



The Tax Cap Con

*Testimony for the Property Tax Cap Commission
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www.nyscoss.org

New York Provides Excellent Education!!

- Ranked **#1** among states recently by *Education Week* based on combination of policies and performance.
- Consistently at or near top in standards, assessments, and accountability.
- Lead nation in Advanced Placement participation.
- Dominate Intel Science Talent Search – more than 1/3rd of U.S. semi-finalists this year.
- 36 of nation's to 200 public high schools in Newsweek report.

But... Achievement Gaps Persist

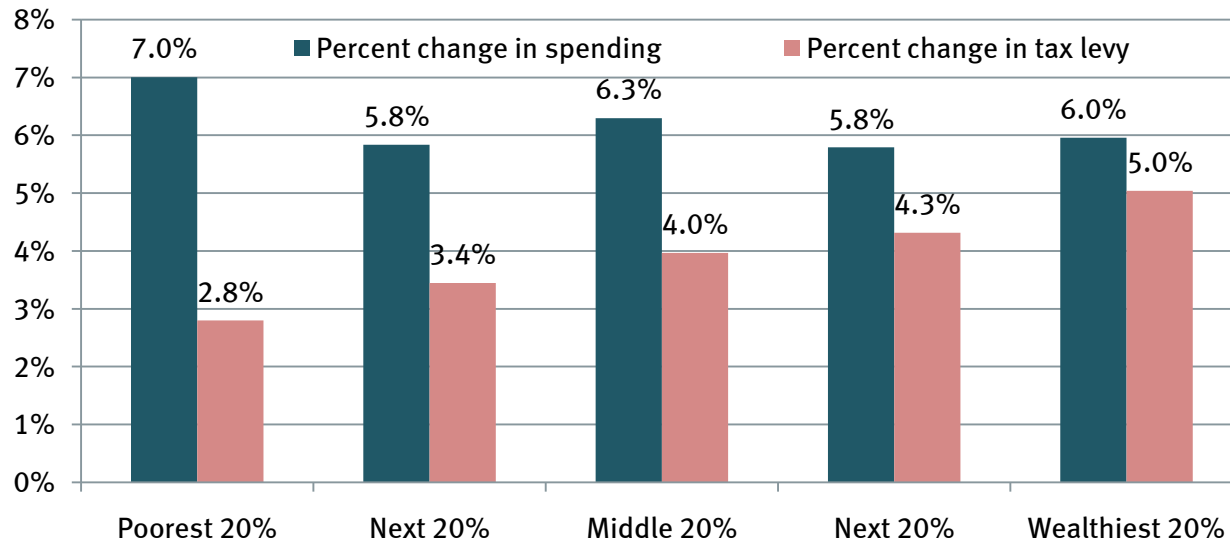
NAEP Test National Rank		Disadvantaged Students	Better-off Students
4th Grade	Math	12th	9th
	Reading	19th	4th
8th Grade	Math	20th	24th
	Reading	28th	5th

- Performance is **above** national averages for most tests,
- But more significantly so for non-disadvantaged students.

Source: Council analysis of U.S. Education Department NAEP data. Disadvantaged = Eligible for free/reduced price lunch.

The CFE Resolution Improved Equity

2007-08 School Budgets:
Poorest districts proposed smallest tax and largest spending increases
(Districts grouped by property wealth per pupil)



