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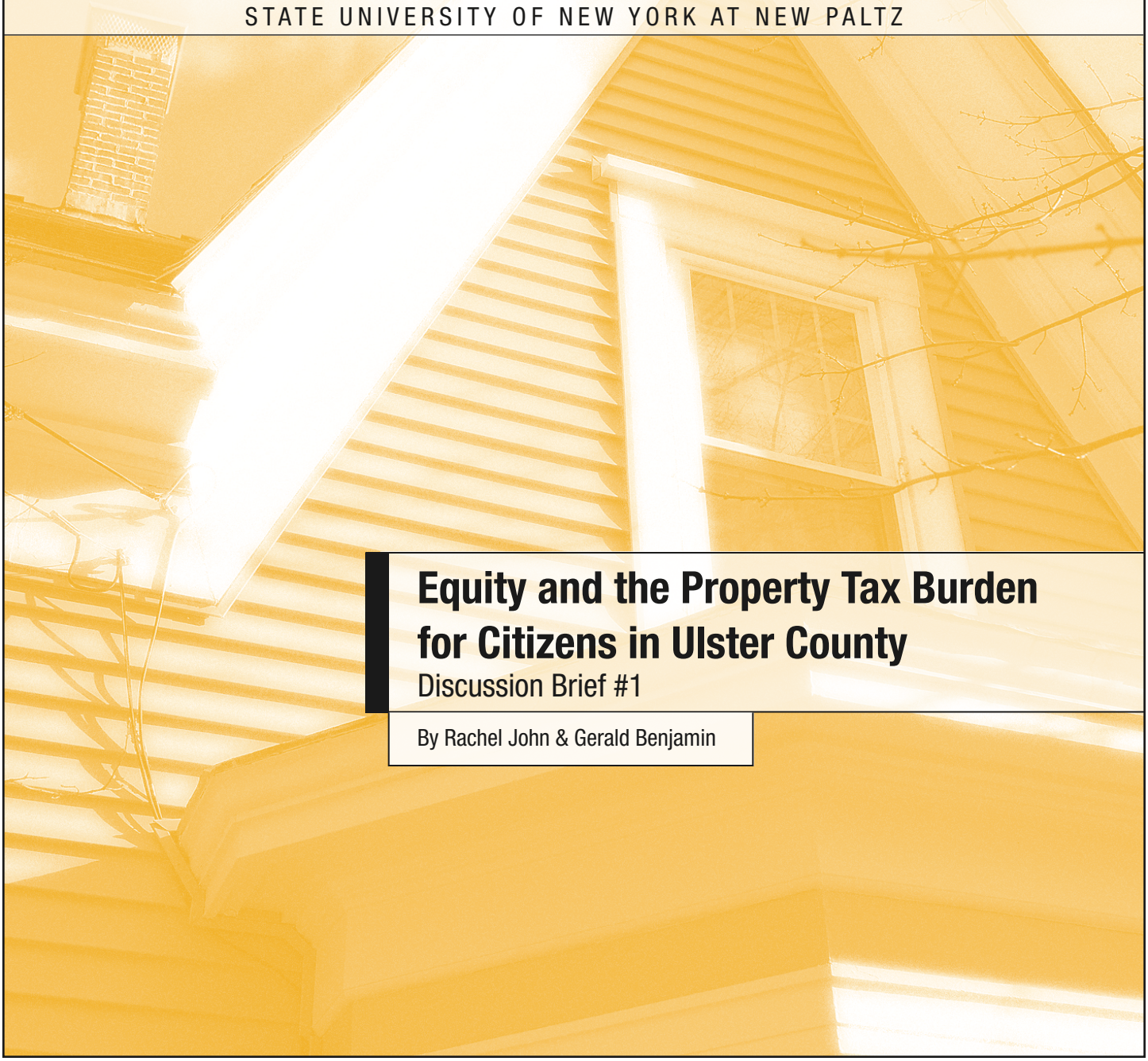


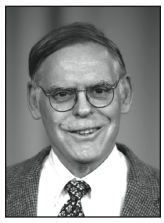
Equity and the Property Tax Burden for Citizens in Ulster County

Discussion Brief #1

By Rachel John & Gerald Benjamin

People generally dislike taxes.

Studies have shown that they dislike the **PROPERTY TAX** most of all. There are a number of reasons for this.



Rachel John holds a Bachelor's Degree in Political Science (2008) from SUNY New Paltz. During 2007 and 2008 academic years, while a student research assistant in the Office of the Dean, College of Liberal Arts and Sciences and then a staff researcher at the Center for Research, Regional Education and Outreach (CRREO), Ms. John co-authored a two year assessment of the Shared Municipal Services Incentive (SMSI) Program of the New York State Secretary of State's Office that was later published in abbreviated form in the Albany Law School's Government, Law and Policy Journal (winter, 2007) and the New York State Association of Counties' NYSAC News. Ms. John is currently a law student at Brooklyn Law School in New York City.

