



TESTIMONY

The Impact of Capping Real Property Taxes

Assembly Committees on Ways and Means, Education,
Real Property Taxation, Local Governments and Cities

March 1, 2011

Chairman Farrell and other members of the Assembly:

I am Robert Lowry, Deputy Director of the New York State Council of School Superintendents.

Thank you for this time today to testify on the potential impact of Governor Cuomo's proposed property tax cap on schools.

I can state our position on a property tax cap in just 10 words:

A tax cap will hurt schools. There are better options.

I will note that even some proponents of a tax cap essentially agree with this proposition. They conclude that the damage that a tax cap by itself would inflict on schools and other local services is necessary in order to finally prompt action on mandate relief and other reforms that actually drive the costs which drive property tax increases.

COMMENTS ON THE GOVERNOR'S PROPOSAL

I will offer comments on tax caps in general but I want to begin with some reactions to the version proposed by the Governor and passed by the Senate.

As written, that bill would provide,

"If, however, the tax levy proposition is then not approved by the qualified voters, then the trustees or board of education shall adopt a budget that requires a tax levy no greater than that for the prior school year."

In other words, if voter approval is not forthcoming, school districts would not be allowed to raise their tax levy at all. This is a cap of *zero percent* for schools, not 2 percent or inflation, as local governments would be allowed.

The 2 percent or inflation figure, whichever is less, would operate as a trigger for determining what vote would be required to approve a school tax levy increase – more than 50 percent if below the trigger, more than 60 percent if the increase is above the trigger.

This brings me to my second point. I get paid to advocate for public schools but, but I am also a public school parent who is likely to support my school board's budget decisions. It angers me that you might say my vote should count less than that of someone on the other side, the effect of requiring a super-majority to approve a tax levy increase.

Municipalities would require only a simple majority to pass their proposed tax levy increase.

COMMENTS ON TAX CAPS IN GENERAL

Now I will offer some comments about tax caps in general.

First, tax caps hurt equity in school funding. Tax caps tend to lock-in existing funding inequities, especially when state aid is cut or frozen. Poorer districts start with fewer resources and generate less revenue with the same percentage tax increase as their wealthier counterparts.

Under Governor Cuomo’s proposed budget, the current two year freeze on Foundation Aid would be extended to a third and fourth year. Foundation Aid comprises 50 percent of total revenues for the state’s poorest 20 percent of districts. So those districts face having half their revenues frozen for four years, as well as the threat of a zero percent cap on local revenues.

Massachusetts is often cited as the model for an effective property tax cap. But even there it was found that poorer communities were less likely to seek to over-ride that state’s cap, and less likely to succeed when they did.

I would add that here in New York, we need to be more sensitive to equity concerns. A recent study found that New York has the widest per pupil spending gap of any state between high and low poverty schools. Also, three-quarters of New York’s counties are poorer than Massachusetts poorest county, measured by median home value, according to the Census Bureau.

Second, on a related point, tax caps could inflict “collateral damage” on New York City and other high need districts. A concern expressed some leaders of poor urban and rural districts is that a tax cap will increase the pressure to steer available state aid to politically competitive, typically better-off districts which have, up to now, been able fund their schools through local tax increases.

Third, despite the polls, we would suggest voters are unclear in what they want. Yes, they want relief from property taxes, but they also don’t want school funding to be cut.

As is typical, a Quinnipiac Poll a few weeks ago showed voters strongly in favor of capping property taxes – by an 82 to 13 percent margin. But the same poll showed voters opposed School Aid cuts by a similar margin – 79 to 18 percent. A property tax cap and a state aid cut both reduce school revenues.

When the *Rochester Democrat and Chronicle* asked Monroe County voters last October if they would support a property tax cap if it “resulted in cuts to police and fire services, libraries and public schools,” 42 percent opposed a cap, 41 percent supported it, and 17 percent were undecided.

Fourth, a tax cap will do nothing to reduce tax bills for homeowners who are already burdened – a circuit-breaker tax credit is the best way to achieve that goal.

Fifth, a cap does nothing to address the forces driving school tax increases today – surging employee benefit costs and declining state aid.

In the budgets they proposed to voters last spring, school districts requested smaller spending increases than the year before, but larger tax increases.

**CHANGES IN SCHOOL SPENDING, TAX LEVY AND STATE AID
 2009-10 vs. 2010-11**

	Proposed Change in Spending	Proposed Change in Tax Levy	Change in State Aid*
2009-10	2.3%	2.1%	1.9%
2010-11	1.4%	3.2%	-5.1%

* 2010-11 state aid is as proposed by the Governor, since the state budget was not adopted at time of school budget votes
SOURCE: Council analysis of NYSED Property Tax Report Card and School Aid data (Big 5 Cities excluded)

In fact 30 percent of school districts actually proposed year-to-year reductions in spending, yet more than three-quarters of those districts still found it necessary to ask for tax increases.

