

School Finance on Long Island
An Analysis of State and Local Funding Patterns
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A REGION OF GREAT CONTRASTS

Long Island is home to some of the top schools in the United States. In the 2008 Newsweek tally of the top 100 public high schools, 12 were in New York. Of those 12, six were in Long Island.¹ Over the course of the last 6 years, 17% of all of the Intel Science Talent Search Finalists in the entire country were from public high schools on Long Island.² The Long Island Association describes Long Island's schools as, "the centerpiece of our lifestyle" and "the driving force behind this region's economic vitality and attractiveness to business."

But not all Long Island schools are top quality. In one Long Island district (Wyandanch), less than 50 percent of the students entering 9th grade in 2003 graduated in four years. In two other districts, four-year graduation rates were less than 60 percent. In the districts with the most poor students, one out of three 4th graders do not meet the state English Language Arts standards and one out of four 4th graders do not meet the standards in math.

There Are No "Typical" Long Island Districts

On Long Island there are 124 school districts --- 54 in Nassau County, 66 in Suffolk County and 4 that serve students in both counties.³ In size they range from three districts with less than eight teachers to two districts with more than 15,000 students. Three districts in Suffolk County are so small they have less than eight teachers and therefore do not receive state aid under the standard state aid formulas. The other districts range in size from less than 100 students in the Fisher Island and Fire Island districts (68 and 80 total enrollment respectively) to the Sachem and Brentwood districts with more than 15,000 students each.

Many districts on Long Island do not have full K-12 programs. Long Island is home to a 25 school districts that are "elementary only" districts --- 20 districts with only K-6 programs and five districts with K-8 programs. Eleven of the K-6 districts in Nassau County are "component" districts of three central high school districts. In addition, 14 districts in the two counties (one in Nassau and 13 in Suffolk) operate only elementary school programs and pay tuition to neighboring high schools to educate their secondary school age residents. (See Appendix A for listing of specific districts.)

¹ As recently as 2003, 15 Long Island public high schools made the top 100 list - more than half the 27 New York public high schools on the list.

<http://www.msnbc.msn.com/id/18757087/?sort=Rank&count=1236&start=0&limit=100&year=2007&Search=undefined>

² The Science Talent Search (STS) was created in 1942 to encourage talented high school students to pursue careers in science, math, engineering, or medicine. If continued accolades are a measure of success, the contest has met its goal. Some 70 percent of Science Talent Search finalists have gone on to earn either PhD or MD degrees.

³ SED assigns school districts that serve students in more than one county to the county in which the district headquarters are located. For this reason, the Farmingdale and the Syosset districts are classified as Nassau County districts while the Amityville and the Cold Spring Harbor districts are classified as Suffolk County districts.

MEASURING STUDENT NEEDS, DISTRICT RESOURCES AND EXPENDITURES

The most commonly used indicator of "need" for school districts is the percent of students eligible for free and reduced lunch in each district (**FRPL**). The standard way that the New York State Education Department (SED) measures this for school districts is to calculate the percentage of students in K-6 eligible for free or reduced price lunch. United States Census Bureau estimates of the **poverty rate** of school age children attending public schools is another indicator of need, used for the first time in the New York State school aid formula for 2007-08 as a component of the foundation aid formula. While the percent of students classified as poor by the Census estimates are consistently lower than the percent eligible for FRPL (the income guidelines for FRPL are higher than the official federal poverty line), the patterns are very similar. Some analyses also use the percent of students classified as English Language Learners (**ELL**).

Resources available to fund education in each district are generally based on measures of property wealth per-pupil and income per-pupil. SED uses several measures to compare wealth across districts: the value of taxable property per student, the total income per student, the **Income Wealth Index (IWI)** which is the average income per student compared to the statewide average income per student and the **Combined Wealth Ratio (CWR)** which is the average of the ratio of income per-pupil and property wealth per-pupil to the state average for each.

SED compares the district's relative need (as measured by an estimate of the percentage of children eligible for *Free or Reduced Price Lunch--FRPL*) to the district's fiscal capacity (as measured by a *Combined Wealth Ratio (CWR)*) to assign districts to one of three **Need Resource Categories**: High-Need, Average-Need or Low-Need. High-Need districts are further divided into New York City, the Big Four (Yonkers, Syracuse, Rochester and Buffalo), High-Need Rural and High-Need Urban and Suburban districts. Ten Long Island districts are high-need urban/suburban, 42 are Average-Need and 69 are Low-Need.

New York State's Education Department's (NYSED) **Fiscal Profiles** provide the best source of expenditure data and pupil counts because they use audited data from the school district financial submissions (ST3s) The fiscal profile student count Duplicated Combined Adjusted Average Membership (DCAADM) uses average enrollment rather than enrollment on a single day and counts students for whom a district pays tuition to another district in both the district making the tuition payment and the district receiving the tuition payment. Since expenditures on behalf of these pupils are counted twice (as tuition payments by the districts sending the students and as instructional expenditures by the receiving district) this "duplicated" count provides the best estimate of per-pupil spending.

School district real property tax report cards are another source of expenditure data for districts. These report cards issued in May prior to the annual school district budget votes summarize the total budget, total tax levy and total enrollment for each district for the current year and the upcoming year. While not as reliable as the Fiscal Profiles data, they are the only source of data on current school district expenditures.

KEY STATISTICAL INFORMATION FOR LONG ISLAND SCHOOL DISTRICTS

	Number of Districts	Enrollment - 2007-08	Enrollment as a Share of Total Enrollment	Percent of Students Eligible for Free and Reduced Price Lunch	Percent of School Age Children below Poverty Level	Percent of Pupils English Language Learners
Nassau County						
High-Need	4	19,593	10%	72%	19%	23%
Average-Need	15	52,356	26%	25%	8%	6%
Low-Need	37	133,310	65%	6%	4%	3%
Total for Nassau County	56	205,259	100%	17%	6%	6%
Suffolk County						
High-Need	6	41,942	16%	65%	15%	19%
Average-Need	27	135,882	52%	19%	7%	4%
Low-Need	32	81,738	31%	5%	4%	2%
Total for Suffolk County	65	259,562	100%	22%	7%	6%
Long Island						
High-Need	10	61,535	13%	67%	16%	20%
Average-Need	42	188,238	40%	21%	7%	5%
Low-Need	69	215,048	46%	6%	4%	2%
Total for Long Island	121	464,821	100%	20%	7%	6%

Source: 2008-09 Enacted Budget School Aid Runs, NYSED.