Source: Council analysis of NYSED 2007 school property tax report card data

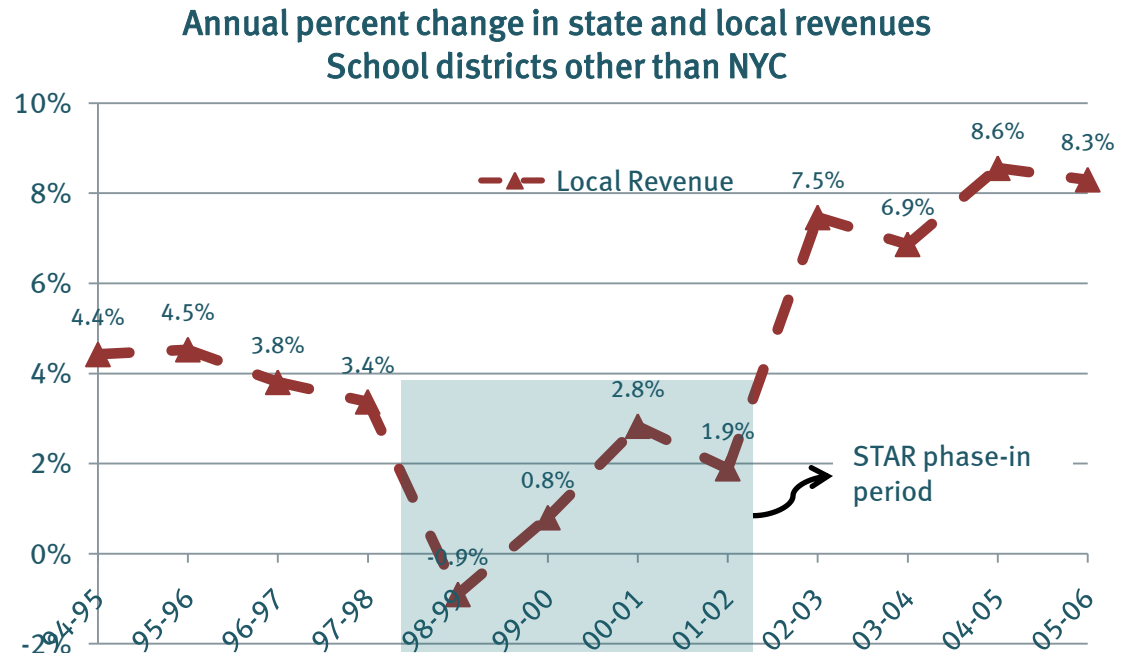
STAR Worked!

(Schools did NOT “tax it away”)

- STAR did push local tax increases down while it was being phased-in (1998-99 to 2001-02) – tax increases averaged 1.1% per year

Another point:

In about half the upstate counties, the median home sale price was under \$100,000 in 2006 – STAR offset a large share of the school tax burden.



Source: Council analysis of NYSED school district fiscal profiles

Tax Caps Are Bad Policy

Policy Goal	Tax Cap Negative Impact
Improve Equity	<p>Caps lock-in existing disparities:</p> <ul style="list-style-type: none"> • Wealthier districts raise more revenue under the same percentage cap. • Wealthier districts attempt more overrides, and succeed more often.¹
Improve Quality	<ul style="list-style-type: none"> • California went from “First to Worst”.²
Improve Efficiency	<ul style="list-style-type: none"> • Caps don’t relieve a single mandate. • May actually encourage one-shots and gimmicks.
Reduce Taxes	<ul style="list-style-type: none"> • Caps don’t lower taxes for already overburdened citizens.
Increase Transparency	<ul style="list-style-type: none"> • Caps’ worst damage occurs several years after enactment.

