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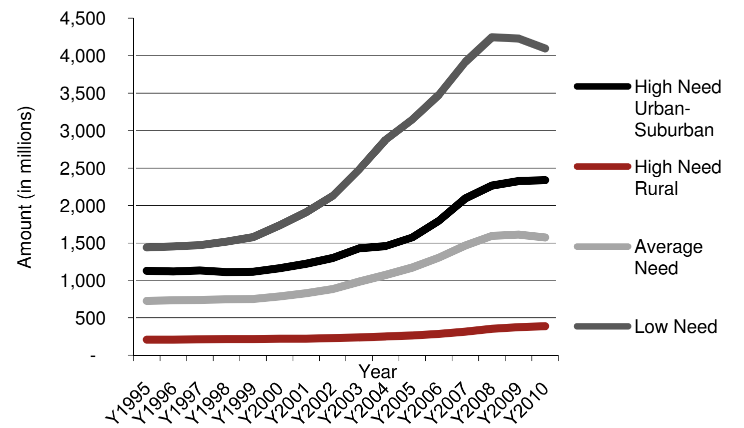
Impact of the New York State Property Tax Cap

This brief compares past trends with projections to show how the new law will impact NY's public schools

> From 1998 to 2008, property tax levies in New York grew by more than 73 percent – more than twice the rate of inflation during that span.

Background Governor Cuomo pointed to New York's high property tax rates - 96 percent higher than the national average - as the leading motivator for signing the new tax cap law on June 30, 2011. The Governor also spoke of the high number of school districts, large fund balances, and spending-levels unwarranted by school performance as additional motivators for implementing a cap. **The new tax cap will limit districts to annual local property tax levies to two percent or the rate of inflation (CPI) – whichever is less. A 60 percent vote by local communities can override the tax limitation.** With local property taxes contributing on average 50% (median=45%) of their budget, the tax cap will substantially affect NY public schools, yet the impact will vary across districts. In the past fifteen years, school district average valuation for low need districts has nearly tripled, while that for high need rural districts has stayed essentially stagnant (see Figure 1). Such differences, among others, in district locale and wealth will yield diverse financial outcomes for New York's school districts.

Figure 1: Average School District Valuation By N/RC Category



The wealthiest school districts will raise more than $600/pupil with a 2% increase on their levy while the poorest districts will raise less than $50/pupil under the cap. Each 1000 students in the wealthiest decile of districts will raise $550,000/year while each 1000 students in the poorest decile of districts will raise about $50,000/year.

Why Not Just Reduce State Aid? In an effort to slow expenditures in public schools, one of Cuomo's central aims, the option of lowering state aid is an obvious choice alternative. However, analysis has indicated an inverse relationship between state and local contributions to school districts. Slowed growth in state aid yielded a subsequent drive toward increased local tax levies to compensate for the reduction (see Figure 2). In years where state aid increased from the prior year, local tax levies increased at a slower rate. Thus, reduction in state aid results in local choice to increase local tax levies and increased overall expenditures, while an increase in state aid typically reduces local tax increases but also results in increased overall expenditures.

> lecades, taxpayers across York State have been ened by back-breaking y taxes that have crippled sses and families. This tax critical step toward New economic recovery, and et our state on a path to sperity." Gov. Cuomo

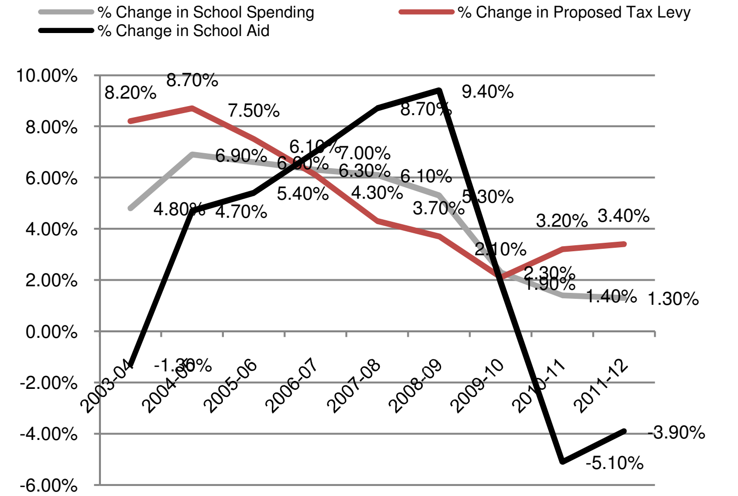
New York presents a unique case, nationaly, in which the mission is to both decrease fund balances and expenditures of school districts and lower property taxes. This distinguishes NY's law, as local tax levy reductions across the nation in the past 30 years have typically been paired with an increase in state funding responsibility (Sokolow, 1998). The NYS property tax cap will stop the inverse state-local funding relationship described above, and quickly slow total school district expenditures as substantial increases in state aid are unlikely.

Tax Caps Across the Nation Tax caps are not a new concept. The first property tax limitation law was passed in California in 1978. Within two years of CA's *Proposition 13*, 43 states passed laws that limited property taxes in some way (Mullins & Wallin, 2004). At least twenty-seven states have limited tax levies for local governments, yet these limits vary greatly in nature. In Washington, the annual levy is limited to 1%, Massachusetts 2.5% (on ceiling, and increase), Idaho 3%, and in Arkansas and New Mexico 5%. Other states limit levies in ways beyond a flat percentage. Mississippi limits increases to ten percent over the largest levy of the past three years, and Montana limits to one-half the rate of inflation over the past three years. In many cases, including Massachusetts, New Jersey, South Dakota, and Pennsylvania, and now in New York, local voters can override limitations. Michigan only allows an override for capital expenditures.