Gerald Benjamin, CRREO Director and Associate VP for Regional Engagement, offers an unusual combination of academic and applied experience. A leading expert on New York State and local government, he has written or edited 14 books and government reports, and numerous articles and essays. Benjamin's public service includes twelve years as an Ulster County legislator (the final two as the legislature's chair and chief elected officer), chairman of the Commission that developed and achieved adoption of Ulster County's first charter, staff director for the State Constitutional Revision Commission and membership on the State Commission on Local Government Efficiency and Competitiveness.

TAXES ARE ONCE AGAIN A FRONT BURNER ISSUE IN STATEWIDE ELECTIONS IN NEW YORK THIS YEAR. LITTLE WONDER. THE COMBINED FEDERAL, STATE AND LOCAL TAX BURDEN CARRIED BY NEW YORKERS REGULARLY RANKS AMONG THE HIGHEST IN THE NATION. (For a recent example, see http://www.taxadmin.org/FTA/rate/06stirev.html)

People generally dislike taxes. Studies have shown that they dislike the property tax most of all.[1] There are a number of reasons for this, among them:

- It comes due once a year (for each taxing jurisdiction), is billed in a lump sum, and often must be paid with a big check.
- It is not linked to income, and therefore ability to pay.
- A large portion of it pays for education, a particular service that does not directly benefit many taxpayers.

The Tax Foundation reported this year that the burden of this most unpopular tax in New York in 2005, on a per household basis, ranked third in the United States. http://www.taxfoundation.org/research/show/243.html

Using separate calculations relating median tax payments to median income (ranked 7th) and median house value (ranked 16th), *Money Magazine* found the property tax burden in New York to be relatively high, though not dramatically higher than in other states. http://articles.moneycentral.msn.com/Taxes/Advice/PropertyTaxesWhereDoesYourStateRank.aspx

Growing public concern about the level and rate of increase of the property tax in our region is confirmed by the results of "Many Voices, One Valley," a study commissioned by the Dyson Foundation and conducted in 2007 by the Marist Poll. It found that property tax levels, ranked 9th among county residents' concerns in 2002, rose to 3rd in 2007. http://www.manyvoicesonevalley.org/ulster.html

[1] (See, for example, Dennis Jacobe. "Which is the Unfairest Tax of All" reporting a Gallup Poll done in April 2005 and reprinted in Alec Gallup and Frank Newport, eds. *The Gallup Poll*, 2005 (New York: Rowman and Littlefield, 2006) p. 146ff.

Little wonder then that recent polls have reported that about three-quarters of New Yorkers support Governor Paterson's proposal for a 4% cap on annual property tax increases for schools. This is a modified version of the cap recommended in the preliminary report of the New York State Commission on Property Tax Relief (the Suozzi Commission), set up by his predecessor Eliot Spitzer to study this issue. http://www.siena.edu/level2col.aspx?menu_id=562&id=17985 http://www.ny.gov/governor/press/press_0603081.html, http://www.taxadmin.org/FTA/rate/06stlrev.html

It may be surprising to some, but there are good things to say about the property tax. The main one is that this tax may be raised or lowered at local discretion. It is the primary financial resource that may be used autonomously by local governments to respond to local needs and priorities. Consider the case of elementary and secondary education. We often hear complaints that state mandates and regulations force local school boards to increase property taxes. But how much local autonomy would be left if education was entirely funded by the state?

In truth, the level of property taxation is only one part of the problem. State-level comparisons are based upon statewide averages. We all know that people with properties of similar value within the state, the region and even a single county pay substantially different levels of taxes depending upon where they live. These differences—often enormous—are far less frequently considered in discussions about the property tax, yet they are a strong element in the popular belief that this is an inequitable levy, the least fair major tax that Americans are required to pay.

There are lots of reasons for differences in the property tax burden from community to community, and within communities.