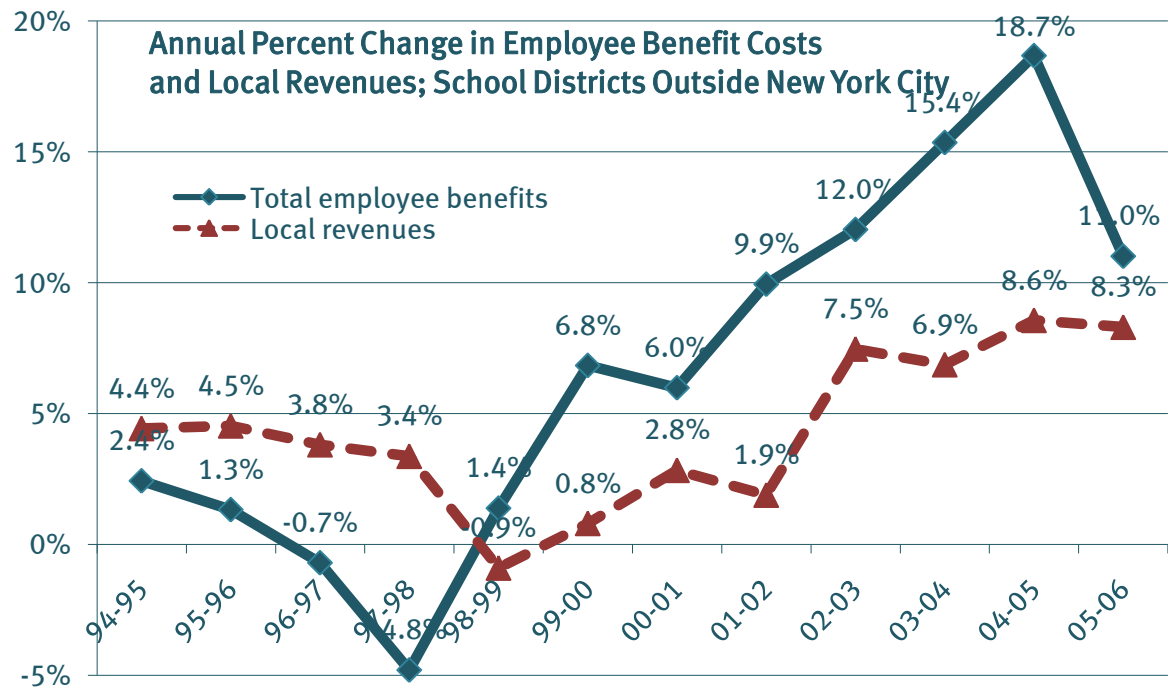
Tax Caps Are Disingenuous

- They are essentially a “Starve the Beast” strategy
 - At the Federal level, this has resulted in deficits.
 - At the school level, costs are driven by state mandates:
 - Special Education
 - Wicks (8-15% additional cost per project)
 - Collective bargaining laws
- They will put enormous pressure on the state to replace local tax with income taxes.³
- They attempt to control the wrong side of the balance sheet
 - i.e. Revenues not expenditures
- They ask schools to make difficult choices the State itself conspicuously avoids.

³“The results provide no support for the hypothesis that tax cuts restrain government spending; indeed, they suggest that tax cuts may actually increase spending. The results also indicate that the main effect of tax cuts on the government budget is to induce subsequent legislated tax increases. Examination of four episodes of major tax cuts reinforces these conclusions.”³

School Taxes Are Driven by Rising Costs

- In recent years, schools have struggled with the same costs as every other enterprise – pensions, health insurance, and energy
- Also, the enacted 2003-04 state budget cut school aid.



Source: Council analysis of NYSED school district fiscal profiles

Special Education is Costly

- New York has the 2nd most costly special education system in the country.
- We can't really blame the Feds:
 - SED's own analysis of NYS policies which exceed Federal requirements is 31 pages long.
- If NYS were to reduce spending simply to the national **average** it would save **\$1.3 Billion** per year.
- Our results don't justify this spending, and all these regulations aren't working: **our special education graduation rate is below the national average.**
- Yet last year, Lawmakers and the Governor enacted 2 costly **new** mandates.

Special Education Practices: Where New York Ranks Among the States

- 2nd - Special education salaries as % of all instructional salaries.
- 3rd - Ratio of special education personnel to students with disabilities.
- 4th - Percentage of special education students in regular classrooms less than 40% of week.
- 4th - Percentage of special education students served in separate schools.

State Policies Have Mitigated School Tax Increases

Recent initiatives had had an impact:

- Local tax levy increases are coming down:

Source: Council analysis of NYSED data

Note: There are multiple data sources and some yield slightly different percentage changes

Percent Change in Local Tax Levy Districts other than NYC	
2005-06	7.4%
2006-07	6.1%
2007-08	4.3%

- Factoring in rebates, net increase in the last 2 years has been under 2%
- For taxpayers in about 40% of districts, the *increased rebates more than offset the increase in tax levy this year.*

Property Taxes

How can the state help?

- First, keep the promise on school aid:
 - Follow through on implementing the Foundation formula enacted last year. Reject the proposed cut of BOCES Aid and the shift of preschool special education costs. Target more aid to high tax and low wealth school districts.
- Second, the most efficient way to help taxpayers who are already paying too much is by enacting a stronger circuit-breaker credit in the personal income tax, such as that proposed by Senator Little and Assemblywoman Galef.
- Third, begin to act **seriously** to help schools cut or control costs.

Thank You!

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¹Source: Massachusetts Municipal Finance Task Force, “Local Communities At Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns,” September 2005
http://www.mapc.org/Municipal_Finance_Task_Force/Local%20Communities%20At%20Risk%20Report.pdf

²Source: <http://www.pbs.org/merrow/tv/ftw/>

³Christina D. Romer, David H. Romer. "Do Tax Cuts Starve the Beast: The Effect of Tax Changes on Government Spending. National Bureau of Economic Research. Working Paper No. 13548. October 2007.