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City's two-tier tax rate draws fire Some business owners say system should be changed

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BINGHAMTON -- While it's likely that city property taxes will increase in the proposed 2008 budget Mayor Matthew T. Ryan will present today, it's a certainty there will be two rates: one for residential property and a higher rate for businesses.

It's been that way for two decades. Despite complaints from some business owners that the two rates are unfair, some experts say changing the tax structure could spell a financial disaster in the short term and offer little benefit down the road.

"If we made it equitable today and charged the same rate (for homes and businesses), the calculations we show would be an immediate 30 percent increase in homeowners' tax rates," Ryan said. "That's not acceptable."

Any effort to even the two rates, Ryan said, would need to be gradual to lessen the impact.

But when is a good time to start raising homeowners' taxes and lowering businesses' taxes? Not now, Ryan said.

The answer across the state has always been "not now," said Kent Gardner, the director of the Center for Governmental Research Inc. in Rochester. That mentality, whether true, has perpetuated the uneven tax rates since the program began, he said. It's an inevitable consequence of a "really terrible" state law.

"The homestead tax bill (passed in 1981 and allowing the two rates) reflects just how badly legislation can be drafted," Gardner said.

Businesses have traditionally paid higher property taxes than their residential counterparts, Gardner said. Before the two-tier system, businesses were habitually over-assessed. Though it was never codified, businesses tended to accept the over-assessments up until the late 1970s when an industrial exodus started to put more pressure on remaining businesses.

Municipalities, Gardner said, had grown accustomed to "soaking the businesses." And when businesses challenged the practice in court, the state responded with the homestead law.

The system was supposed to allow cities to ease into an even assessment. "It was never meant to be permanent," Gardner said.

Since 1981, 13 of the state's 62 cities, including Binghamton, opted into the two-tier tax system. None of them have found a way out.

The City of Rochester, which opted into the two-tier system, hired Gardner in 1996 to study eliminating the double tax rates. Gardner found it would do little good.

The economy has adapted to the two-tier system, he said. In simple terms, businesses in the higher-tax-rate area are worth less. People pay less for a property if they will have to shell out more tax money, meaning property value has depreciated slightly to compensate for higher taxes.

Lowering the tax rate would rapidly increase the assessed value of a business, meaning the business owner would be paying as much or more in taxes. The lower property tax rates, Gardner said, would do little if anything to attract new businesses.

Gardner found "no compelling evidence to suggest that shifting the tax burden to residential property owners will have a significant impact on economic development," and that the city should "hold the line on the disparity between the two rates."

Over the past decade, Binghamton has had a difficult time holding the line on the disparity. The rate for

non-homestead properties has risen 21 percent higher than residential properties.

Businesses in the city form 36 percent of the city's total taxable value, but pay 50 percent of the total tax levy. Homeowners at the end of this year will have shelled out the other half of the \$24 million tax levy, paying a property tax rate that is 77 percent lower than that of businesses. Nonprofit organizations, schools, churches, hospitals and government buildings, which make up about 21 percent of the city's \$1.7 billion in assessed value, pay no local taxes.

After Ryan presents his proposed 2008 city budget today, he plans to hold a series of public workshops to discuss the budget. The two-tier tax rate issue could be among the topics, Ryan said.

"We want to get input," Ryan said. "People should understand what we're up against."