

Aid increases offset tax cap issues, but troubles loom

Meaghan McDermott, Democrat & Chronicle 8:50 a.m. EDT May 11, 2016



(Photo: File photo)

ROCHESTER -- There's no denying that the state's property tax levy cap has had an effect on property taxes.

Indeed, in the first three years after Gov. [Andrew M. Cuomo's](#) 2 percent cap was enacted, the rate of tax growth slowed to less than half of what the average annual growth had been over the prior decade.

But, as school officials head into their first year with a near-zero allowed increase, they're warning that unintended consequences of the cap are taking a toll that will mount with time.

Those repercussions have been averted somewhat by increases in state aid and falling costs for pension contributions. But school leaders said they are tapping into rainy day funds, and without more spending flexibility they could soon hit a wall when they will be choosing between a solid educational program and trying to override the cap.

Indeed, to cover their costs for the school year that starts July 1, schools estimate they will use \$91 million of reserves, a 6 percent drop in how much they would be left with.

"One of the biggest issues for us is the volatility," said Sherry Johnson, executive director of the Monroe County School Boards Association.

The cap's impact

The cap is tied to the Consumer Price Index and is either 2 percent or the rate of inflation, whichever is lower. This year, that works out to be .12 percent — the lowest since the cap was installed in 2011.

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The cap's impact is being blunted by a major increase in state aid: a \$1.5 billion increase, a 6.5 percent hike, for the state fiscal year that started April 1.

"In terms of long-term strategic planning, that's really thrown a cog in the gears," Johnson said. "How do you project out into the future when you don't know what the CPI will be year-to-year?"

Compounding troubles is the law's byzantine formula for what can and cannot count toward the tax levy increase.

That includes scheduled increases in payments-in-lieu of taxes, which count against a district as it works to stay within the cap. This year, that's led to 82 of the state's 700 districts ending up not only unable to increase their taxes at all, but actually subject to a negative tax levy limit.

In all, because the limit this year is so low, districts across the state can raise a total of about \$25 million in additional tax and stay under the cap. That works out to be an average of \$35,000 per district.

"More than 50 percent of districts aren't able to raise as much as \$25,000 and fewer than 20 percent can raise enough to retain the job of a single first-year teacher with typical compensation," said Bob Lowry, deputy director of the state Council of School Superintendents.

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Reforms sought

Meanwhile, some expenses continue to rise, including health care. The state Association of School Business Officials notes that statewide, out of nearly \$6 billion in spending, health care spending has been about \$127 million a year over the past five years and is expected to go up another 6 percent next year.

That group, along with the state School Boards Association are calling for reforms to the law that would include:

- Changing cap guidelines so the permitted increase is a consistent 2 percent of levy.
- Decouple the cap from the Consumer Price Index for Urban Consumers, which looks at price changes for a basket of goods that school leaders say doesn't reflect goods and services schools pay for, including pensions, special education and health insurance.
- Disallow a negative tax cap.
- Do away with the 60 percent supermajority vote requirement for a cap override and let districts put up two ballot propositions, one for a budget that does not exceed the cap and one for an override to fund specific items.

State aid debate

It is true that schools are seeing record state aid this year — the total for 2016-17 will be \$24.8 billion, up 27 percent since 2011. This is nonetheless the first budget that brings districts back to the aid levels they last saw in 2008, school officials said.

“For the last eight years, we’ve been receiving less in totality than we did for the 2007-08 school year,” said Michael Pero, president of the Monroe County Council of School Superintendents and leader of the [Pittsford Central School District](#).

That was the second year of what was supposed to be a four-year plan to resolve a lawsuit over equitable funding among the state’s schools. But the financial crisis of 2009 hit, and the state first froze, then reduced foundation aid, and then implemented a clawback via the Gap Elimination Adjustment, or GEA. In all — and roughly at the same time the tax cap constrained district’s ability to raise levies — more than \$9 billion was withheld from schools under GEA.

The GEA was eliminated under the 2016-17 state budget, but schools won’t be made whole for the money they never received.

“That’s essentially like you and me saying, well OK, we missed our last six mortgage payments but we’ll pay this month, and that makes us square, right?” said Pero.

Still, schools plan to spend 2.8 percent more per student in the 2016-17 school year than they did this year, according to an [analysis](#) (<http://empirecenter.us9.list-manage1.com/track/click?u=53df267ce8a623c9b36c8c2e0&id=4c2b163cbf&e=93cc600455>) by the [Empire Center for Public Policy](#), a fiscally conservative Albany-based think tank.

The increase would bring the average per-pupil spending for the districts to \$24,103 — with the highest per-pupil spending of \$27,454 on Long Island.

The highest increase in per-pupil spending would be in the Finger Lakes, the group said — far above the 1.3 percent inflation rate most recently projected by the Division of the Budget for the state’s 2016-17 fiscal year.

“We’ve only seen school spending go one way—up,” said Tim Hofer, the Empire Center’s executive director.

Seeking overrides

The elephant in the room is mandate relief.

At the same time the tax cap was implemented in 2011, Cuomo vowed to lift the burden of unfunded and underfunded mandates from schools and other taxing districts.

Those mandates are typically legal requirements that say a school must provide a program, activity or project on behalf of the state.

In 2011, the governor even put together a Mandate Relief Redesign Team that was charged with looking for ways to reduce those costs, identify mandates that are ineffective and outdated and find ways to give schools more ability to control their expenses.

"And since then, there's been a mandate increase," said Pero, noting particularly the recently-passed increase in the minimum wage, which is expected to affect thousands of school district workers across the state.

Cuomo's office points to the higher school aid and pension reform as ways the state has sought to alleviate pressures on local school budgets.

In his State of the State address in January, Cuomo called it "essential that our school districts have the necessary funds to do the job."

But Perro said schools are concerned about their long-term viability.

"The worry for all of us with the cap is not only in the forecasting and understanding what we can expect three or four years out, but it's the concept of sustainability," Perro said.

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