

New York Property Tax Cap Implications for School Districts

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Overview

In a collaboration of NYSUT, the Fiscal Policy Institute and Cornell University, a mix of local and state-level analysts interested in quality local services funded with public dollars convened to assess the impact of recent state policies to provide tax relief to local governments. The New York State Association of School Business Officials participated in a panel on the Tax Cap on December 9, 2014 in Saratoga Springs and presented findings and recommendations related to New York State public school districts.

This article addresses the following questions:

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?

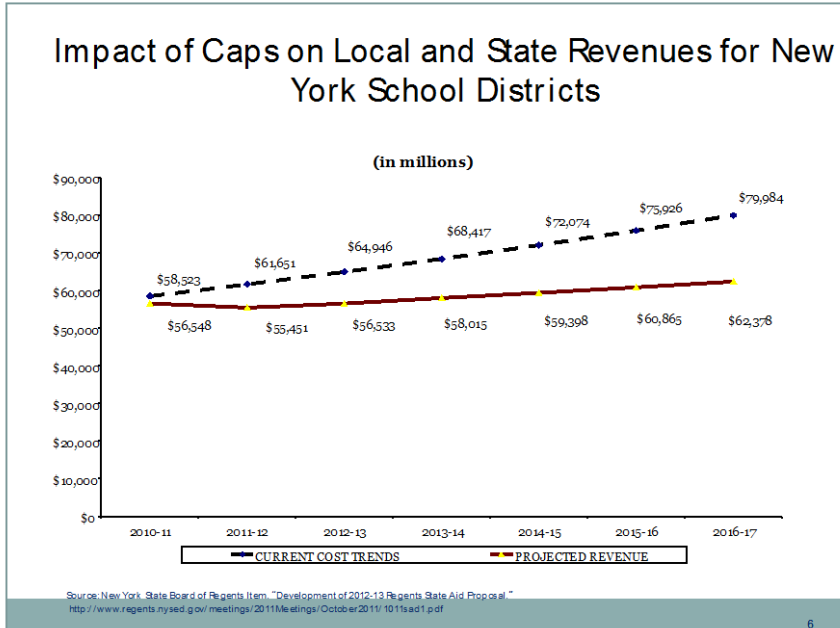
What we know

Numerous NYSASBO and other reports show that the education revenue picture has been adverse for school districts over the past six years. At the same time, educationally much has changed including 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.

Each education dollar is currently made up of approximately 40 cents from the state, 55 cents from local revenues, and five cents from federal sources. Funding shifts to local revenues have added to school district 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.

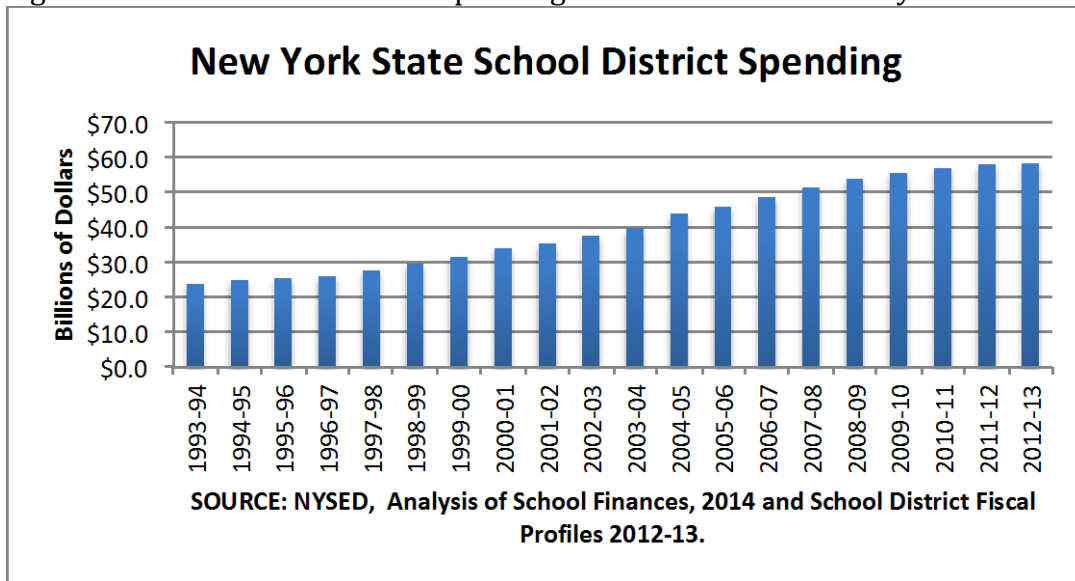
While local revenues have been contained by the Tax Cap, State school aid has been reduced and frozen such that more than half of school districts have less school aid in 2014 than they did in 2008. The combined effect of the tax cap and state aid cap results in a \$17 billion gap between historical and projected school revenues.

