

# New York State Educational Conference Board



## *Leading Statewide Education Groups Oppose Executive's Proposed Tax Freeze as Damaging to Quality Education*

MARCH 2014

Governor Cuomo's proposed two-year property tax "freeze" would cause further disinvestment in schools, undermining learning opportunities for children across New York State. It would greatly worsen the financial prospects for our schools, especially given current funding levels for School Aid.

The proposal blatantly pits homeowners against the schools that serve their communities, ensuring that few – if any – districts would attempt to override their tax levy limit and none would be able to muster the 60 percent supermajority needed to do so, no matter how necessary to preserve opportunities for schoolchildren.

Local school leaders would be in a no-win situation, facing a choice to: (1) forego asking voters for revenues they may see as truly essential to preserving opportunities for students; or (2) attempt a tax cap over-ride, asking voters to give up a rebate check and pay more in taxes, creating virtual certainty that their budgets will be rejected, and thereby denying schools any increase in local revenue.

The proposal is excessively complex and ignores the actions local leaders and school district voters have been taking to slow the growth of taxes and spending, over the past seven years – including the five years before the tax cap became law.

### **The Proposal**

The property tax "freeze" would provide income tax credits for the next two years in the form of rebate checks to homeowners equivalent to the increase in their school tax bill, but only if their school district adopts a budget with a tax increase within its tax levy limit. While each district has its own limit, the starting point in the calculation for all districts for the year ahead is a devastatingly low 1.46 percent.

In the second year of the tax "freeze", school districts would be required to again adopt a tax increase within their cap *and* join in regional plans for generating cost savings through sharing, consolidating or eliminating services, or otherwise achieving efficiencies projected to save at least 1 percent of the region's combined 2014-15 tax levy in year three, 2 percent in year four, and 5 percent in year five of the plan.

For fiscally independent districts (those subject to budget votes), shared service plans would be coordinated by the largest school district which kept its levy within the tax limit within the Board of Cooperative Educational Services (BOCES). The "Big 5" city school districts would collaborate with local governments in their counties. The county would coordinate these shared services plans for all their municipalities. If the county does not keep its tax levy within its cap, then the next largest municipality which stayed within the limit would coordinate all plans within the county.

## Objections

❖ **Linking the tax freeze to the tax cap will hurt schools.** The warnings raised when the tax cap was originally enacted have become a reality. The confluence of years of state aid cuts and freezes, continuation of the Gap Elimination Adjustment, and failure to implement the Foundation aid formula as promised, have combined with the tax cap to create a fiscal environment in which many school districts struggle to preserve existing services for their students, let alone bring back programs that were cut due to the Great Recession.

New York’s tax cap already imposes punishing consequences for failing to gain voter approval for a tax levy increase. Where Massachusetts’ tax cap allows communities to raise property taxes by up to 2.5 percent without voter approval, New York’s cap denies schools *any* increase in local tax revenue if voter approval is not obtained, either for an override requiring 60 percent support, or a simple majority for an increase within the cap.

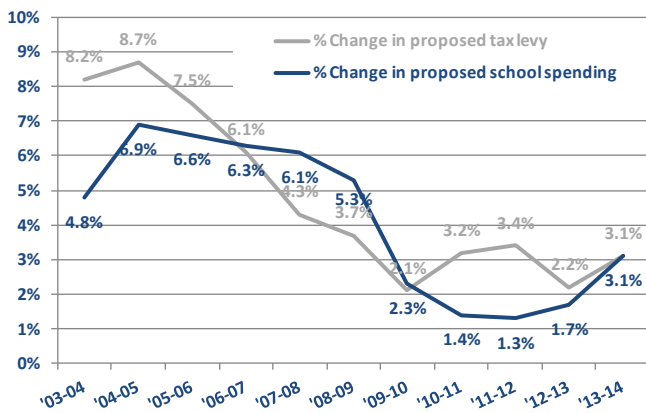
The tax freeze would compound the jeopardy the tax cap creates for schools. It would promise voters rebates delivering the equivalent of a property tax freeze, but only if they oppose any school budget seeking a tax increase above the cap. With this prospect, it is improbable any over-ride would be approved, no matter how strongly district leaders – and some voters – believe it necessary for preserving student services.

❖ **School district leaders and voters have been making tough choices to hold down spending and tax increases.** Over the past five years, the budgets school districts have asked their voters to approve have proposed spending increases averaging 2.0 percent, and tax increases averaging 2.8 percent.

School district leaders – and voters – have been making tough choices to hold down local taxes, despite austerity in their other major revenue source – state aid. Even with the aid increases of the past two state budgets, the cuts and freezes of the preceding years have left 70 percent of districts getting less help from the state than in 2008-09 – five years in the past.

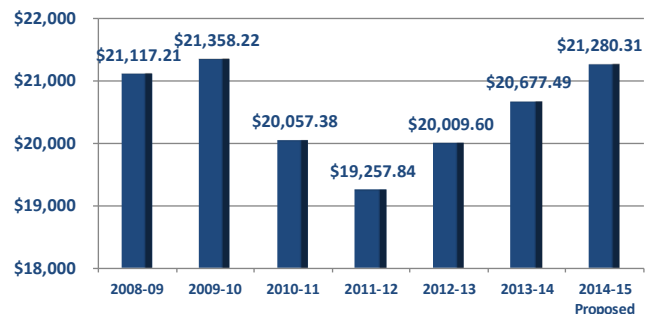
Even with the increase proposed by the Governor for the year ahead, School Aid would still be \$2 billion behind what it would be, had funding kept pace with inflation since 2009-10.