Neither Property Wealth nor Income Is Distributed Across School Districts in the Same Manner as Students and Student Need

Long Island districts have more property wealth and more income per-pupil than the districts in the rest of the state.

- On average Long Island districts have \$819,000 property value per student while districts outside Long Island and outside New York City have less than half this amount (\$271,000).
- Long Island districts have on average a \$184,000 adjusted gross income per student while districts in the rest of the state have just \$103,000 in adjusted gross income.
- On average, Long Island's Combined Wealth Ratio (CWR) is 1.43. By definition, the statewide CWR is 1.00.

But the disparities across districts on Long Island are startling.

- The average property wealth per-pupil in High-Need districts was about one third the average property wealth per-pupil in Low-Need districts. This means that for an average High-Need district to raise the same amount of revenue to support its students as Low-Need/wealthy districts, property tax rates must be set at more than three times the rate charged in the wealthy districts.
- There are similar differences in adjusted gross income - Long Island's High-Need districts average \$801,000 per-pupil while Low-Need districts average \$224,000 per-pupil.

	2005 Actual Value per Pupil	2005 Income per Pupil
Nassau		
High-Need	\$384,290	\$89,618
Average-Need	\$749,340	\$168,103
Low-Need	\$906,632	\$233,626
Total for Nassau County	\$824,893	\$205,484
Suffolk		
High-Need	\$339,320	\$74,992
Average-Need	\$588,636	\$121,436
Low-Need	\$1,371,295	\$206,629
Total for Suffolk County	\$806,692	\$142,387
Long Island		
High-Need	\$354,870	\$80,049
Average-Need	\$638,687	\$135,970
Low-Need	\$1,064,120	\$224,476
Total for Long Island	\$818,615	\$183,720
New York State	\$479,797	\$148,936
New York City	\$444,150	\$170,217
NYS Outside NYC and Long Island	\$271,211	\$103,020

Source: 2008-09 Enacted Budget School Aid Runs, NYSED.

Not All Long Island Districts are High Spenders – Particularly when Differences in Student Need and Regional Costs are taken into Account

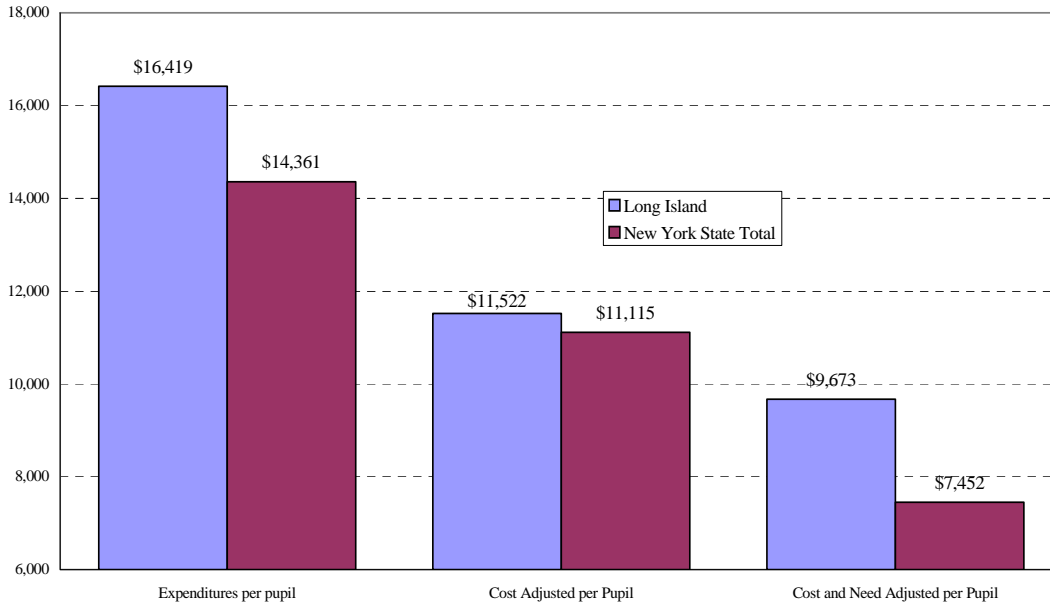
According to the May 2008 Real Property Tax Report Cards, school districts on Long Island will spend \$21,853 per student in 2008-09 but there was a wide range in spending estimates for Long Island districts: from \$80,274 in the tiny school district of Bridgehampton to \$15,623 per-pupil in Floral Park - Bellerose.

Two adjustments are necessary to compare spending across Long Island districts to other districts in New York State⁴. First, since the cost of living is much higher in Long Island than many regions of the rest of the state, this analysis adjusts expenditure data to reflect that higher cost. This analysis uses the Regional Cost Index (RCI) that was enacted into law through the Foundation Aid Formula in the 2007-08 School funding reforms. This index provides a single cost adjustment factor for all districts in Nassau and Suffolk Counties. Based on an analysis of regional differences in salaries of non-teaching professionals in each NYS Department of Labor region, the State Education Department estimates that the costs of educating students in Long Island are 42.5% than the costs in the least expensive region of the state. The RCI provides additional aid to Long Island Districts through the Foundation formula. The RCI adjustment is not necessary when making comparisons among districts on Long Island.

Second, adjustments need to be made to reflect the differences in student needs. On average it does not cost the same amount to educate a student from a high-income family as a student from a low-income family. The State Education Department often uses a pupil weighting to facilitate meaningful comparison of per-pupil expenditure data and this analysis uses the same weighting -- assuming that the cost of educating students eligible for free and reduced price lunch is double the cost of educating other students.