Why? Why would districts need to ask for larger tax increases if they proposed smaller spending increases than the year before, or if they actually proposed to cut their spending? The answer is that they were budgeting for a cut in their other major revenue – state aid.

With no state budget in place at the time of May school budget votes, most districts assumed the 5.1 percent average reduction in School Aid proposed by Governor Paterson.

We agree with the summation offered by our colleagues in local government, the Conference of Mayors: “You can’t cap what you can’t control.”

School districts don’t control what happens with their other primary revenue source, state aid.

They also have almost no ability control to pension costs, and like the economy as a whole, struggle with the cost of health insurance.

We see a historical relationship between employee benefit costs, state funding, and local tax increases. In the last decade, a stretch of higher than historically typical local tax increases coincided with years where increases in employee benefit cost exceeded increases in state funding. The implication is that all other cost increases – for salaries, utilities, bus fuel, textbooks, library materials, equipment, supplies, and some of the benefit costs – all had to be paid for by local taxpayers.

Starting in 2006-07, the balance between state aid and employee benefit costs became more favorable, and the rate of local tax increases declined by half.

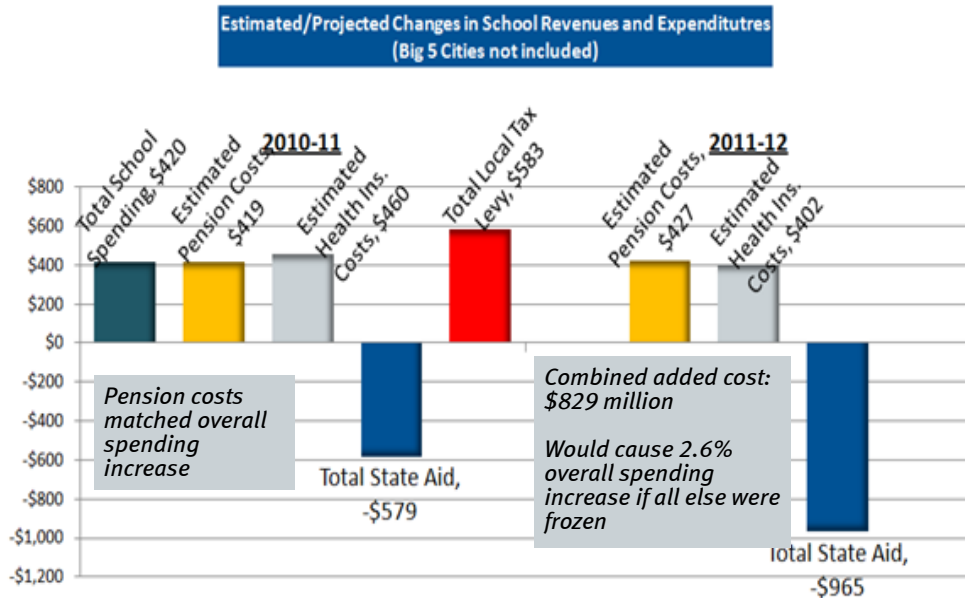
These are profoundly worrisome times for people who lead and work in schools – largely because we appear headed back to the combination of financial challenges that afflicted schools in the last decade.

For the year we are in now, school districts proposed budgets with spending increases averaging 1.4 percent. Our estimate is that pension costs alone would have driven a 1.4 percent increase in total spending. So it appears, on balance, that schools froze all other spending.

Looking ahead, we foresee more of the same. The Governor proposes to cut School Aid by \$1.5 billion and to shift over \$250 million in special education costs to school districts.

At the same time, applying assumptions from the Governor’s budget for state workforce cost increases and the employer contribution rate increases set by the Teachers Retirement System, we estimate that pension and health insurance would drive total school spending for 2011-12 up by 2.6 percent even if all other costs could be frozen.

A 4.5 percent average tax increase would be needed to cover those costs, without taking into account the Governor’s proposed reduction on the revenue side.



SOURCE: Council analysis of NYSED School Aid and Property Tax Report Card data, Office of the State Comptroller local government data; and benefit cost factors reported by the NYS Division of the Budget and NYS Teachers Retirement System

Typically 70 to 80 percent of school spending goes to personnel. The implication of that is that 70 to 80 percent of the cuts districts would need to make to close a gap would come from personnel. The more that school revenues are cut or capped, the more cuts they need to make. The more cuts that are needed, the harder it becomes to spare personnel from reductions.

Right now, school districts cannot unilaterally reduce salaries or pension and health insurance costs. The only way for schools to unilaterally cut personnel costs is by cutting jobs.

We think that presents you with three options: (1) help pay for rising school personnel costs, (2) give us more ways to reduce personnel costs without layoffs, or (3) accept some responsibility for the cuts to student opportunities and services that follow from the job cuts we are forced to make.