Table I

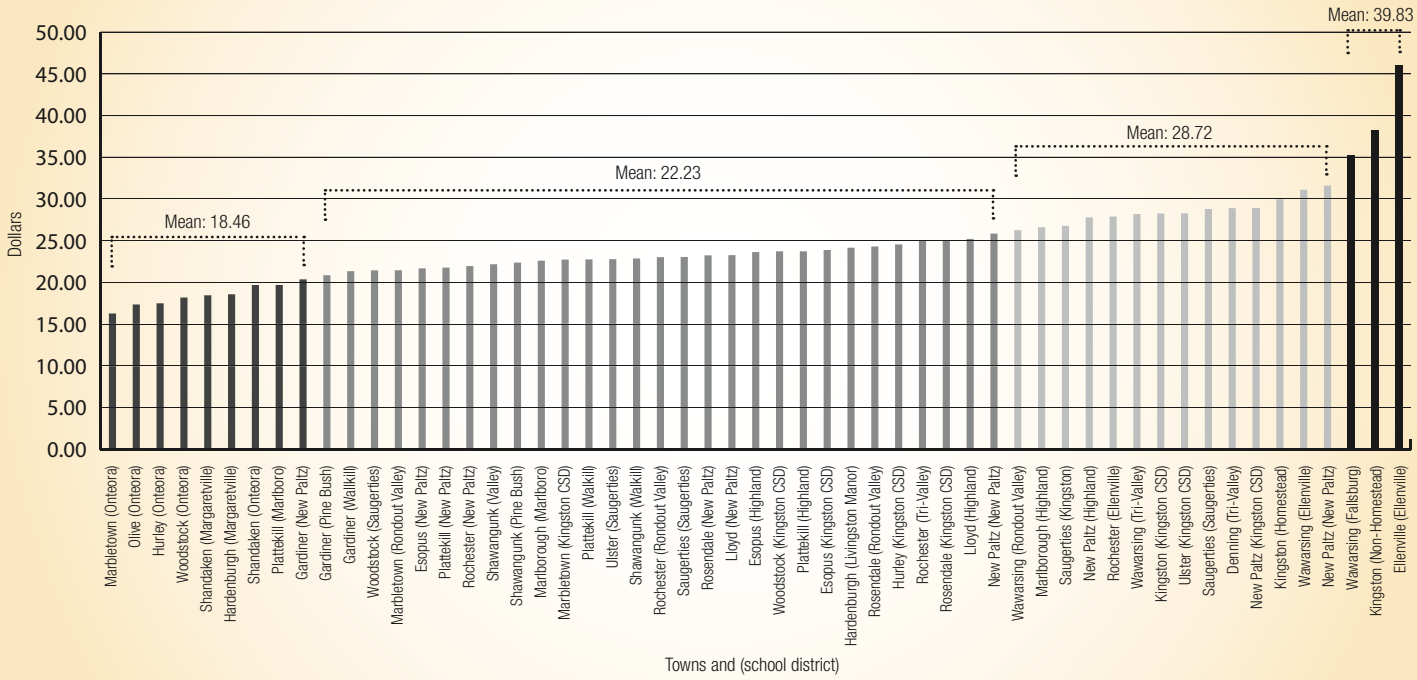
Full Value Tax Base for School Districts Serving Ulster County Municipalities, 2006

School District	Municipalities Served, In Part or In Full	Tax Base, Full Value ($)	# of Pupils
LIVINGSTON MANOR	Hardenburgh	407,023,079	594
MARGARETVILLE	Hardenburgh; Shandaken	548,116,442	517
FALLSBURG	Wawarsing	606,848,404	1,404
ELLENVILLE	Rochester; Wawarsing; village of Ellenville	897,790,940	1,743
TRI-VALLEY	Denning; Rochester; Wawarsing	916,000,308	1,221
HIGHLAND	Esopus; Lloyd; Marlborough; town of New Paltz; Plattekill	1,039,439,613	1,943
WALLKILL	Gardiner; Plattekill; Shawangunk	1,474,257,338	3,645
NEW PALTZ	Esopus; Gardiner; Lloyd; town of New Paltz; Plattekill; Rochester; Rosendale; village of New Paltz	1,659,855,975	2,289
SAUGERTIES	town of Saugerties; Ulster; Woodstock; village of Saugerties	1,711,894,227	3,376
RONDOUT VALLEY	Marbletown; Rochester; Rosendale; Wawarsing	1,801,117,679	2,719
MARLBORO	Marlborough; Plattekill	2,218,469,139	2,137
VALLEY	Shawangunk	2,362,131,063	5,176
PINE BUSH	Gardiner; Shawangunk	2,432,503,741	6,174
ONTEORA	Hurley; Marbletown; Olive; Shandaken; Woodstock	2,961,863,131	2,068
KINGSTON	City of Kingston; Esopus; Hurley; town of Kingston; Marbletown; town of New Paltz; Rosendale; town of Saugerties; Ulster; Woodstock	3,974,701,938	7,713

Source: Office of the State Comptroller - Local Government Financial Reporting Data, Schools.

In truth, the *level* of property taxation is only one part of the problem.

Chart 1
The Combined Avg. Tax Levy/$1000 Full Value of Real Property in Layered Ulster County Jurisdictions



Source: Office of the State Comptroller. "Overlapping Real Property Taxes," Tables I & II.

- In some places people may simply require or want more government services, and therefore must raise more money to pay for them.
- The presence of one big taxpayer in a town or city—e.g. a power plant, or a factory—may increase the local base, relieving the burden on others within that taxing jurisdiction.
- Property assessment practices within a jurisdiction may be—sometimes incidentally, other times purposefully—distributing the tax burden unevenly.
- Some properties are fully exempt from taxation under provisions of the state constitution or state law, or by local government choice. Often these exempt properties are concentrated in more densely settled places: cities and villages.
- Some people are eligible for partial exemptions from property taxes – e.g., military veterans, older people of modest means. (Both kinds of exemptions reduce the base, and thus shift the tax burden to others in the community.)
- Finally, because in New York each person pays property taxes to a number of jurisdictions, and because the boundaries of these jurisdictions overlap, measuring the overall burden in any single place is often a challenge.

The New York State Comptroller and Office of Real Property Tax Service provide some of the best comparative data in the country on local government finance. We decided to use the available information for 2006 to take a look at the range of property tax burdens carried by citizens in one county, our home county, Ulster County.

