



INSIDE THE BUDGET

April 5, 2001

A Newsfax of the Independent Budget Office

No. 80

Governor's Co-STAR Plan Would Shortchange New York City

As part of his budget proposal now under debate in Albany, Governor Pataki has urged enactment of a new program to reduce property taxes for some 700,000 New Yorkers statewide. The proposed program—Co-STAR—is modeled after the already enacted STAR program. And like STAR, the new Co-STAR would shortchange New York City, disproportionately benefiting homeowners in other parts of the state. Of the estimated \$238 million in annual tax savings Co-STAR will provide when fully implemented, New York City senior homeowners will share in \$58 million, or 24 percent of the total. Under STAR the city receives a very similar 26 percent share of total statewide savings. Yet the city accounts for roughly 40 percent of the revenues used to fund these programs.

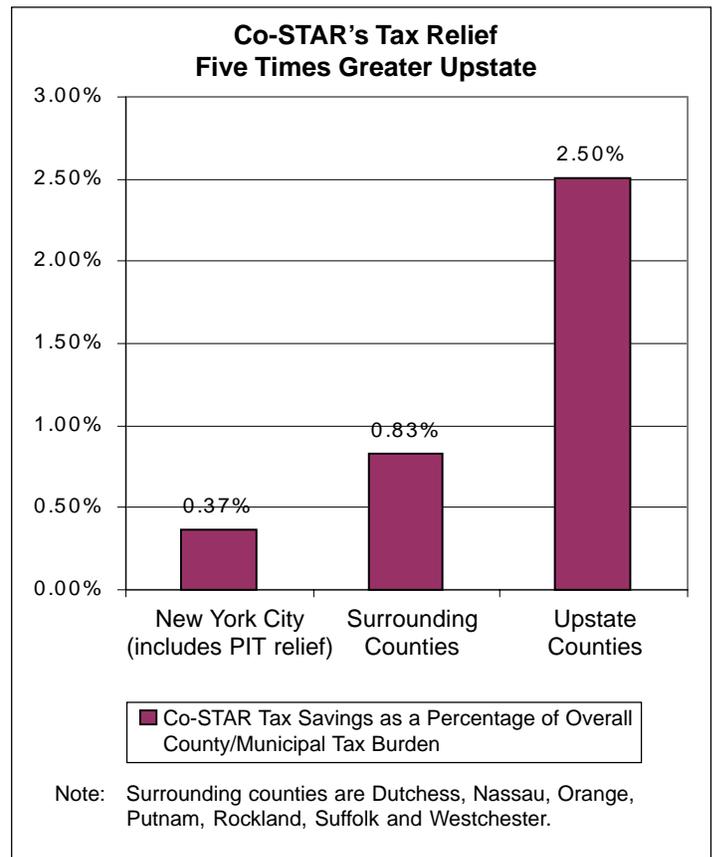
Building on STAR, which reduces school property taxes for all homeowners, Co-STAR is designed to further ease the tax burden on senior citizen homeowners and farmers by reducing their county property tax bills. These two program features—targeting homeowners and reducing property tax bills—work to limit the benefits available to the city's senior citizens under Co-STAR and to all city homeowners under STAR.

Homeownership is much lower in New York City than elsewhere in the state, leaving most of the city's senior citizens ineligible to receive the Co-STAR property tax savings. Just as critically, because the city levies a much wider array of taxes than do county and local governments elsewhere in the state, the property tax is not the predominant source of city revenues. With the city less reliant on the property tax, Co-STAR benefits, which are determined by the amount of property tax paid,

are also lower in the city. To partially compensate for these limiting factors, the Co-STAR proposal includes a credit of \$60 per individual against the city's personal income tax (PIT) for eligible senior citizens, regardless of their income levels or whether they own their homes.

Scant Relief from City's Tax Burden

The statewide average savings under Co-STAR when the program is fully implemented in 2006 would



be \$333. The savings would vary depending on each county's property tax bills, from an average high of \$640 in Montgomery County to a low of \$90 in Hamilton County. Eligible senior citizen homeowners in the city would receive an average benefit of \$223 (\$163 in property tax savings and \$60 from the PIT credit).

But tax savings alone cannot fully measure the extent to which the program skews its savings towards taxpayers elsewhere in the state. County tax burdens—or in the case of New York City, municipal tax burdens—vary widely across the state, so that a dollar of tax savings will yield a very different percentage reduction in total tax burden depending upon where the homeowner lives.

Co-STAR would give New York City residents a smaller percentage reduction in their tax burden than in any other jurisdiction in the state. An analysis by IBO indicates that under the proposed program—after accounting for differences in how local government services are provided and financed—the local tax burden in New York City would be reduced by 0.37 percent. In upstate counties, local burdens would decline by 2.5 percent—more than five times the rate in the city. Even in Hamilton County, where the dollar savings are the lowest in state, the percentage reduction in the tax burden is greater than in New York City.

Co-STAR Eligibility

The Governor proposed Co-STAR as a complement to the existing STAR program. While STAR gives *school* property tax relief to all owner-occupied households and farms, Co-STAR would extend additional assistance to eligible seniors and farmers by reducing their *county* property tax burdens. Under the proposal, homeowners or their spouses aged 65 or older with a combined income of less than \$60,000 would be eligible for Co-STAR. It would cover owners of one-, two-, and three-

family homes as well as coop and condo owners. In addition, all New York City seniors would be eligible for a \$60 per person refundable personal income tax credit, building on the credit already in place under STAR. If enacted, Co-STAR benefits would be phased in over five years, beginning in 2002.

Based on the current number of STAR participants, IBO estimates that of the more than 675,800 households across the state that would benefit from Co-STAR, roughly 114,160 of them reside in New York City. The vast majority of beneficiaries throughout the state would be seniors. Farmers would net just 1 percent of the nearly \$240 million in Co-STAR savings when the program is fully implemented.

Co-STAR, like STAR exacerbates the disparity in how the city's own property tax system treats the owners of houses (Class 1) versus coop and condo owners (Class 2). Owner-occupants of Class 1 homes would receive an average 12 percent reduction in their tax burdens under Co-STAR. Owner-occupants of apartments, who face higher pre-benefit tax burdens, would save an average of 5.5 percent. Under STAR, Class 1 homeowners also receive more than twice the percentage tax savings as apartment owners.

For New York City, the effects of Co-STAR, while on a smaller scale, will be similar to those of STAR. The city can expect a disproportionately low share of tax savings, a smaller reduction in homeowners' total tax burdens than elsewhere in the state, and disparate treatment of Class 1 homeowners compared with the owners of coop and condo apartments.

For more information, please contact Lisa Sturman Melamed, economist, at (212) 442-8618 or e-mail at lisas@ibo.nyc.ny.us.

Now available...

**IBO's Analysis of the Mayor's Fiscal Year 2002
Preliminary Budget and Financial Plan through 2005.
View it on our Web site at <http://www.ibo.nyc.ny.us>
or call (212) 442-0632 to request a copy by mail.**