The Effect of Tax Caps

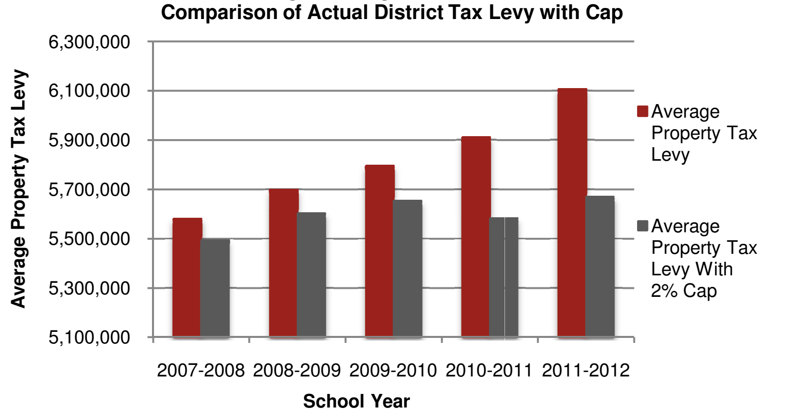
Research on Tax Limitation Programs (TLP's) have identified several impacts worth noting. In general, they typically result in reduction in public expenditures when not coupled with increased state aid (Bradbury et al., 2001). Wealthier communities are more likely to override the TLP and hence are able to help local services, including schools (Wallina and Zabelb, 2011): *"The poor towns have been less able to attempt and pass overrides and…they have not been able to reap the benefits that this has for their fiscal condition. Hence, they tend to be in worse financial shape"* (p. 393). Some evidence exists that TLPs will slow the growth rate of public school expenditures, but not core instructional expenditures. This suggests the elimination of non-instructional offerings and people while safeguarding the core academic program (Dye, RF., 1998). Additionally, student-teacher ratios did increase in Oregon after implementation of their TLP (Figlio, 1998).

Figure 2: Percent Change in School Spending, Tax Levy, and State Aid - 2003-04 2011-12



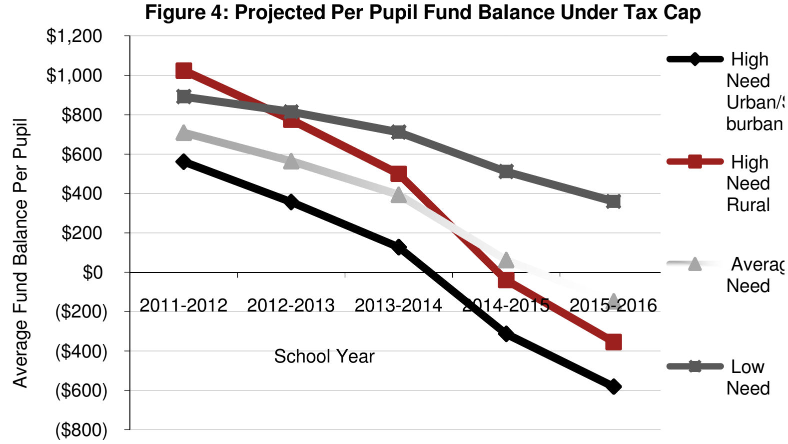
Source: NYCOSS analysis of NYSED School Aid and Property Tax Report Card data – Big 5 Cities not included.

Figure 3: High Need Rural Comparison of Actual District Tax Levy with Cap



Note: Created with 2% Increase in Expenses, 0-2% State Aid, and Constant Enrollment

Figure 4: Projected Per Pupil Fund Balance Under Tax Cap



Note: Created with 2% Increase in Expenses, 0-2% State Aid, and Constant Enrollment

What would have happened if the tax cap were in place 5 years ago?

As Figure 3 demonstrates, the actual average district tax levies steadily increased from 2007-2008 thru 2011-2012 in high need rural districts (HN Rural). The average district tax levies for high need urban-suburban (HN Urb-Sub), average need (Ave. Need), and low need (Low Need) categories had similar trends as they all increased at similar rates over time. However, if the two percent tax cap had been imposed in the 2007-2008 school year, there would have been a different trend. Figure 3 shows that by the 2011-2012 school year, the average tax levy would have been about seven percent lower for HN Rural districts. What's noticeable is that the tax levy decreases in the 10-11 school year due to the CPI being lower than 2%. and then increases again slightly in 2011-2012, which was also seen for HN Urb Sub, Ave. Need, and Low Need.

What will happen moving forward with the tax cap?

Assuming expenditures by districts increase 2% per year from 2010-2011 thru 2015-1016 and state aid is 0% for 11-12 and 2% thereafter, we project the annual per-pupil fund balance (FB) for the next fine years. District FB's will cover the difference between revenues and expenditures each year. Currently, the HN Rural districts have the largest FB, but, on average, this is quickly spent and will be gone before 2014. HN Urban and Suburban districts, on average, will run out FB the soonest. The low need districts will only need to gradually spend down their FB and still have nearly $400/pupil in the 2015/16 school year. It is important to note that these are only averages for each category of districts. There is considerable variation within each category with some districts running out of FB in 2012.

Sources

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