Here is what we found:

- Full value tax bases vary considerably. If we look at school districts serving children in Ulster County, Kingston's base is the largest; it totals $3,974,701,938. The Livingston Manor School District's tax base,

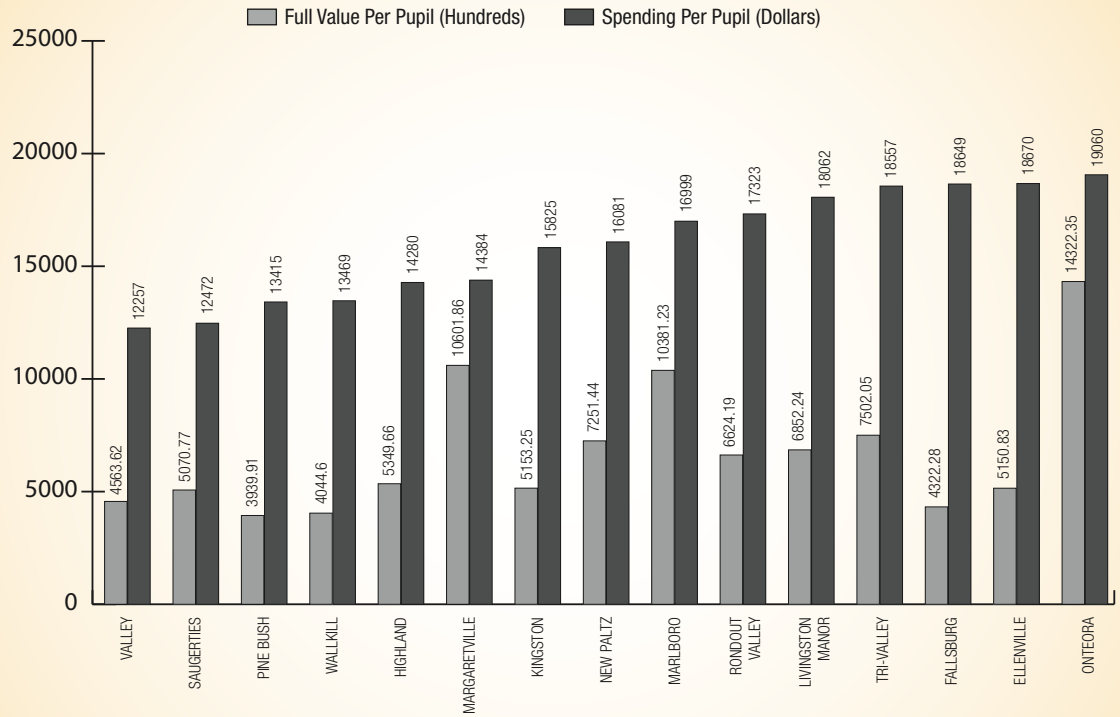
$407,023,079, is just over 10% of Kingston's. (Of course, Livingston Manor's enrollment is only 7.7% of Kingston's.) Table I.

- This is not a subject that can be looked at town-by-town. People in one town are served by different school districts, with different tax levies. Some towns have villages in them; others do not. Taxes are levied to support special districts that have their own boundaries. We were able to take into account the effect of overlapping villages, towns and school districts. That is why the bar graph labeled Chart I has such a daunting number of bars (55). But our report is still a bit approximate, because we could not account for all special districts.

- People who live in the highest taxed combinations of jurisdictions in Ulster County (Village of Ellenville, Town of Wawarsing, Ellenville School District) pay almost three times as much property tax per $1000 of full value as those who live in the lowest tax jurisdiction in Ulster County (Town of Marbletown, Onteora School District).

