis_of_2002_ny_state_personal_income_tax_returns_by_place_of_residence.xls

Re: A. 949-A (Tokasz)/S. 6383 (Saland) – APPROVE. June 27, 2006 letter, from the New York State Council of School Superintendents, to the Honorable Richard Platkin, Esq., Counsel to the Governor

School District Fiscal Profiles, http://oms32.nysed.gov/faru/Profiles/17th/webMasterfile0304.xls

STAR: School Tax Relief, NYS Office of Real Property Services (ORPS), http://www.orps.state.ny.us/star/

Statistical Profiles of Public School Districts, Chapter 655 Report, New York State Education Department, http://www.emsc.nysed.gov/irts/655report/2004/home.html, July 2004.

Task Force on Regional Strategies To Promote School Efficiency And Cost Effectiveness, Suffolk County School Superintendents Association (SCSSA), January 2006 (Revised).

Taxable Sales and Purchases, County and Industry Data. New York State Department of Taxation and Finance.
http://www.tax.state.ny.us/pdf/stats/stat_excise/taxable_sales_and_purchases_march2002_february2003.xls

The Funding of Education in New York State: Addressing The Needs Of All Children, Nassau County Council of School Superintendents (NCCSS) and Suffolk County School Superintendents Association (SCSSA) Joint Legislative Subcommittee on CFE and State Issues, December 2003.

Appendix: Resolutions Creating and Extending the Commission

Intro. Res. No. 1241-2006 Laid on Table 2/7/2006
Introduced by Legislator Nowick, Presiding Officer Lindsay and Legislators Montano, Cooper D'Amaro, Losquadro, Romaine, Eddington, Horsley, Browning, Mystal, Stern, and Viloria-Fisher

RESOLUTION NO. 168 –2006, TO ESTABLISH THE HOMEOWNERS TAX REFORM COMMISSION

WHEREAS, recent newspaper reports show young people are leaving Long Island in ever increasing numbers because of the high cost of living, primarily because of real estate taxes; and

WHEREAS, senior citizens are finding it more and more difficult to remain near their families on Long Island, primarily because of real estate taxes; and

WHEREAS, our economic base may be endangered by the loss of workers including construction workers, nurses, factory and office workers who are driven away by the high cost to live on Long Island; and

WHEREAS, the cost of housing and real estate taxes are factors in the loss of residents who have previously served as volunteer fire fighters, and ambulance and emergency responders in our communities; and

WHEREAS, if double digit school taxes increases continue, by the end of this decade real estate taxes in many communities will have doubled; now, therefore, be it

1st RESOLVED, that the Suffolk County Homeowner Tax Reform Commission is hereby established for the purposes of studying alternatives to our current system of real estate taxation, including the potential to replace real estate taxes, for owner-occupied single family homeowners only, with an income tax that would ultimately be paid to the respective taxing jurisdictions where the owner-occupied residence is located; and be it further

2nd RESOLVED, that this Commission shall also study the feasibility of utilizing other sources of revenue, including sales and mortgage taxes and/or a local lottery, as alternatives to the property tax; and be it further

3rd RESOLVED, that the Homeowner Tax Reform Commission shall consist of the following 17 members:

1) the Presiding Officer, or his designee;
2) the County Executive, or his designee;
3) the Minority Leader of the Suffolk County Legislature, or his designee;
4) the Director of the Legislature's Office of Budget Review, or her designee;
5) a representative from the Suffolk County Assessor's Association;
6) a representative from the Suffolk County Tax Receivers and Collectors Association;
7) a representative from the Nassau/Suffolk School Boards Association;
8) a Long Island representative of the New York State Council of School Superintendents;
9) a representative of the Regional Chapter of New York State United Teachers (NYSUT);
10) the Suffolk County Comptroller, or his designee;

11) an individual with mortgage/banking experience to be selected by the Suffolk County Legislature;
12) a representative from a recognized taxpayer advocacy organization;
13) a tax advisor or Certified Public Accountant, to be selected by the Presiding Officer of the Suffolk County Legislature;
14) a representative of the Long Island Association, Inc.;
15) a representative of the Long Island Board of Realtors;
16) a representative of the Suffolk Chapter of the Government Finance Officers Association; and
17) a representative from the Long Island Federation of Labor;

and be it further

4th **RESOLVED**, that the Presiding Officer shall designate a Chairperson of the Commission prior to its first meeting, and that the Commission shall hold its first meeting no later than thirty (30) days after the oaths of office of all members have been filed, which meeting shall be convened by the Chairperson of the Commission; and be it further

5th **RESOLVED**, that the members of said Commission shall serve without compensation and shall serve at the pleasure of their respective appointing authorities; and be it further

6th **RESOLVED**, that the Commission shall hold regular meetings, keep a record of all its proceedings, and determine the rules of its own proceedings with special meetings to be called by the Chairperson upon his or her own initiative or upon receipt of a written request therefore signed by at least five (5) members of the Commission. Written notice of the time and place of such special meetings shall be given by the secretary to each member at least four (4) days before the date fixed by the notice for such special meeting; and be it further

7th **RESOLVED**, that nine (9) members of the Commission shall constitute a quorum to transact the business of the Commission at both regular and special meetings; and be it further