**Schools have been holding down spending and tax increases...**



SOURCE: Compiled from annual NYS Education Department Property Tax Report Card data

**...despite austerity in School Aid (total formula aid, amounts in millions)**



SOURCE: Compiled from annual NYS Education Department School Aid data

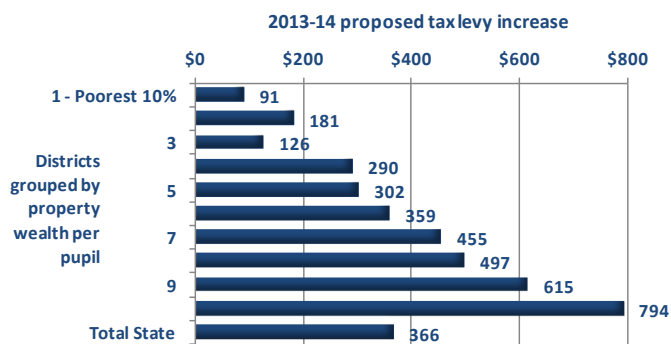
❖ **The tax freeze would leave schools in poor communities even further behind.** On average, the wealthiest school districts raise more than seven times the revenue than do the poorest school districts. The tax cap tends to lock in disparities. Two hundred eighty-two school districts across the state raise less than \$200,000 with a 2 percent tax levy increase.

Also, after two years experience with the tax cap, a clear pattern is emerging: high need districts are much less likely to attempt an over-ride than their better-off peers.

The tax freeze proposal would reinforce and widen gaps in opportunities between low and high need school systems, and disproportionately affect poor and minority children, thus weakening the capacity to provide “... a system of free common schools, wherein all the children of this state may be educated,” as our constitution requires.

The tax freeze rebates are projected to cost the state treasury \$400 million in 2014-15, with some offsetting municipal taxes. They will most heavily benefit more affluent communities and taxpayers. Analysis of 2013-14 school tax levy increases suggests rebates could average eight times more per pupil in the wealthiest communities than the poorest, as the chart below illustrates. Increasing School Aid would do more to level the playing, helping students and taxpayers in the state’s poorest communities.

**Tax freeze rebates are likely to help the poorest communities the least**



**NOTE:** The chart shows total per pupil tax increases in districts which sought tax increases within their levy limit for May 2013 budget votes – districts whose residents would have qualified for rebates, had the freeze been in place this year.

The proposed tax freeze rebates would affect only residential property taxpayers, but the chart does illustrate how the rebates would vary proportionately in relation to district wealth.

**SOURCE:** Compiled from annual NYS Education Department Property Tax ReportCard data

❖ **The regional shared services plan requirement ignores what districts have been doing, denies credit for past efforts, would delay future efforts, and is poorly conceived.** After several years of cuts and freezes in state aid and two years with the tax cap, school districts have been exhausting opportunities for budget savings that do not hurt student services. State Education Department data shows that schools have cut staffing by approximately 10 percent since 2008-09. A recent Cornell University study<sup>i</sup> found 90 percent of school districts are already sharing services. The tax freeze proposal would provide no credit for these past efforts and, since no credit would be given for savings before 2016-17, it would discourage some immediate efforts.

The requirement is also based on flawed assumptions. School district leaders have been aggressive in implementing shared services, and are often well ahead of voters in recognizing the need to consider actual district mergers. But eight of the last 10 proposed mergers have been voted down, including all

those put up for a vote since the start of the current school year. Also, 19 other states have more school districts relative to enrollment than New York<sup>ii</sup>, including Illinois, New Jersey and Wisconsin, and all spend less per pupil. School district consolidation is being pursued in some communities to preserve learning opportunities for students. But how many districts we have does not explain how much we spend on our schools.

Finally, requiring the largest district in each BOCES to coordinate the shared service plans makes no sense. BOCES themselves were created for that purpose and individual districts have little capacity to take on this task. Also, in some regions, the largest district, is a small city or other high need district already grappling with dire challenges.

- ❖ ***The shared service plan requirement is administratively complex.*** Here is what some authorities outside the education community have said about the shared service plan requirement:
  - State Senator John DeFrancisco: “An absolute nightmare. And you have to administer it.” (speaking to the State Tax Commissioner at a legislative budget hearing). [Syracuse Post-Standard](#), February 10, 2014).
  - Empire Center President E.J. McMahon: “Administering this thing would be a real headache.” [New York Post](#), December 11, 2013.
  - State Senate Republican Leader Dean Skelos: “I think we’re trying to figure out if the second year actually works in terms of the consolidation of services. A lot of communities, whether it’s villages or school districts, because of the 2 percent property-tax cap have been doing this.” [Politics on the Hudson Blog](#), February 28, 2014.
  - Citizens Budget Commission: “...it will be difficult for the thousands of localities across the state to develop such plans within the 15-month period. In addition, localities that implemented shared services prior to the timeline for the new consolidation plans would receive no credit for these efforts.” [Letter to Legislators](#), March 5, 2014.
- ❖ ***A circuit breaker could be more effective property tax relief.*** Many of our organizations would support a residential real property personal income tax credit, or “circuit breaker.” But the Governor’s proposal to tie circuit-breaker eligibility to the devastating requirements of the tax cap would only create more intense pressures to cut core classroom programs and services without regard to the education and local service needs of a community.

A property tax circuit breaker would deliver relief to homeowners who need it the most, and would not disadvantage local funding of schools, so long as eligibility from the circuit breaker is decoupled from the Tax Cap.

***For all the foregoing reasons the public education community is united in strongly urging rejection of the property tax freeze proposal.***

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<sup>i</sup> John W. Sipple and Annaclaire Dilanni-Miller. “Shared School Services: A Common Response to Fiscal Stress.” Ithaca: Cornell University, Department of Development Sociology, 2014.

<sup>ii</sup> Excluding New York City from the calculation so that its enrollment does not inflate the average district enrollment for New York State.