The Pataki Administration has set a new standard for hypocrisy in government policy. After passing unwarranted cost-of-living adjustments for wealthy homeowners in the STAR program, this administration has taken the opposite position in an important school finance case, *CFE v. New York State*, by filing an appeal that rejects fair and desperately needed cost-of-living adjustments for students in poor school districts.

The STAR program creates a school property tax exemption that is paid for by the state. In most school districts, this exemption equals $30,000. So the homeowner saves $30,000 multiplied by the district’s property tax rate, and the state reimburses the district for this loss. This exemption is boosted, however, in counties where the average sales price of a home exceeds the state average. In fact, the wealthiest counties in the state have an exemption that is $60,000 or even $75,000, so taxpayers in these counties save more than twice as much as taxpayers in other counties with the same tax rate.

This sales-price adjustment, which costs state taxpayers about $400 million per year, makes no sense for two fundamental reasons. First, average sales price is a poor measure of the cost of housing because it reflects differences in housing size and quality across counties as well as differences in the cost of an equivalent house. No government policy should reward people who can afford to buy the nicest houses. Second, even if it did measure the cost of housing, this adjustment would be inappropriate because homeowners who live in high-cost locations do so by choice, presumably
because the advantages of the location, such as access to jobs or neighborhood amenities, compensate them for the relatively high cost. Just as it would not make sense to give a sales tax break to people who voluntarily buy more taxed goods, it makes no sense to give a higher property tax break to people who voluntarily buy houses in more expensive locations.

The cost of elementary and secondary education also varies from one school district to another. Some school districts must pay higher salaries than others, for example, because they are in a higher-wage labor market or because they have more challenging working conditions in the classroom. Moreover, school districts with concentrated poverty must pay more than other districts to provide the same education because they must overcome problems, such as poor nutrition or poor health, that are associated with poverty. Although it is a small part of the state aid budget, one existing program in New York, Extraordinary Needs Aid, already recognizes these higher costs and takes a small step toward addressing them.

Arguing before the Appellate Division of State Supreme Court in *CFE v State of New York* a few weeks ago, the lawyer representing the state, Mark Gimpel, also recognized this cost variation when he said that the poor performance of students in New York City schools reflects poverty and other socioeconomic problems. He then went on to say, however, “If, unfortunately, they bring bad health or bad nutrition or a home situation that’s not supportive of education, that is not something that is laid at the door of the education system.”

In fact, New York State’s highest court has ruled that the State Constitution guarantees every child in the state a “sound basic education.” This guarantee applies to all children, not just to children in wealthy school districts. Unlike the STAR provisions that compensate wealthy homeowners, therefore, state aid programs that compensate school districts for relatively high costs are entirely
appropriate. Indeed, the State of New York is constitutionally obligated to provide the extra resources that poor districts need to provide an adequate education. No student should be penalized for living in a school district where poverty is concentrated.

This is a challenging time for state governments, and it will be difficult for New York State to provide high-poverty school districts with all the money they need. These financial difficulties are no excuse, however, for hypocritical arguments that justify the use of scarce resources to subsidize wealthy homeowners while refusing to compensate high-poverty school districts for the extra expenses they inevitably face. At the very least, the State of New York should repeal the sales-price adjustment factor in the STAR program and send the $400 million savings to the neediest school districts. An even better approach would be to repeal this adjustment factor and then replace the current maze of state aid programs with a comprehensive new formula that adequately compensates school districts facing relatively high educational costs.

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