In this context, a tax cap seems like an attempt by state officials to claim credit for solving a problem while leaving it to local leaders to take all the difficult steps actually needed to restrain or reverse local property tax growth.

The last point I will make is that tax caps ask voters the wrong question.

Developing a budget should be about balancing needs and resources. The current school budget voting process asks voters to approve a spending level – to consider whether their school budget proposal strikes the right balance between what students need and what taxpayers can afford.

A tax cap shifts the question for voters to, “*What will this cost me?*”

One of our members, who served as a superintendent in states with tax caps, offered this perspective:

Annually, school districts hold budget hearings, present budget workshops, and send out voter information. Some, of course, are more aggressive than others in putting information in front of voters or taking such as ambitious steps as we did with a full-blown public engagement process (focus groups, polling, public engagement sessions, and online surveys). Whether

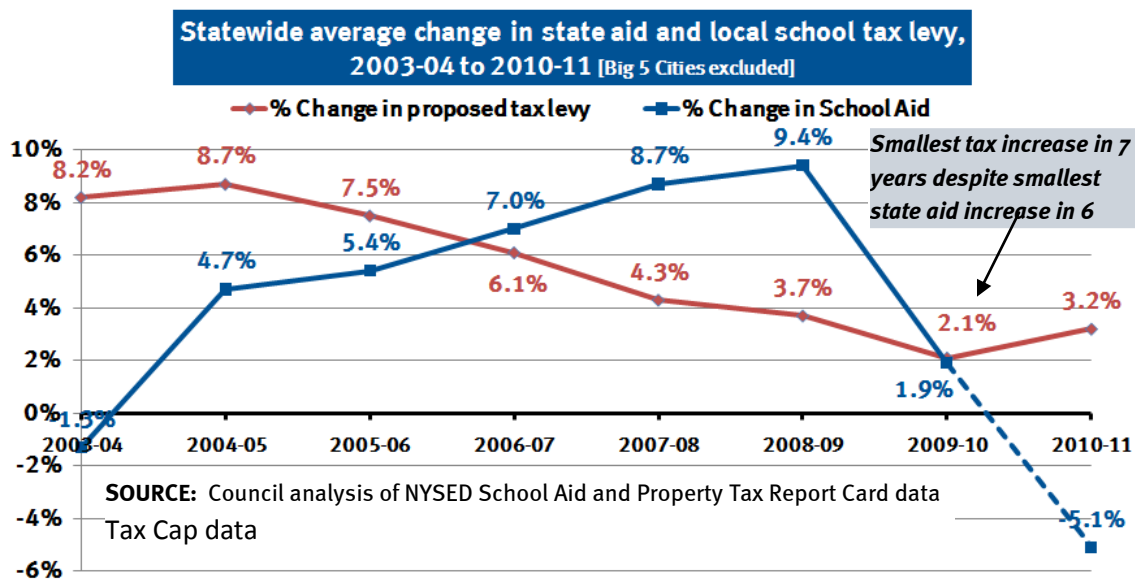
passive or aggressive, voters have the information and can express their concern or satisfaction at the polls.

We already have a tax cap: it's where the school board sets the tax rate. The voters can vote yea or nay.

And, while it took a couple of years of a wake-up call for communities, the system works. In this miserable economy, [very few] districts in [my county] voted down budgets. Why? Because they all brought information forward in numerous ways to their voters and they all imposed lower tax rate increases on themselves. In other words, the taxpayers spoke and we listened. And, like us, the majority of those were below 3 percent— a far cry from the 5, 6, and 7 percent increases of the past...

He wrote last summer, while Governor Paterson was in office, and added,

“The Governor can applaud New Jersey all he wants but perhaps he should applaud his own state’s taxpayers for asserting themselves in the budget processes and the districts for two-way communications.



CONCLUSION

I will conclude by offering a few words on the news Governor Cuomo made yesterday.

The Governor revealed a proposal to cap school superintendent salaries, within a range between \$125,000 and \$175,000 based on an enrollment.

This proposal distracts from the debate which needs to occur over the impact the Executive Budget would have on schools.

The Governor says this proposal would save \$15 million. His budget would cut state aid to schools by \$1.5 billion.

The proposal would weaken the capacity of school districts to make the kinds of changes the Governor says they must make to adjust to the new economic realities that his budget and tax cap proposals would impose on schools.

Strong and resourceful leaders are needed to push actions like renegotiating labor agreements, exploring consolidation with neighboring districts, finding other innovative ways to reduce costs, and helping parents, staff, and board members wrestle with how to preserve learning opportunities in a time of diminishing resources.

School districts already struggle to find candidates to take superintendent positions. A cap would make it much harder for them to get and keep the leaders they need.

Superintendent salaries in New York State are on par with the average for the nation, despite our state's higher than average cost of living and overall education costs. Last year, the average superintendent salary in New York State was \$163,000. The average nationally was \$160,000.

Thank you for listening. I would be pleased to answer any questions.