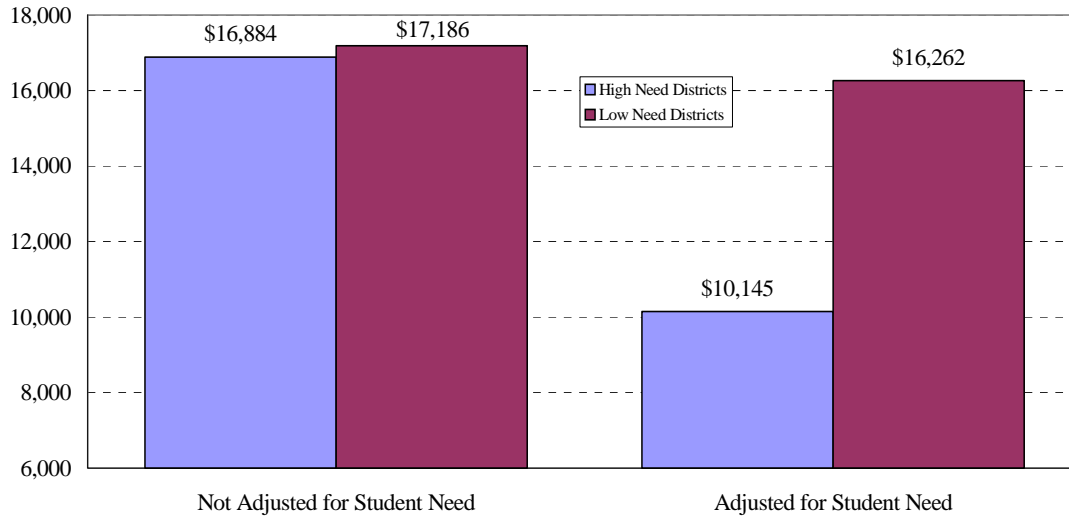
⁴ Another important factor to consider when comparing per-pupil expenditures across districts are economies of scale. The lack of economies of scale in very tiny districts results in very high per-pupil spending.

Long Island School Districts Spend More per Pupil than the Statewide Average



Source: 2005-06 Fiscal Profiles. Total expenditures minus transportation and debt service. Uses DCAADM as the pupil count and FRPL percentages to adjust for student need.

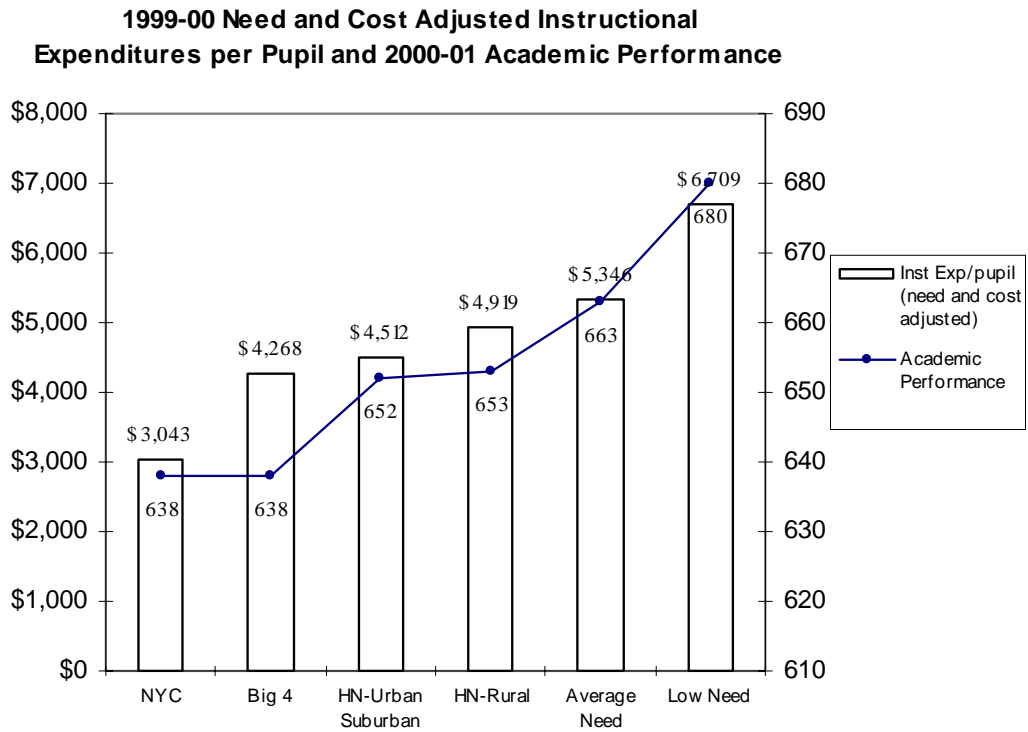
Low Need Districts Spend more Per Pupil than High Need Districts, Particularly When Expenditure Data is Adjusted to Reflect Student Needs



Source: 2005-06 Fiscal Profiles. Total expenditures minus transportation and debt service. Uses DCAADM as the pupil count and FRPL percentages to adjust for student need.

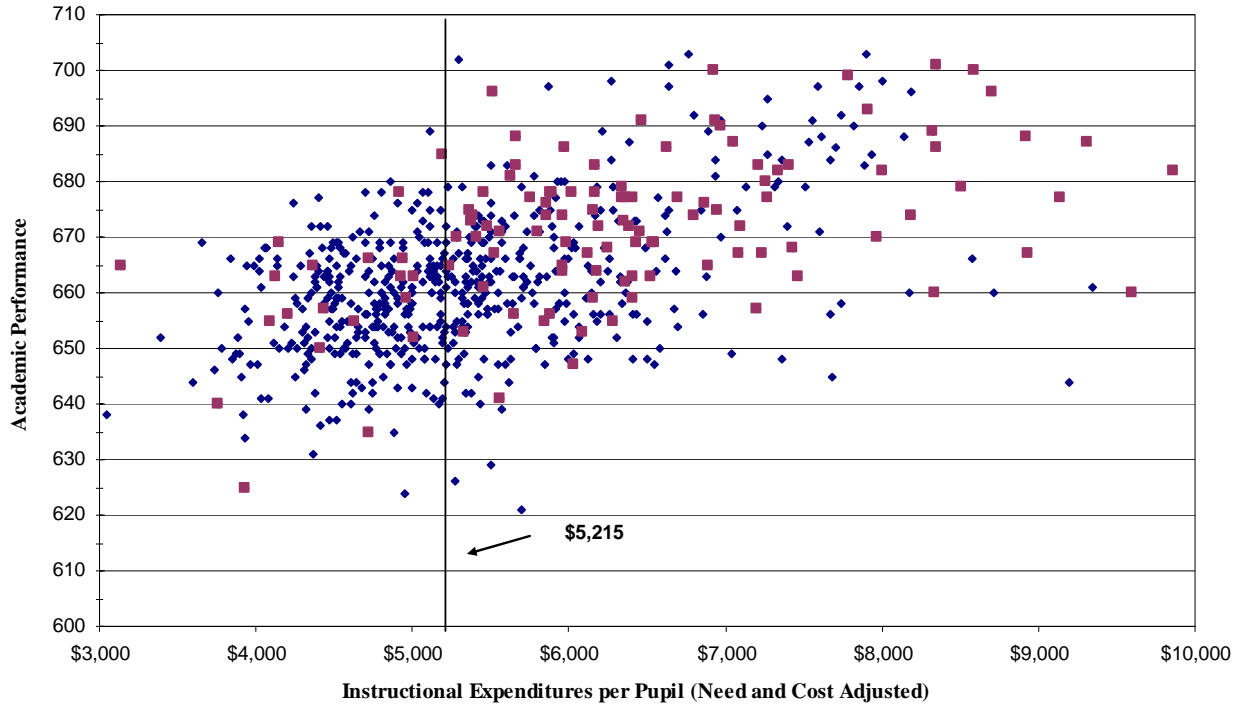
Differences in Expenditures Across Districts are Highly Correlated with Student Outcomes

