

# Education Finance and Accountability Program (EFAP)

---

[John Yinger](#)  
Director

[William Duncombe](#)  
Associate Director

[Lloyd Blanchard](#)  
Senior Associate

[Jerry Miner](#)  
Senior Associate

[Ross Rubenstein](#)  
Senior Associate

---

[To see past columns click here!](#)

## *It's Elementary*

A Monthly Column by EFAP Director John Yinger

May 2006

### Education Finance Reform and Property Tax Relief

As demonstrated by the Court of Appeals' 2003 decision in the case of Campaign for Fiscal Equity vs. New York and by the low test scores and high drop-out rates in many schools throughout the state, New York's education finance system is broken. Indeed, The Education Trust reports that New York State has the nation's highest gap between school spending in high- and low-poverty districts.<sup>[1]</sup>

The New York State Comptroller recently reported that the local tax burden in New York State, expressed as a share of personal income, is the highest in the nation.<sup>[2]</sup> The main reason for this high burden, of course, is the local property tax.

This column shows how both of these problems can be addressed based on several key findings from recent research on education finance and on property taxes (which are discussed in previous columns).

First, a revised state aid formula would go a long way toward offsetting the disadvantages faced by some school districts, including all of New York's large cities. The approach favored by many scholars, along with courts and policy makers in many other states, is a so-called foundation aid formula that adjusts for the higher cost of education in districts with a relatively high concentration of disadvantaged students.

Second, increases in state aid to school districts results in school property tax relief. This impact arises because state aid allows voters to replace some of their own money (i.e. local property taxes) with state aid. Of course, state aid also leads to increased spending on education, but a large share of this aid, 75 percent by some recent estimates, turns into property tax relief. (To ensure adequate spending on education, a foundation aid program should include a minimum local tax rate; districts affected by this provision obviously would receive less property tax relief.)

Third, \$1 of state aid actually results in more property tax relief than \$1 spent on the STAR program, which is intended to be a tax-relief measure. STAR results in less relief because it lowers the impact of a property tax rate increase on local voters and thereby gives them an incentive to set their local property tax rate higher than it would otherwise have been. The resulting rate increases offset one-third or more of the initial tax relief.

Fourth, the property tax relief provided by STAR actually makes the education finance problem worse. This result reflects the facts that STAR gives no tax relief to renters and provides more relief to homeowners in wealthier counties, so that it provides little benefit to taxpayers in school districts that need help the most.

These four points imply that a revised state aid formula that accounts for the disadvantages faced by some districts, even if combined with a reform or elimination of STAR, would promote the goals of both property tax relief and education finance reform.

Fifth, state aid leads to reductions in local property tax rates but does not directly address one of the main problems associated with high property taxes, namely the high burden on low-income homeowners. Within a given district STAR does give more tax relief to homeowners with lower property values than to homeowners with high property values. Unfortunately, this extra help for low-income homeowners is

attached to serious fairness problems across districts and severe unintended consequences, such as higher property tax rates.

Sixth, as discussed in my last column, the within-district fairness component of STAR could be retained without the problems of across-district unfairness and unintended consequences through a straightforward reform of STAR. This reform involves converting STAR into a rebate paid to individual taxpayers that is based on the average school property tax rate in the state, not on the property tax rate in the taxpayer's district. To enhance STAR's fairness even more, this reform should also eliminate the sales price differential factor (which leads to higher relief in wealthier counties) and be extended to cover renters.

The current hodge-podge of politically determined education aid formulas and the seriously flawed STAR program do little to address the twin problems of poor school performance and high property tax rates. These ineffective policies need to be scrapped.

An alternative approach, which directly addresses these twin problems, is to increase state education aid based on a cost-adjusted foundation aid formula and to convert STAR into household rebates based on the statewide average school property tax rate.

---

[1] <http://www2.edtrust.org/EdTrust/Product+Catalog/searchpubs2.htm#ff>

[2] <http://www.osc.state.ny.us/localgov/pubs/research/propertytaxes.pdf>

---