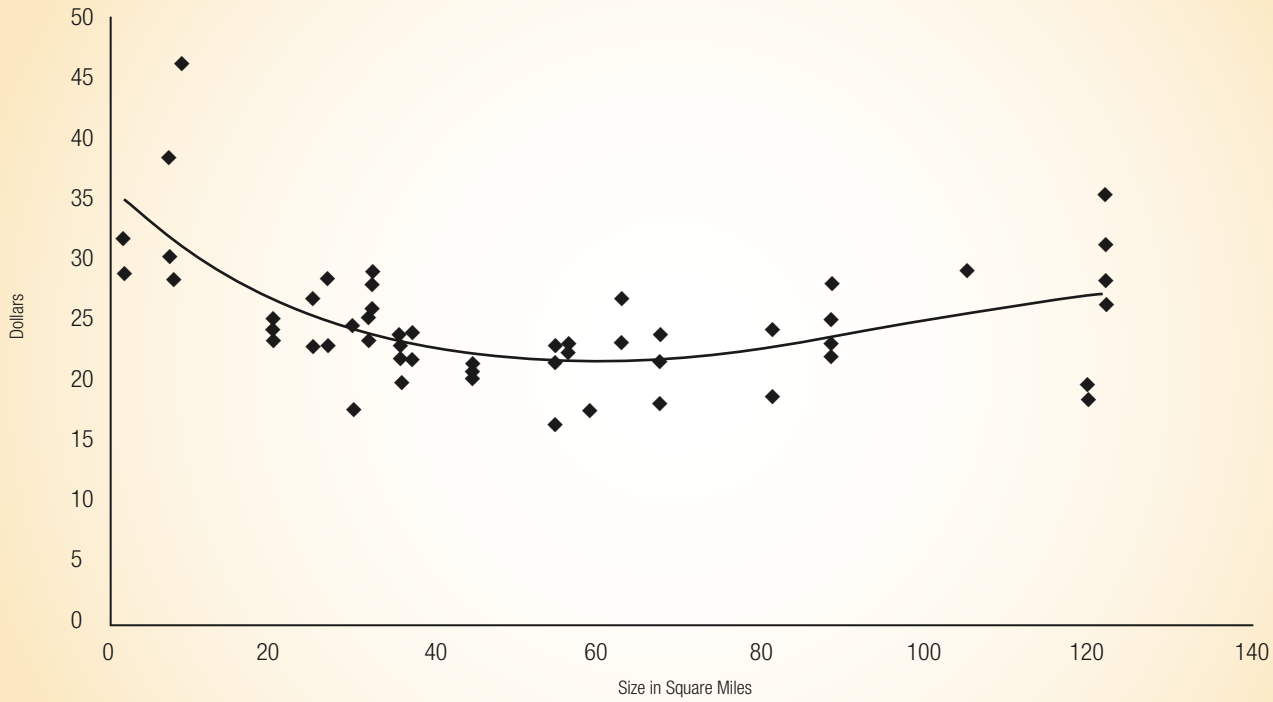
- The lowest tax burdens in Ulster County are born by people who live in the Onteora and Margaretville school districts. (Chart I) Onteora has the largest per-pupil, full-value property tax base in the county. Margaretville, a rural district in Delaware County, ranks second. Both of these districts contain extensive New York City watershed properties. (Chart II)

Chart II
Per Pupil Spending and Full Value of Taxable Real Property Per Pupil in School Districts Serving Ulster County — 2006



Source: U.S. Census, School Report (2006); Office of the State Comptroller, "Local Government Financial Reporting Data," Schools 2006.

Chart III
Larger and Smaller Geographic Areas Tend Towards Larger Tax Burdens
Tax Levy/$1000 Full Value of Real Property (2006) x Municipality Geographic Size



Source: Office of the State Comptroller Report "Overlapping Real Property Taxes," Tables I & II; Local Government Financial Reporting Data, Cities, Towns, Villages 2006.

- A bigger base may allow more spending while preserving relatively lower taxes. According to the Federal government, even with its lower tax burdens, in 2006 Onteora had the highest spending per pupil of any school district enrolling children living in Ulster County ($19,060).

Or a substantial base may be combined with lower spending to keep taxes down. Per pupil spending in Margaretville ($14,384), almost a third lower than Onteora, ranked it 10th for the group of 15 districts serving Ulster County.

- In general, people who live in the City of Kingston and the county's three villages pay the highest taxes. (Chart I) These are long established jurisdictions whose greater population densities (Ellenville excepted) demand a combination of facilities and services more extensive than other localities in the county.

Interestingly, as Chart III shows, there is a curvilinear relationship between the total land area within a jurisdiction and the amount of property tax it requires its tax base to support. This means that geographically smaller places —villages and the City of Kingston—must make the greatest tax effort, but very rural places that include lots of territory must make relatively greater effort, as well.

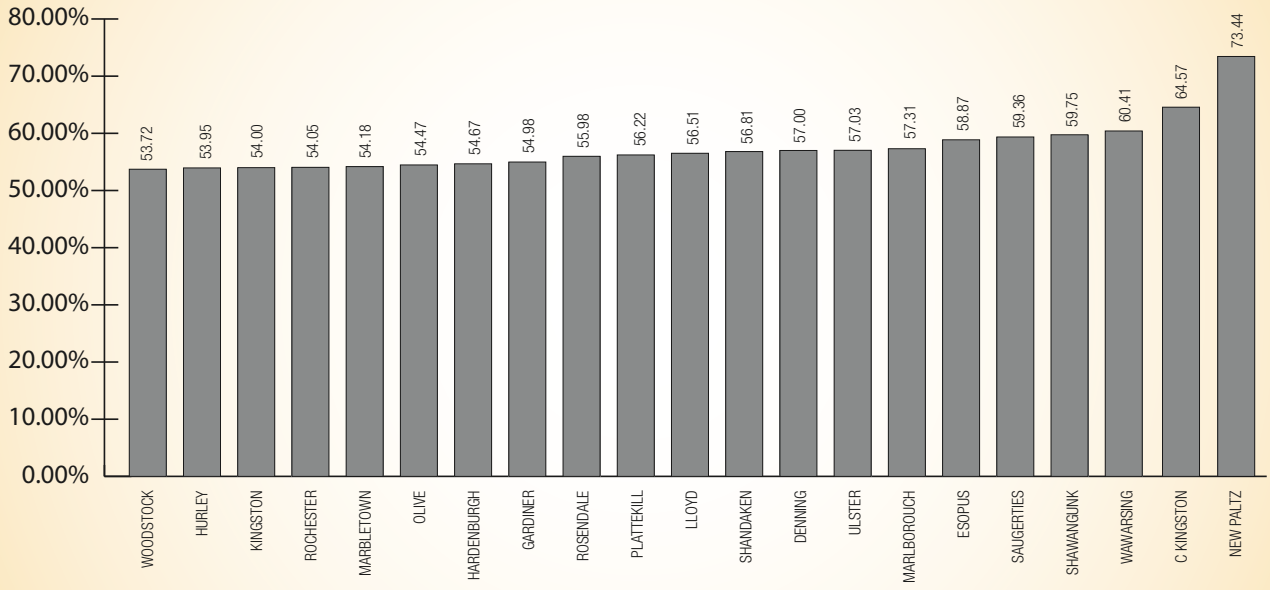
- The City and the towns that include our three villages (there is no readily available data on fully exempt real property in villages alone) are four of the five jurisdictions that have the highest ratio in Ulster County of value of fully exempt property to value of taxable property. (Chart IV) The fifth is Shawangunk, with two major state prisons.