There is a considerable body of evidence that these differences in expenditures are directly correlated with differences in student performance. Districts with higher per-pupil expenditures (particularly when the expenditures and enrollment data is adjusted for regional costs and student needs) clearly outperform districts with lower expenditures. The following chart was developed by the staff of SED comparing expenditures to median scores on 4th grade English Language Assessments.



Detailed Breakdown of Data from Regents Analysis of the Relationship Among Expenditures, Educational Need and Academic Performance

1999-00 Need and Cost Adjusted Instructional Expenditures per Pupil and 2000-01 Academic Performance



Note: Scatter plot does not include 8 districts with instructional expenditures per pupil on a need and cost adjusted basis of over \$10,000.

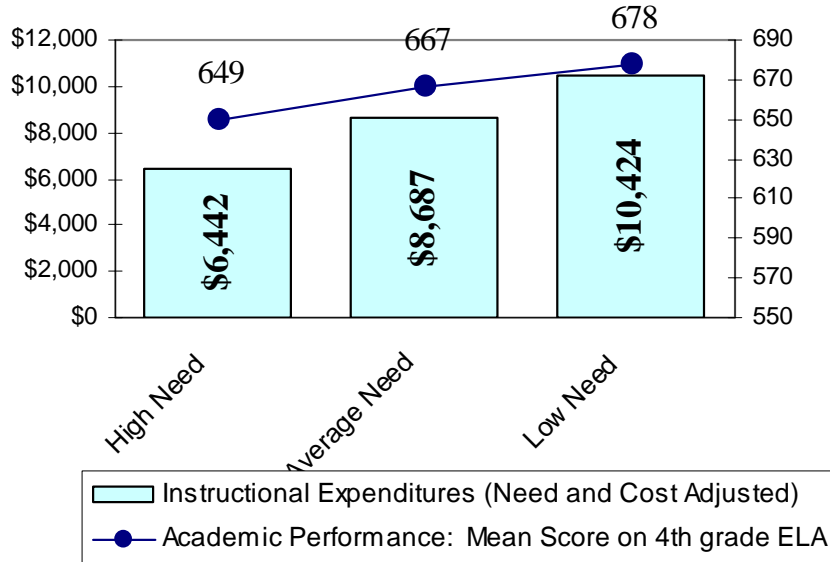
Cost Adjusted Expenditures per Weighted Pupil

Number of Districts	<i>Below Median Expenditure of Median Performing Districts (<\$5,215)</i>	<i>Above Median Expenditure of Median Performing Districts (>\$5,215)</i>
<i>High Performing (ELA >676)</i>	10	96
<i>Median Performing (ELA between 650 and 676)</i>	239	240
<i>Low Performing (ELA <650)</i>	63	29

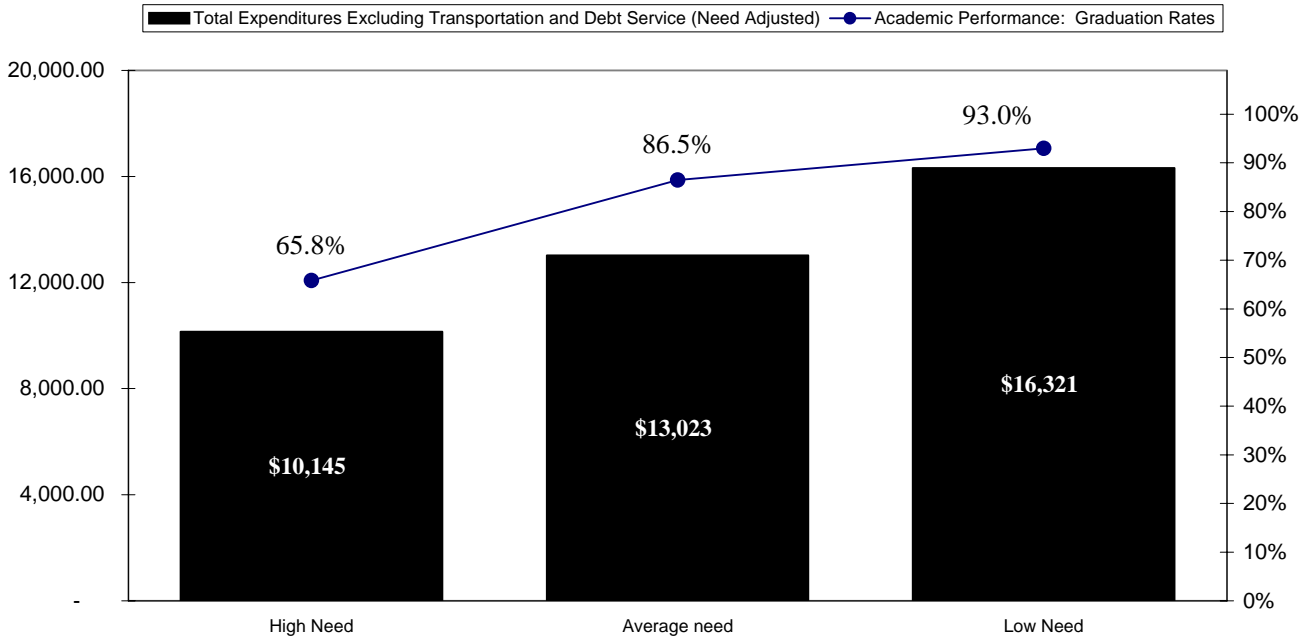
Number of Students *	<i>Below Median Expenditure of Median Performing Districts (<\$5,215)</i>	<i>Above Median Expenditure of Median Performing Districts (>\$5,215)</i>
<i>High Performing (ELA >676)</i>	17,933	241,473
<i>Median Performing (ELA between 650 and 676)</i>	75,135	644,965
<i>Low Performing (ELA <650)</i>	1,341,829	36,038

* Includes 1,071,513 New York City students

1999-00 Need and Cost Adjusted Instructional Expenditures per Pupil and 2000-01 Academic Performance: Long Island



Graduation rates on Long Island are also directly correlated with expenditures per pupil



Source: Expenditures from 2005-06 Fiscal Profiles. Graduation rates are four year graduation rates for the 2003 cohort. Adjustment for need uses FRPL percentages.

