

Property Tax Caps White Paper

New York State Congress of Parents and Teachers, Inc.

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There is no question that New York homeowners are struggling under burden of soaring property taxes. And there is no question that homeowners are in need of and deserve tax relief. Consider the following: New Yorkers pay property taxes that are 33% higher than the national average, i.e. about \$150 in local taxes for every \$1000 of income and the per capita local tax burden is the highest in the nation.

Adding these facts to an economic downturn rooted in an unstable financial market and sub prime mortgage crisis, former Governor Eliot Spitzer sought a solution to falling state revenues and the growing tax burden. The solution: the appointment of a New York State Commission for Property Tax Relief in January 2008. The former governor's charge to the Commission was threefold: to examine the roots causes of high property taxes; to identify ways to make the State's property tax system fairer; and, reneging on an earlier campaign pledge, to develop an effective school property tax cap. This seven-member Commission, headed by Nassau County Executive Thomas Suozzi, included none of the educational stakeholders that would be directly impacted by the recommendations of the Commission's report.

Following the transfer of state leadership from Eliot Spitzer to Governor David E. Paterson, the Commission on Property Tax Relief issued its report on June 3, 2008 with the principal recommendation being to cap the growth of property taxes. Annual growth of school district property tax levies would be capped at 4%, or 120% of the Consumer Price Index (CPI), whichever is less. This recommendation would essentially mandate an annual contingency budget for every school district outside the Big 5 city districts. The impact would be worse if state aid were frozen or reduced. The recommendations also eliminate local budget votes if levy increases are held at or below the 4% and give local voters the option of setting a tax cap at an even lower level. In the current system, local tax payers are given the right to determine how much they are willing to invest in their schools rather than have the state dictate the amount. A provision for capping expenditures already exists for tax payers who vote down a budget two times as a contingency budget automatically kicks in.

While the Property Relief Commission made additional recommendations for local government efficiencies, banning mandates that do not include an accounting of the fiscal impact and source of revenue, amending the labor law regarding expired contract negotiations, and providing for the possibility of an income tax credit, the main focus of New York's new governor and state legislators has been the property tax cap. Commission recommendations that deal with municipal governments and services remain in the shadows. Despite studies conducted by non-profit fiscal policy research groups citing evidence that tax caps are flawed public policy, cannot control cost drivers, and have had devastating effects on education and state programs and services in other states nationwide, as well as not addressing other less volatile relief measures, the issue of property tax caps remains in the spotlight and fuels political debates for the fight for control of the state legislature. Our investment in public education must have a higher priority than legislative control.

As individuals, our 360,000 PTA members are tax payers and voters, sharing the same tax burden as homeowners throughout the state and just as deserving of tax relief. As members of

the PTA organization, PTA basic policy and legislative directives guide member advocates in support of adequate and equitable funding for quality education and schools for all children and for a long- held belief in fiscal independence of school districts. PTA positions focus on issues, issues that affect the education, health and welfare of all children and youth.

The issue at-hand is that the proposed tax cap measure undermines PTA's mission for children and youth.

After years of litigation, NYS finally adopted school aid reform in 2007. The intent of reform was to assure state support that was adequate to ensure a sound basic education for all children regardless of community wealth, geographic location or level of poverty. A four-year phase-in of a foundation aid formula was put in place with an unprecedented increase of state aid over four years. Shortly into the phase-in, however, a statewide economic downturn led to a reduced increase in the projected school aid for year two. This reduction adds to the State's burden the need to both make up the 2008-09 difference and adhere to the year three commitment for 2009-10. While research shows that caps can have a devastating effect on education, the negative impact may be mitigated when revenue sources are plentiful and when there can be sustained infusion of state aid to offset escalating costs of contractual obligations and state and federal mandated services and programs. Projections for a continued or worsening economic outlook for 2008-09, make it unrealistic to think state aid to districts can increase in subsequent years at a rate needed to offset a 4% cap on school district levies and assure continued access to programs. Adding a tax cap at this time would surely compound the difficulty of meeting the goals of school aid reform.

Tax caps do not control the cost of mandated items that drive school budgets. In order to meet legal obligations, caps force cuts to discretionary programs, services, and teaching and support staff. Even with modest staff salary increases, when coupled with fuel, soaring health insurance and retirement benefits, and increased special education costs, districts would be compelled to cut basic student programs and staffing to meet the cap. Nationwide, escalating fuel costs for school buses have forced school districts to cancel field trips, eliminate off-site sporting contests and even re-draw school attendance boundaries to force more children to walk to school. At the extreme, Idaho's strict tax cap forced one city to permanently reduce the school week from five days to four because of inability of the district to meet rising fuel costs. The estimated impact of a tax cap, statewide, from 2005-2009 would be an overall revenue loss to school districts* of just under \$1.3 billion.

New York State's schools have demonstrated an enviable record of success. Its research programs produce the largest number of Intel science winners in the nation. Arts and music programs, technology and design, early foreign language programs, and remedial and AP classes offer students opportunities to develop and learn skills that enhance achievement levels. These programs should not only be realities for affluent school districts, but for all. A good example of limited revenues impacting discretionary programs is the California tax cap, Proposition 13. This referendum reduced some of the best schools in the country to the worst by cutting K-12 per pupil spending from \$600 above to \$600 below the national average. Many California school districts were forced to eliminate art, music, physical education, reduce program offerings and cut positions such as librarians and counselors in order to stay within the spending cap.