There are a number of reasons that this statistic has to be considered carefully. The value of fully exempt property tends to be underestimated; since it does not generate revenue, assessing exempt property regularly and properly is a lesser priority in most places. If a town is relatively rich and has lots of taxable property, this ratio may be low, and that town still may contain lots of exempt property. Moreover, these statistics are for entire towns: in Wawarsing there are also two state prisons which, of course, are not within the Village of Ellenville's boundaries. Moreover, exempt properties may have important benefits, for example, as major employers and/or generators of other kinds of economic activity.

But there is still an indication here that tax effort in the City and villages, the demand on those who must pay, is increased by the concentration of exempt properties in traditional (but not current) centers of population.

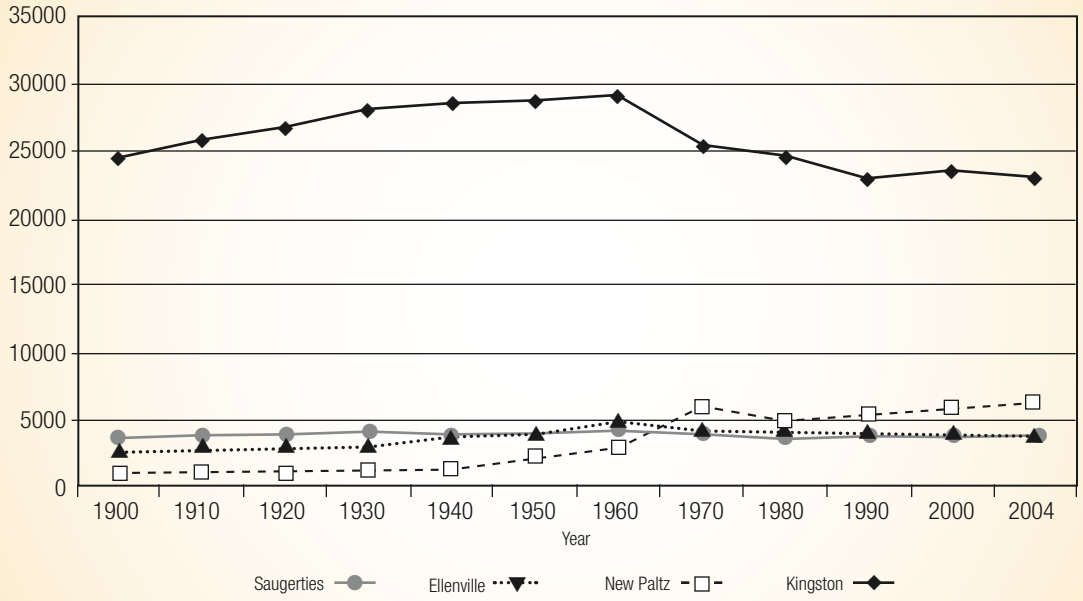
- The City of Kingston and the county's villages used to be centers of population and wealth. No more. For example, the population of Kingston, Ellenville and Saugerties has been declining since 1960. The village of New Paltz, is an exception: it has benefited since that time by the growth of the state university campus there. (Chart V)
- The city and our villages now have a higher percentage of poor families than other municipalities in Ulster County. (Chart VI) We thought we would find that places that were lower in individual or family income would have higher property tax burdens. This was not systematically the case. We did find, however, that places with higher concentrations of poor people, like Kingston and our three villages, required higher property tax efforts. (Chart VI) Poorer people tend to settle in places with concentrations of older, less costly housing stock. They are high demanders of public

Chart IV
Full Value of Tax Exempt Property as a Percentage of the Full Value of All Property in Ulster County Towns and the City of Kingston, 2006



Source: New York Office of Real Property Services, "Municipal Profiles." Office of the State Comptroller, "Local Government Financial Reporting Data," Cities and Towns 2006.