LOW AND MIDDLE INCOME DISTRICTS ARE PAYING HIGHER TAX RATES

In General Property Tax Burdens are Greatest in High-Needs Communities and Less of a Problem in Wealthier Communities

Residential property tax bills are affected by many factors. To fully understand the property tax burden it is necessary to examine tax rates in relationship to income levels and property wealth. Much of the examination of tax burden on Long Island, as elsewhere in the state, has relied on averaging the tax burden throughout the region. The problem with this approach is that individual households face substantially different tax burdens depending upon their actual tax rate, home value and income level. In fact, despite the fact that wealthier (Low-Need) communities have more ability to finance their local schools, High-Need communities usually have higher actual tax rates. While it is true that some residents of wealthier school districts may be burdened by property taxes, combining data about tax burdens throughout all of Long Island, or any other region of the state, without examining actual differences based upon the relative income and wealth of districts does not aid in pinpointing the problem.

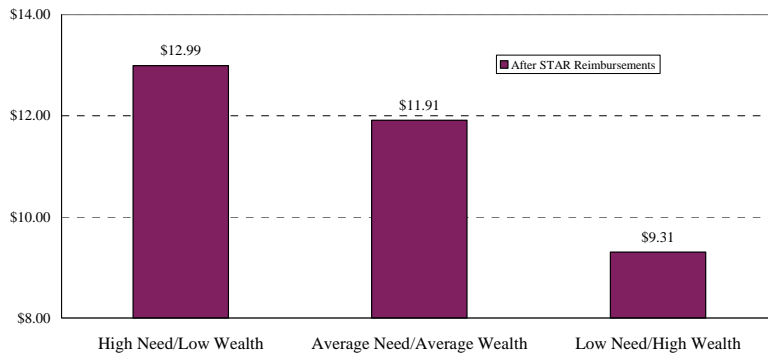
Averaging income levels, property values and tax burdens across entire counties or all of Long Island understates the degree of burden faced by low and middle income households and overstates the burden faced by high income households. Likewise any proposed public policy solutions based upon this type of average data are unlikely to be sufficiently targeted to adequately address the problem—they are likely to spend too much on those high income homeowners who are not actually facing a property tax burden and not enough on those low and middle income homeowners who are being "taxed out of their homes."

Tax Rates Are Highest in the Poorest School Districts and Lowest in the Wealthiest School Districts

The following chart breaks out the average tax rate for school districts based upon whether they are High-Need, Average-Need or Low-Need. The average tax rate per \$1000 of full value on Long Island for High-Need districts is \$15.84 (\$12.99 after STAR reimbursements are factored in) while the average tax rate for Low-Need (wealthy) districts it is \$10.53 (\$9.31 after STAR). High-Need districts struggle to fund their educational programs despite these high tax rates because they have so little property wealth per-pupil. Income per-pupil is also greater in Low-Need districts: average income per-pupil in High-Need districts is \$78,102 vs. \$210,640 per-pupil in Low-Need districts.

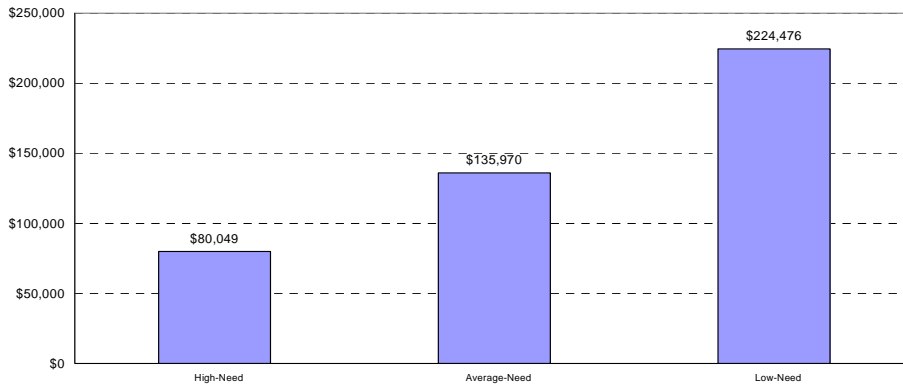
Clearly these three sets of graphs demonstrate that residents in High-Need and Average-Need school districts are much more likely to face a property tax burden than residents of wealthier school districts. While the average tax rates based upon the relative income and wealth of districts show that generally tax rates are highest in High-Need districts and lowest in Low-Need districts, not all districts reflect this trend. Public policy solutions should account for the general trend while also allowing for the fact that not all districts within a need category follow this trend.

Full Value Tax Rates for Long Island Residential Property Tax Payers: 2005-06



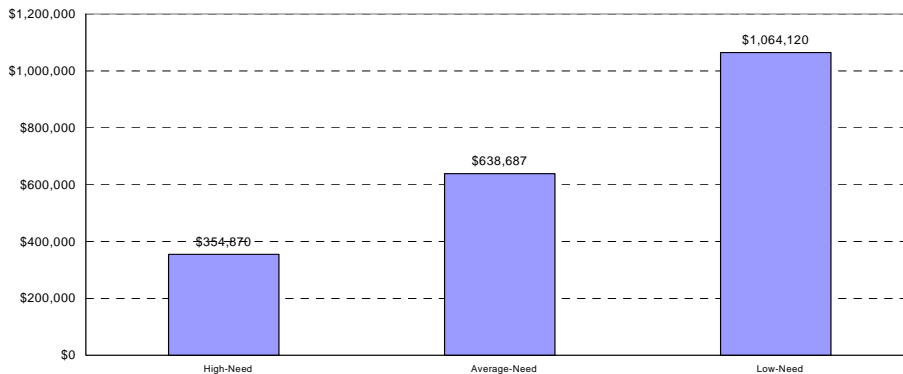
Note: Full Value Tax Rate calculated by taking school district tax levy divided by full value using ORPS equalization rates to estimate full value. STAR payments by town part and school district for 2005-2006 from ORPS. For Nassau County districts levy, full value and STAR payments for property class one were used for this analysis for all districts except Glen Cove for which data for homestead parcels were used. For Suffolk County districts with homestead/nonhomestead rates, the analysis is based on levy, full value and STAR reimbursements for homestead properties. Analysis for all other Suffolk County districts based on all properties.