Figure 1. Comparing Historical Spending with Estimate Revenues Under Tax and State Aid Caps



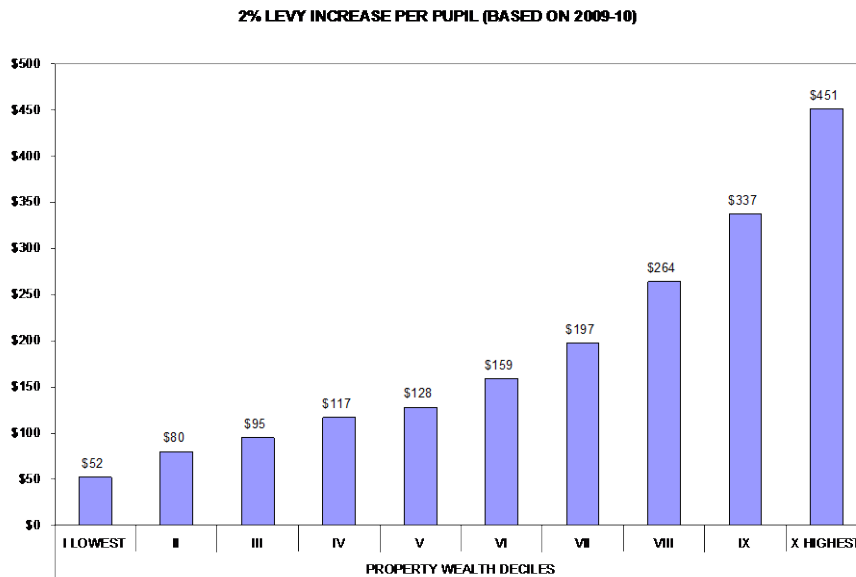
The growth in school spending has slowed from a 15-year average of 5.6 percent to a four-year average of 2.1 percent.

Figure 2. The Growth in School Spending Has Slowed Dramatically.



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.

Figure 3. A Two Percent Levy Increase Per Pupil Means More Resources for Property Wealthy Districts.



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.

Creative local responses

Around New York State this era of austerity has resulted in many instances of creative local responses. Many school districts are using data to better connect resources to programs that help students learn and school districts accomplish their education missions. For example, Saratoga City School District's School Finance Committee, involving the school board and school district financial and instructional leadership in monthly meetings open to the public, makes every dollar count toward achieving the district's educational goals. A second example is the growing number of school districts and BOCES using the Forecast5 data analytics tool to examine finance and student results to find cost-effective solutions for better education. Forecast5 puts financial, student achievement and teacher and student demographic data together in a manner that allows insight for creative solutions to every day problems that help ensure that children receive quality education programs in a cost-effective manner.

Four States' Approaches to Tax Relief and Education

The New York State Association of School Business Officials convened a school finance symposium on September 30, 2014 to address the best way New York State can pursue tax relieve and educational excellence simultaneously. The symposium considered examples from Massachusetts, New Jersey and Wisconsin, states that had implemented both tax caps and education reforms. The symposium identified recommendations for positive change in New York.

Figure 4. A Comparison of Four States on Tax Relief and Education

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

¹ 2014 Education Week Quality Counts

² Education Law Center. Is School Funding Fair? A National Report Card. Third Edition, 2014.

Recommendations Under Discussion

As a state, 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 to result in cost-effective solutions to education problems.

More than any other legislative change, the state should increase state school aid in accordance with sound education proposals while the Tax Cap limits local tax revenues. This will involve recommendations such as the following:

- 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 (prior year adjustments and Growth Aid for school districts experiencing large increases in student enrollment) and
- Do not reset the Building Aid interest rate until GEA is restored and Foundation Aid is fully 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 you may visit www.nysasbo.org. This includes:

- A 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