Chart V
Change in Population Over Time for the City of Kingston & Ulster County Villages, 1900-2004
Actual Population Shown



Source: Shupe, Barbara, Jyoti Pandit, and Janet Steins. New York State Population: Compilation of Federal Census Data. New York: Neal Shuman Publishers, 1987. Ulster County Department of Planning, Population 19990-2004.

services relative to the level of their payments for them, either directly as property owners or indirectly, through rents.

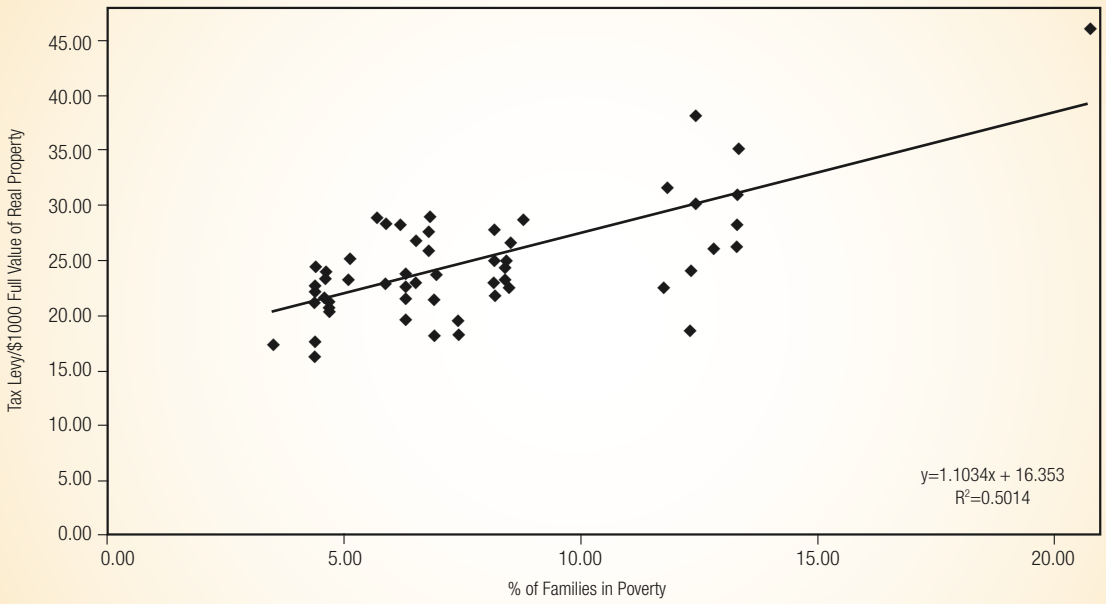
- Property taxes for homeowners in the City of Kingston are 22.65% higher than the average for localities in the county. Property taxes for businesses in the city are about 55% higher than the average. A homeowner in the City of Kingston pays about 7% more in property tax than a person with a house of similar value that is in the adjacent town of Ulster and the Kingston Consolidated School District. (Chart I)

- Villagers in New Paltz pay 22.83% more property tax than do people who live in the town of New Paltz and are in the New Paltz School district. Those who live in the Village of Saugerties pay 24.9% more than their neighbors in the town who are in the Saugerties School District. And those in the Village of Ellenville pay a whopping 47.8% more than people in Wawarsing who are within the Ellenville School District.

To put it differently, if you lived in the Village of New Paltz in a house worth $260,000 (the value of the median sale in Ulster County in 2006), and have no exemptions, you paid $1,497.60 more in taxes that year than a person with a house worth the same amount in the Town of New Paltz, and also in the New Paltz School district. (That's about $4.10 a day, enough for a modest breakfast). If you lived in the Village of Saugerties in a $260,000 house you paid $1,495 more per year. And if you lived in the Village of Ellenville in a house of that value, you paid $3,876.60 more per year (or $10.6 per day, which will buy a pretty good lunch in most places in Ulster County). (Chart I)

Note: These totals are different than actual village tax bills.

Chart VI
Tax Effort and Ability to Pay
Proportion of Families in Poverty x Avg. Tax Levy/$1000 Full Value of Real Property



Source: U.S. Census, 2000 (poverty rates); Office of the State Comptrollers Office Report "Overlapping Real Property Taxes, Tables I & II.

Town taxes on village properties are, in general, lower than town taxes on properties outside the village. The numbers reported here include the increased cost of living in a village in Ulster County after the combined effect of all property taxes levied on a property is considered.

Villages are the only general purpose governments in New York that are created and may be abolished by local choice. The value of their continuation is often a subject of lively discussion. Specifying the cost to villagers of keeping their villages informs this discussion. Of course, if villages didn't exist, many of the services they now provide would likely be continued. Some might still be born entirely by (former) villagers; others might be redistributed across the entire town tax base. Weighing the additional cost of maintaining villages against the additional services they provide, considering whether these services might be obtained within a different organizational framework at a lesser cost, and determining the possible effects of shifting a part of the tax burden to those in the town now outside the village—all subjects beyond the scope of this brief analysis—are essential aspects of this discussion.