2005 Income per Student: Long Island



Source: SED, 2005 Adjusted Gross Income per Pupil, used in 2008-09 School Aid Formula.

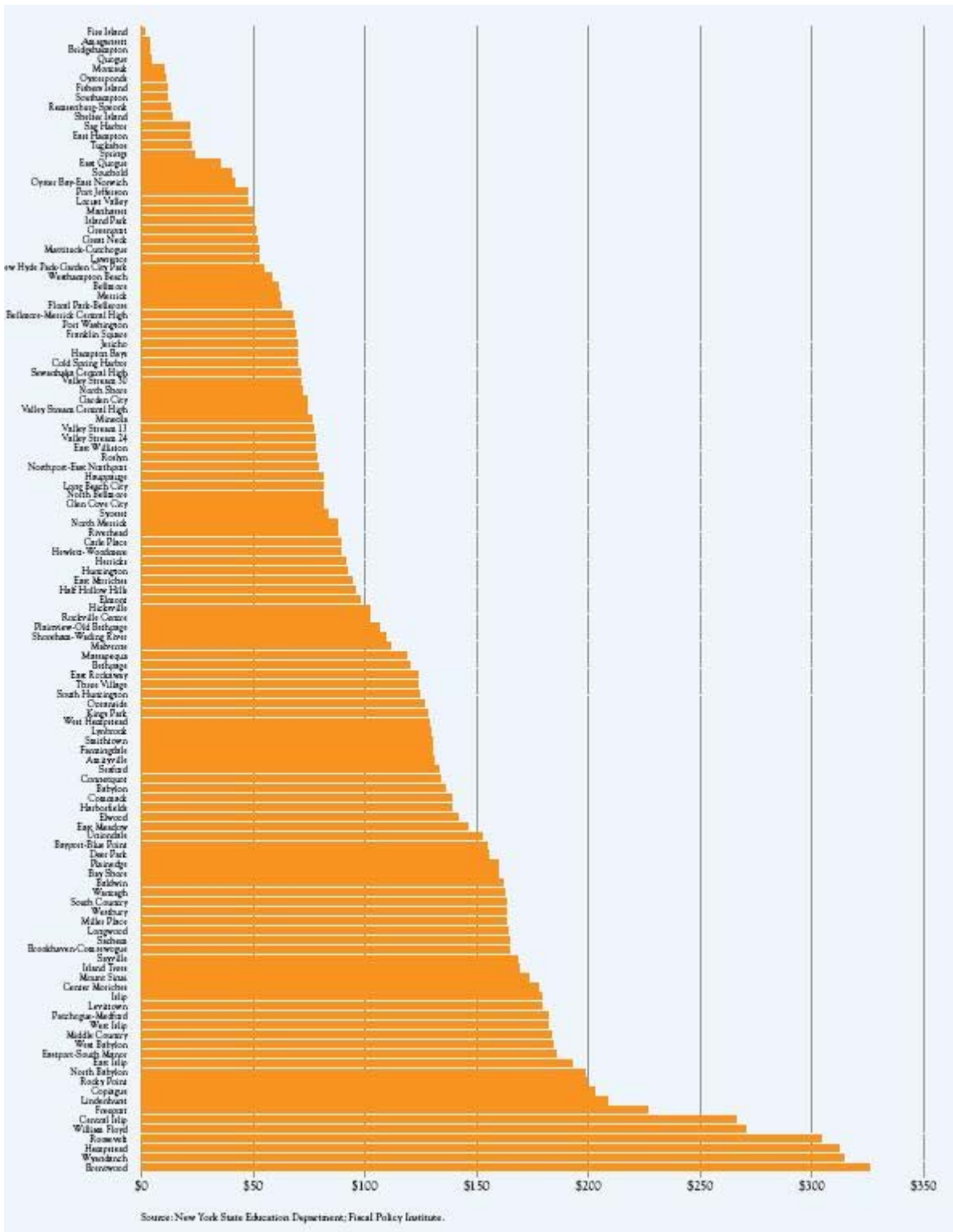
2005 Property Wealth per Student: Long Island



Source: SED, 2005 Adjusted Gross Income per Pupil, used in 2008-09 School Aid Formula.

The effort required to raise revenues for education varies tremendously across Long Island.

Tax on a \$450,000 home if district raises expenditures by \$250/student



Note: See Appendix B for complete list of districts and taxes.

SHARE OF PROPERTY TAXES PAID BY FULL-YEAR HOMEOWNER RESIDENTS VARIES BY DISTRICT

The share of property taxes paid by full-year homeowner residents varies greatly by district because some districts have many vacation homes, other districts have relatively low rates of owner occupancy and yet other districts have lots of commercial property.

High Concentrations of Commercial Properties Lowers Residential Tax Burden in Some Communities

Overall, 73 percent of the school tax levy in Long Island is paid by residential taxpayers before accounting for STAR payments. If we subtract total STAR payments from the total residential tax levy, the portion paid by residential tax payers is lowered to 62 percent. There is great diversity across the school districts on Long Island regarding the portion of school district total tax levies paid by residential taxpayers (as opposed to industrial, commercial, agricultural). School districts with higher concentrations of industrial, commercial and agricultural properties are less dependent on residential taxpayers.

- In Uniondale School District, only 29 percent of the total school district tax levy is paid by residential taxpayers accounting for the fact that they have a lower residential tax rate than other High-Need districts.
- At the other extreme, in ten school districts (Roosevelt, Mount Sinai, North Bellmore, New Suffolk, Cold Spring Harbor, Miller Place, Herricks, North Merrick, Locust Valle and Springs) residential taxpayers paid more than 90% of the levy in 2005-06.

High Concentration of Vacation Homes Lowers Property Tax Burden on Local Residents in Some Communities

Estimates of the residential share of total tax levies are sometimes misleading because vacation homes are classified as "residential" properties, even though they are secondary residences. One indication of the importance of secondary homes in the residential tax base of each district is a comparison of total residential parcels in each district to the number of STAR exemptions for that district. A residential parcel is not eligible for a STAR exemption if (1) it is a secondary home or (2) it is not owner occupied. Vacation homes ease the burden on residential taxpayers as non-resident owners of these houses pick up part of the property tax burden. Since Long Island vacation homes are generally relatively high value they provide a strong property tax base on a per property basis.

