New York Property Tax Cap Implications for School Districts

Remarks Prepared for a Conference on Local-State Austerity Policy & Creative Local Response
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Overview

- What are effects of New York State tax policies on school districts?
- What are creative local responses to state austerity?
- How are education and tax relief balanced in other states?
- What changes would better balance education and tax relief in New York State?
1. Numerous NYSASBO and other reports show that the education revenue picture has been adverse for school districts over the past six years.

2. Educationally much has changed: learning standards, assessments, teacher evaluation and data privacy requirements. During this time New York State school districts lost 10 percent of their workforce. The combination of revenue challenges and education reforms has been chaotic at best.

3. Each education dollar is currently made up of approximately 40 cents from the state, 55 cents from local revenues, and 5 cents from federal.

4. Funding shifts to local revenues have added to the stress. Over the past decade the local share (mostly property taxes) of school district revenue has grown five percent, while the state share has declined four percent and federal aid has declined by almost two percent.
5. While local revenues have been contained by the Tax Cap, State school aid has been reduced and frozen such that more than half of school districts have less school aid in 2014 than they did in 2008.

6. The combined effect of the tax cap and state aid cap results in a $17 billion gap between historical and projected school revenues. The growth in school spending has slowed from a 15-year average of 5.6 percent to a four year average of 2.1 percent.

7. The 40 cents from state sources include about six cents for school tax relief. School aid and aid for tax relief have competing purposes. Aid for tax relief does little to help schools provide equal educational opportunity.

8. Many cost areas have factors outside the control of school districts and are increasing at rates much greater than average school costs. Pension costs have increased almost 300 percent over ten years and costs for debt service principal increased 135 percent while total school spending increased only 47 percent.
The Impact of the Tax Cap Varies Dramatically with District Wealth

2% LEVY INCREASE PER PUPIL (BASED ON 2009-10)
Impact of Caps on Local and State Revenues for New York School Districts

(in millions)

The Growth in Public School Spending has Slowed Dramatically

New York State School District Spending

Creative local responses

- Saratoga’s School Finance Committee—making every dollar count
- Forecast5—a tool to examine finance and student results to find cost-effective solutions for better education
### Four States’ Approaches to Tax Relief and Education

<table>
<thead>
<tr>
<th>Tax Caps and Education</th>
<th>Column1</th>
<th>Column2</th>
<th>Column3</th>
<th>Column4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Pupil Expenditures Adjusted for Regional Cost Differences (2011)</td>
<td>New York</td>
<td>Massachusetts</td>
<td>New Jersey</td>
<td>Wisconsin</td>
</tr>
<tr>
<td>$16,835</td>
<td>$13,127</td>
<td>$14,920</td>
<td>$12,587</td>
<td></td>
</tr>
<tr>
<td>Tax Cap?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>The lesser of 2% increase in levy or the CPI</td>
<td>Levy Ceiling: 2.5% of total assessed value; AND Levy Limit: 2.5% year-to-year growth in levy</td>
<td>2% increase in levy (less can be banked for 3 years)</td>
<td>State and local revenue limit increases by $75/pupil**</td>
<td></td>
</tr>
<tr>
<td>Public vote required?</td>
<td>Yes</td>
<td>Only to exceed 2% cap</td>
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<td>Yes</td>
</tr>
<tr>
<td>Override requirement</td>
<td>60% or more of the voting public</td>
<td>50% or more of voters</td>
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</tr>
<tr>
<td>Exclusions</td>
<td>Capital, some pension costs, tort expenses</td>
<td>Voter-approved capital outlay and debt, some water and sewer debt costs, some public health projects (e.g., lead paint abatement)</td>
<td>Capital, pension, health benefits, emergencies</td>
<td>Local capital expenditures approved by voter referendum</td>
</tr>
<tr>
<td>Chance for Success</td>
<td>B-</td>
<td>A-</td>
<td>B+</td>
<td>B-</td>
</tr>
<tr>
<td>State Achievement</td>
<td>C-</td>
<td>B</td>
<td>B-</td>
<td>C</td>
</tr>
<tr>
<td>Funding Distribution</td>
<td>F</td>
<td>A</td>
<td>B</td>
<td>C</td>
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1 2014 Education Week Quality Counts

Recommendations Under Discussion

- We need to foster and encourage creative collaborations between educational improvement and school finance using tools like Forecast5 and management systems like Saratoga’s school finance committee.
- Increase state school aid in accordance with education proposals while local tax revenues are limited by the Tax Cap.
  - Eliminate the GEA over two years
  - Fully fund Foundation Aid over four years
  - Use a portion of settlement funds for one-time school district costs (PYAs and Growth Aid for unaccompanied minors)
  - Do not reset the Building Aid interest rate until GEA is restored and Foundation Aid is funded ($23 million)
- Make technical adjustments to the Tax Cap to support education and tax relief.
  - Allow school districts to carry over unused amounts under the maximum allowable levy limit like New Jersey.
  - Count local assessments for properties that are exempt due to a payment in lieu of taxes (PILOT) when calculating the tax base growth that is allowable.
  - Allow the exclusion from the Tax Cap of local expenditures for capital projects for instructional spaces provided to students at BOCES.
For more information on New York State school finance

- [www.nysasbo.org](http://www.nysasbo.org)
  - State aid primer
  - School district needs and aid recommendations (NYSASBO school aid proposal)
  - Summary of the 2014-15 Executive budget proposal
  - Summary of the 2014-15 enacted budget
  - Policy analysis: Why school district mergers fail
  - School district tax, spending and enrollment plans
  - Budget vote results
  - School district spending: a 10-year retrospective