- Kingston is one of 48 jurisdictions in New York State that exercises an option to tax "homesteads" at a different rate than businesses. (Thirteen

There are at least **55** distinct ***tax burdens*** in Ulster County.

of these are cities.) Our comparison shows that property taxes in the City of Kingston are among the highest in the county. They also show that within the city businesses pay 26.95% more in property tax per $1000 of full value than homeowners. This is a shift in tax burden that creates an additional disincentive to go into business in the city.

This explains the current move by Kingston's mayor to shift some of the property tax burden off of businesses in the City of Kingston. The *Kingston Freeman* reported (June 26, 2008) that Mayor Jim Sottile has proposed that residences bear 62% of the tax burden, and businesses 38%. Alderman Robert Senor has suggested that the burden be shifted to 54% for homeowners and 46% for businesses.

Such a redistribution of the burden to homeowners would still leave the city one of the highest resource demanding jurisdictions in Ulster County from its property tax base. Within the city, Table II shows what that shift would mean relative to the overall total of property taxes paid by homeowners and business in Kingston.

- Fairness. Much of the discussion in Kingston regarding a tax burden shift is based upon a notion of fairness. With 70% of the full value of real property within city limits held by homeowners who pay 49% of the property taxes collected by the city, Mayor Sottile argues that it is more equitable to shift the tax burden to more closely mirror the distribution of property value between homestead and non-homestead properties. http://www.dailyfreeman.com/site/index.cfm?newsid=19804845&BRD=1769&PAG=461&dept_id=74969&rfi=8

But however admirable they are, attempts to be fairer in taxing within a jurisdiction do not have any effect on the relative burden of taxation across jurisdictions. So an internal shift in Kingston's property tax burden does nothing to mitigate the city's relatively high tax burden compared to other Ulster county localities. Nor does such an effort achieve fairness at the level of the individual taxpayer, if fairness is defined as a direct connection between taxes that must be paid and a person's ability to pay them.

To summarize:

- Assuring fairness in the property tax requires consideration of not only the level of the tax burden, buts also its distribution.
- Having a tax that can be levied and collected locally assures a degree of choice that is valuable in assuring responsiveness to community values, but also may lead to great differences in the tax effort required in different jurisdictions.
- There are at least 55 distinct tax burdens in Ulster County.
- The tax effort (aggregated levy/$1000) is highest in the geographically smallest and the largest places.
- Tax effort is highest in Ulster's three villages and the City of Kingston. In general, these places have relatively large proportions of fully exempt properties, and also offer more extensive services.
- Though the villages and city are historically the major concentrations of population and wealth, this is no longer the case.
- Ellenville, the place in the county that makes the greatest tax effort, requires almost three times as much from its tax base

People living in the Village of Ellenville make almost ***three times*** the property tax effort as those who live in that part of Marbletown in the Onteora School District.

than does that portion of Marbletown in the Onteora School District. (Chart I)
- Kingston's proposed redistribution of tax effort within the city between residents and businesses will not address its relatively high tax effort compared to other places within Ulster County.

As we seek to keep property taxes in check, a major policy focus in this state election year, we must keep in mind that we also need to find ways to assure that the burden of these taxes is more fairly distributed among those who pay them.

Toward this end, here are some further questions for later consideration:

- Other states—e.g. Vermont, Minnesota—have found ways to share property tax receipts among local jurisdictions to build greater equity. Could these work in New York? What would be the effect in the Hudson Valley?
- A current effort by the NYS Office of Real Property Services seeks to assure that all properties in a county are assessed on the same basis. How would this affect Ulster County?
- Does the Star Program, New York State's current state property tax relief program, result in greater property tax equity between individuals or jurisdictions in the Hudson Valley?
- A "circuit breaker" is being advocated to link individual property tax obligations to ability to pay. What would its tax equity consequences be for our region?

CRREO welcomes your comments and reactions. Write to us at: CRREO Research, 1 Hawk Drive, New Paltz, New York 12561 or regionalresearch@newpaltz.edu.

Table II

Tax Burden/$1000 of Full Value — City of Kingston
Actual and Hypothetical, Using 2006 Tax Data

Designation	2006 Actual	Sottile (Proposed Change)		Senor (Proposed Change)	
	Rate/$1000	Rate/$1000	% Change	Rate/$1000	% Change
Homestead	30.13	32.12	6.60%	30.86	2.45%
Homestead % Tax Burden	49%	62%	26.53%	54%	10.20%
Non-homestead	38.24	34.27	-10.40%	36.77	-3.84%
N-Homestead % Tax Burden	51%	38%	-25.49%	46%	-9.80%

Source: City of Kingston Office of the Comptroller

Data Available:

- The Office of Real Property Services, Municipal Profiles (http://www.orps.state.ny.us/MuniPro/)
- Office of the State Comptroller, Overlapping Real Property Taxes (http://www.osc.state.ny.us/localgov/orptbook/taxrates.htm)
- Office of the State Comptroller, Financial Reports for Local Governments (http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm)
- United States Census Report, Schools 2006 (with pdf guide) (http://www.census.gov/govs/www/school06doc.html#layouts)
- Ulster County Department of Planning (http://www.co.ulster.ny.us/planning/)

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