Higher Levels of Rental Properties Equate to Less STAR Subsidies in Some Communities

Owner occupancy rates also vary considerably across Long Island school districts, from 34.5% in Hempstead to more than 95% in Massapequa and Mount Sinai school districts. Districts with high concentrations of renters are triply disadvantaged: 1) they qualify for significantly less STAR payments (even though a significant portion of property tax hikes are passed on in the form of rent increases); 2) they generally have higher concentrations of low and middle income households with less disposable income available; 3) property values are not as high as in Low-Need, wealthier school districts.

In some districts, less than one out of five residential parcels are primary residences.			
District	Number of Residential Parcels	Number of STAR Exemptions	Number of STAR Exemptions as a Percent of Total Residential Parcels
Fire Island	3,872	110	3%
Fishers Island	515	43	8%
Sagaponack	580	85	15%
Amagansett	1,047	256	24%
Wainscott	858	119	14%
Quogue	1,534	246	16%
<i>Source: Office of Real Property Services</i>			

On Long Island, 33 districts have owner occupancy rates less than 75%

	Percent of Residences Owner Occupied		Percent of Residences Owner Occupied
Hempstead	34.5%	Oyster Bay-East Norwich	70.8%
Fishers Island	46.2%	Rockville Centre	71.7%
Long Beach	57.2%	Island Park	71.8%
Glen Cove	58.5%	Patchogue-Medford	71.8%
Wyandanch	59.5%	Copiague	72.1%
Freeport	63.3%	West Babylon	72.1%
Montauk	65.5%	Longwood	72.2%
Amityville	66.2%	Valley Stream 24	72.5%
Greenport	67.1%	Lawrence	72.6%
Bay Shore	67.3%	Central Islip	73.3%
Port Washington	67.4%	Tuckahoe Common	73.5%
Mineola	67.8%	Lynbrook	73.6%
Westbury	68.7%	Carle Place	73.7%
Hampton Bays	69.9%	Huntington	73.8%
Babylon	70.5%	Riverhead	74.4%
East Rockaway	70.6%	South Country	74.9%
Westhampton Beach	70.7%		

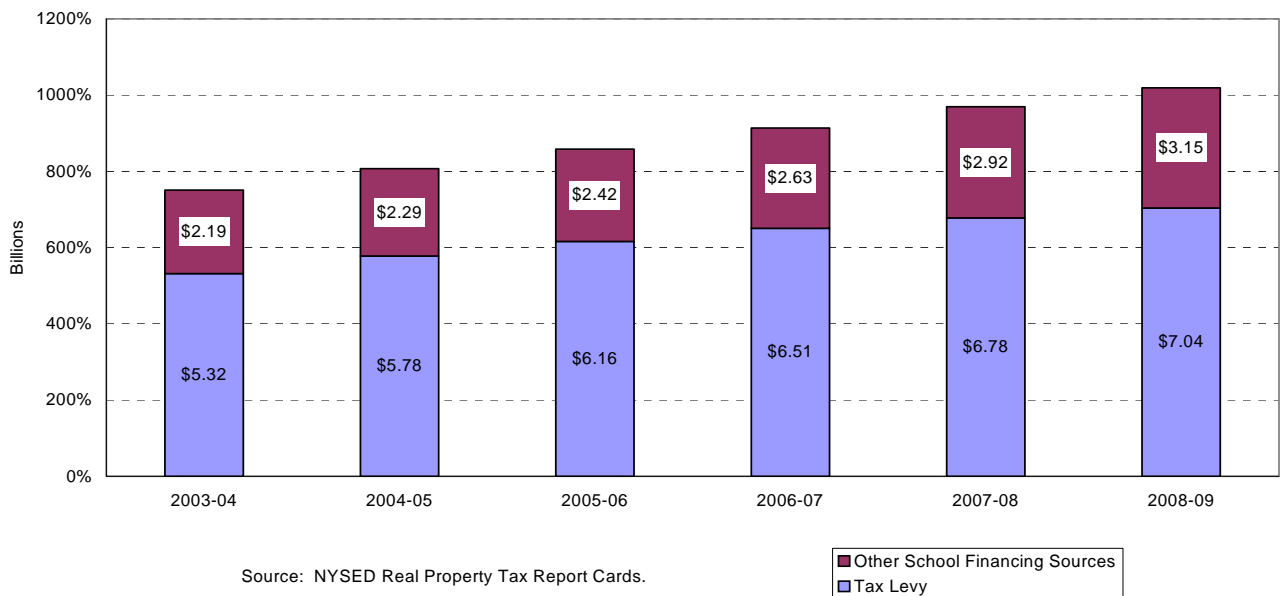
Source: United State Census Bureau - 2000 Census Data by School District from the National Center for Education Statistics

RELATIONSHIP BETWEEN STATE AID AND LOCAL TAX LEVIES

Data from the Real Property Tax Report Cards (summary expenditure, levy and enrollment data required prior to the school district budget votes) can be used to analyze more recent trends in school finance on Long Island and to assess the impact that the historic increases in school aid included in the 2007-08 and 2008-09 New York State budgets had on property tax levy growth.⁵ The following charts provide summary data for the five school years 2003-04 to 2008-09.

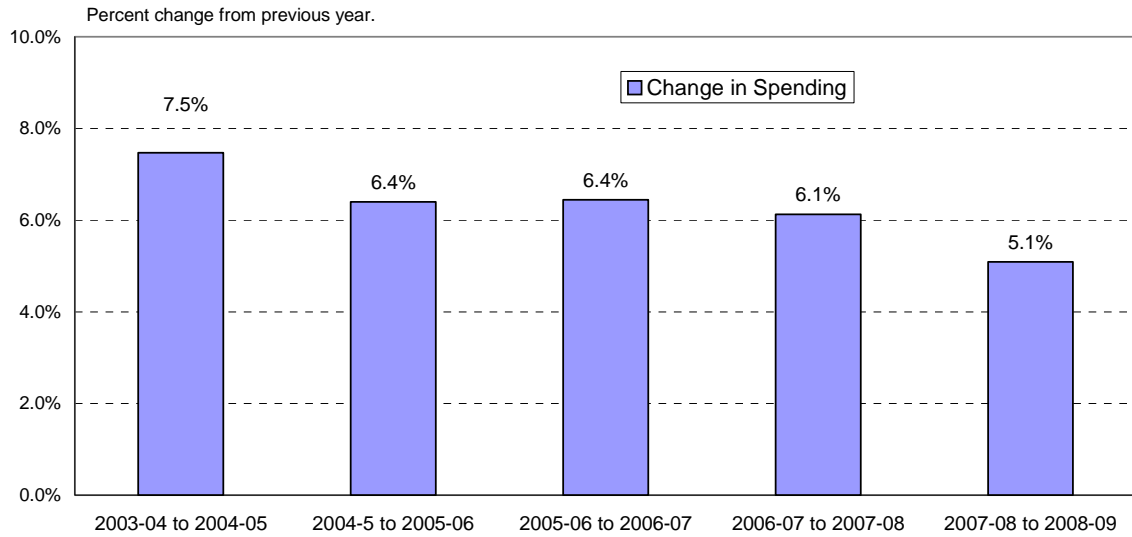
- School spending and tax levies have grown in each of these years. Note that the tax levy estimates provided on the Real Property Tax Report Cards includes the portion of the tax levy that is paid by the State through the STAR program.
- The rate of growth in spending has fallen over the past four years from 7.5 percent between 2003-04 and 2004-05 to 5 percent between 2007-08 to 2008-09
- Tax levy has increased from \$6.32 billion in 2003-04 to \$7.04 billion in 2008-09 but the rate of growth in the tax levy has fallen from 8.6 percent to 3.9 percent.