Massachusetts is touted as having a successful tax cap and high overall achievement. However, Massachusetts caps all municipal spending. This differs from New York's proposal in that it is not solely targeted to schools and has other local government areas to share in the shifting of resources. Within Massachusetts law, cuts in school funding are buffered by cuts in municipal services, yet large infusions of state aid are still needed to offset costs that local communities have no control over. This is problematic when there is an economic recession or when state revenues are down. The first year of the Massachusetts tax cap, Proposition 21/2, among many reductions there was a statewide reduction of 14.3% of all school employees. Reported test score success of Massachusetts students is due in large part to major infusions of targeted state aid, not to constrained property taxes. More recently, the achievement gap between students living in affluent neighborhoods, where caps are more easily overridden, and those of low-income areas, has increased exponentially. Shortfalls in state aid have led to some towns laying off school and municipal employees, freezing wages, and closing town libraries and senior centers. With greater density, a higher level of poverty (44% of New York students are eligible for free/reduced lunch as compared to 28% in Massachusetts), greater diversity of population, and the fact that the New York proposal will mean that schools will take the entire "hit" when a cap squeezes expenses, the impact on NY schools and communities would be far more devastating.

Colorado's Tabor (Taxpayer Bill of rights) Laws, which cap both tax revenues and spending, have had many negative effects. They have been blamed for the state's decline from 35th to 49th in the nation in percentage of personal income spent to support K-12 public education, the decline of average per pupil funding to \$400 below the national average, and a decline in average teacher salary from 30th to 50th in the nation. aside from public schools, there has been a 31% decline in higher education funding per resident student and a rise in tuition; a drop in funding public health programs evidenced by the 2001-02 suspension of the requirement for school children to receive DT and whooping cough vaccinations because the state could not afford to buy the vaccine. In reaction to this, in 2005, Colorado voters approved a five-year suspension of the Tabor laws. Similar Tabor legislation has been killed in 16 other states including Nebraska, Oregon, Maine, and Florida which defeated November ballot initiatives.

As demonstrated by states that have implemented tax cap legislation and those that have fought hard to defeat similar laws, tax caps as a relief measure must be viewed as seriously flawed and extremely volatile. While there are ways to mitigate the effects of property tax caps by replacing lost revenue, they are problematic: increased state aid needed to offset uncontrolled cost drivers cannot be reliably sustained during economic recessions or downturns; wealthy communities can more often override caps and exacerbate disparities leaving low income communities more worse off than their higher income neighbors, and shifting to other tax bases such as sales taxes and service fees often places a greater burden on low income residents than if the property tax were maintained.

Whether capping revenues or expenses, the result when school districts have no alternative but to look within, will most certainly undermine adequacy and equity of both educational funding and community well-being. Community input and participation is disregarded by the imposition of arbitrary limits that reject the long-held belief that local communities and boards are independent and have the right to determine the investment they will make in education, in their schools and in their children.

Nationwide, property taxes and school funding are closely linked as nearly half of all property tax revenue is used for public school education. Research demonstrates that the use of property taxes to fund schools is fundamentally sound as it is a more stable revenue source than increasing taxes on sales and/or services or some income-based measures. However, alternative relief measures to revenue or spending caps are also being used. These include targeting increased school aid to lower income communities -- Massachusetts achievement scores demonstrate the success of this. Enacting a strong circuit breaker that links property tax relief to household income is said to better target aid to those who are most overburdened by property tax bills. Creating regional or state groups that have greater bargaining power has already been shown to save substantial costs for any number of services including health insurance, fuel, energy, and equipment purchase. The essential point is that where root causes of high property taxes are identified, they should be addressed directly and individually. School districts do not always have the tools to do this without enabling assistance from the State. A tax cap merely shifts responsibility from the State to localities without giving those localities options that would protect services while curtailing tax increases.

Historically, New Yorkers have taken great pride in the state's educational program and standards. We have invested even when it was difficult to do so and found ways to creatively finance one of the best public school systems in the nation. For ten years, education and child advocates rolled up their sleeves and worked collaboratively to find a solution to educational inequities. The solution: a foundation aid formula, still in its infancy.

Yes, New York tax payers are overburdened and need relief. At the same time, we must preserve our educational standards and investment by making responsible decisions. PTA members are strongly committed to the PTA purpose to work to provide quality education for every child. Rather than jump on the bandwagon of a terribly flawed public policy, we must take a realistic view of the inherent dangers in tax cap measures and seek out alternatives that, while challenging, offer the potential of property tax relief without the demonstrated pitfalls and traps of property tax caps. There is no quick fix, no easy answer. When making choices there must be some ability to yield but not compromise our beliefs, nor capitulate to political maneuvering.

A little more than a year ago we began the journey for school aid reform. While it was arduous to get here, we are on our way, and with some successes in tow. Yet now we are being coaxed to change direction rather than stay the course. So, we must ask the hard question. Why, in a state that boasts the most sophisticated financial minds in both the private finance sector and the school finance sector, a genuine effort is not being exerted to bring those minds together to design a solution that can really work within the context of this reform? We cannot allow those with priorities that are in conflict with our mission for children to impose regressive measures that sound good, yet have the potential to derail any possibility to make future educational gains. Instead of pitting neighbor against neighbor for tax relief, we instead need to stand shoulder to shoulder to identify and support alternatives that will assure the welfare of all NY's children while recognizing and attending to the challenges of paying for that assurance.

To check the impact for your district, go to:

http://www.nysut.org/cps/rde/xchg/nysut/hs.xsl/legislation_10096.htm

References available from NYS PTA on request