8th **RESOLVED**, that clerical services involving the month-to-month operation of this Commission, as well as supplies and postage as necessary, will be provided by the staff of the Legislative Office of Budget Review and the Legislative Clerk's Office; and be it further

9th **RESOLVED**, that the Commission may submit requests to the County Executive and/or the County Legislature for approval for the provision of secretarial services, travel expenses, or retention of consultants to assist the Commission with such endeavors, said total expenditures not to exceed Two Thousand ($2,000.00) per fiscal year, which services shall be subject to Legislative approval; and be it further

10th **RESOLVED**, that the Commission may conduct such informal hearings and meetings at any place or places within the County of Suffolk for the purpose of obtaining necessary information or other data to assist it in the proper performance of its duties and functions as it deems necessary; and be it further

11th **RESOLVED**, that the Commission may delegate to any member of the Commission the power and authority to conduct such hearings and meetings; and be it further

12th **RESOLVED**, that the Commission shall cooperate with the Legislative Committees of the County Legislature and make available to each Committee's use, upon request, any records and other data it may accumulate or obtain; and be it further

13th **RESOLVED**, that the Commission is hereby authorized, empowered, and directed to hold at least three (3) public hearings throughout the County of Suffolk to assemble the data and information necessary to complete the evaluation, study, and report required with all reasonable efforts to be made to ascertain the views, wishes, and opinions of the residents of Suffolk County; and be it further

14th **RESOLVED**, that this Commission shall submit a written report of its findings and determinations together with its recommendations for action, if any, to each member of the County Legislature and the County Executive no later than one hundred eighty (180) days subsequent to the effective date of this Resolution for consideration, review, and appropriate action, if necessary, by the entire County Legislature; and be it further

15th **RESOLVED**, that the Commission shall expire, and the terms of office of its members terminate, as of September 1, 2006 at which time the Commission shall deposit all the records of its proceedings with the Clerk of the Legislature; and be it further

16th **RESOLVED**, that this study shall not be performed by any outside consultant or consulting firm unless explicit approval and authorization for such consultant or consulting firm is granted pursuant to a duly enacted resolution of the County Legislature; and be it further

17th **RESOLVED**, that this Legislature, being the State Environmental Quality Review Act (SEQRA) lead agency, hereby finds and determines that this resolution constitutes a Type II action pursuant to Section 617.5(c)(20), (21), and (27) of Title 6 of the NEW YORK CODE OF RULES AND REGULATIONS (6 NYCRR) and within the meaning of Section 8-0109(2) of the NEW YORK ENVIRONMENTAL CONSERVATION LAW as a promulgation of regulations, rules, policies, procedures, and legislative decisions in connection with continuing agency administration, management and information collection, and the Suffolk County Council on Environmental Quality (CEQ) is hereby directed to circulate any appropriate SEQRA notices of determination of non-applicability or non-significance in accordance with this resolution.

DATED: March 14, 2006

APPROVED BY:

/s/ Steve Levy
County Executive of Suffolk County

Date: March 27, 2006

Intro. Res. No. 2030-2006 Laid on Table 8/8/2006
Introduced by Presiding Officer Lindsay

RESOLUTION NO. 936 -2006, TO EXTEND THE DEADLINE FOR THE HOMEOWNERS TAX REFORM COMMISSION

WHEREAS, Resolution No. 168-2006 established the Homeowners Tax Reform Commission for the purpose of studying alternatives to our current system of real estate taxation, including the potential to replace real estate taxes, for owner-occupied single family homeowners only, with an income tax that would ultimately be paid to the respective taxing jurisdictions where the owner-occupied residence is located; and

WHEREAS, this Task Force will require additional time in order to complete its work; now, therefore be it

1st RESOLVED, that the 14th and 15th RESOLVED clauses of Resolution No. 168-2006 are hereby amended to read as follows:

> **14th RESOLVED**, that this Commission shall submit a written report of its findings and determinations together with its recommendations for action, if any, to each member of the County Legislature and the County Executive no later than **[**one hundred eighty (180) days subsequent to the effective date of this Resolution**]** <u>December 31, 2006</u> for consideration, review, and appropriate action, if necessary, by the entire County Legislature; and be it further
>
> **15th RESOLVED**, that the Commission shall expire, and the terms of office of its members terminate, as of **[**September 1**]** <u>December 31</u>, 2006 at which time the Commission shall deposit all the records of its proceedings with the Clerk of the Legislature; and be it further

and be it further

2nd RESOLVED, that all other terms and conditions of Resolution No. 168-2006 shall remain in full force and effect; and be it further

3rd RESOLVED, that this Legislature, being the State Environmental Quality Review Act (SEQRA) lead agency, hereby finds and determines that this resolution constitutes a Type II action pursuant to Section 617.5(c)(20), (21) and (27) of Title 6 of the NEW YORK CODE OF RULES AND REGULATIONS (6 NYCRR) and within the meaning of Section 8-0109(2) of the NEW YORK ENVIRONMENTAL CONSERVATION LAW as a promulgation of regulations, rules, policies, procedures, and legislative decisions in connection with continuing agency administration, management and information collection, and the Suffolk County Council on Environmental Quality (CEQ) is hereby directed to circulate any appropriate SEQRA notices of determination of non-applicability or non-significance in accordance with this resolution.

DATED: September 5, 2006

APPROVED BY:

/s/ Steve Levy
County Executive of Suffolk County

Date: September 7, 2006