School spending and tax levies have continued to grow for Long Island school districts but the share of total expenditures covered by the tax levy has fallen slightly.



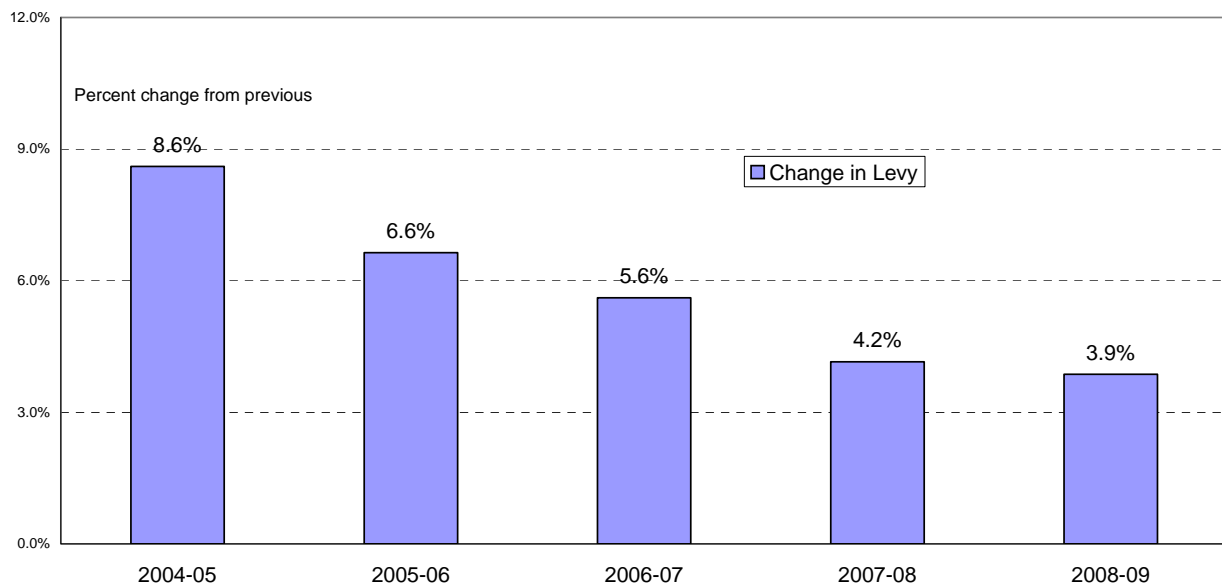
⁵ The Real Property Tax report cards provide two years of data for each district. This analysis is based on the most recent data submitted for each school year (e.g. the 2004-05 spending reported on the 2005-06 report card).

**But the rate of growth of spending has slowed down
for Long Island school districts .**



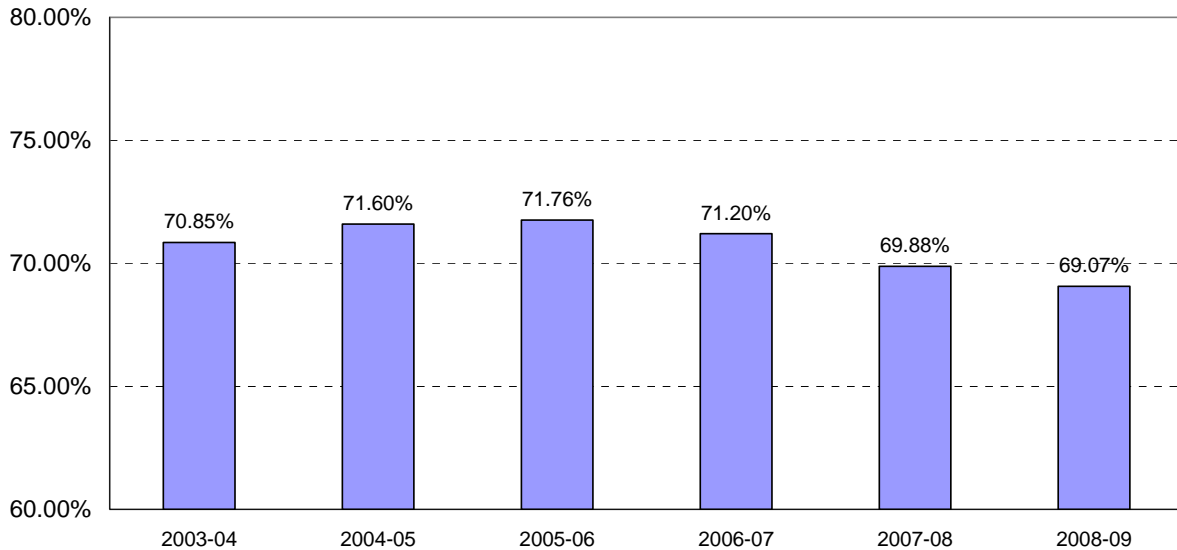
Source: NYSED Real Property Tax Report Cards.

**And the rate of growth of tax levies has been almost cut by more
than half.**



Source: NYSED Real Property Tax Report Cards.

Tax levy as a share of total spending has decreased slightly.



Source: NYSED Real Property Tax Report Cards.

New York Foundation Aid Formula is Strongly Equalizing – Giving More State Aid to Districts with Higher Needs and Fewer Resources

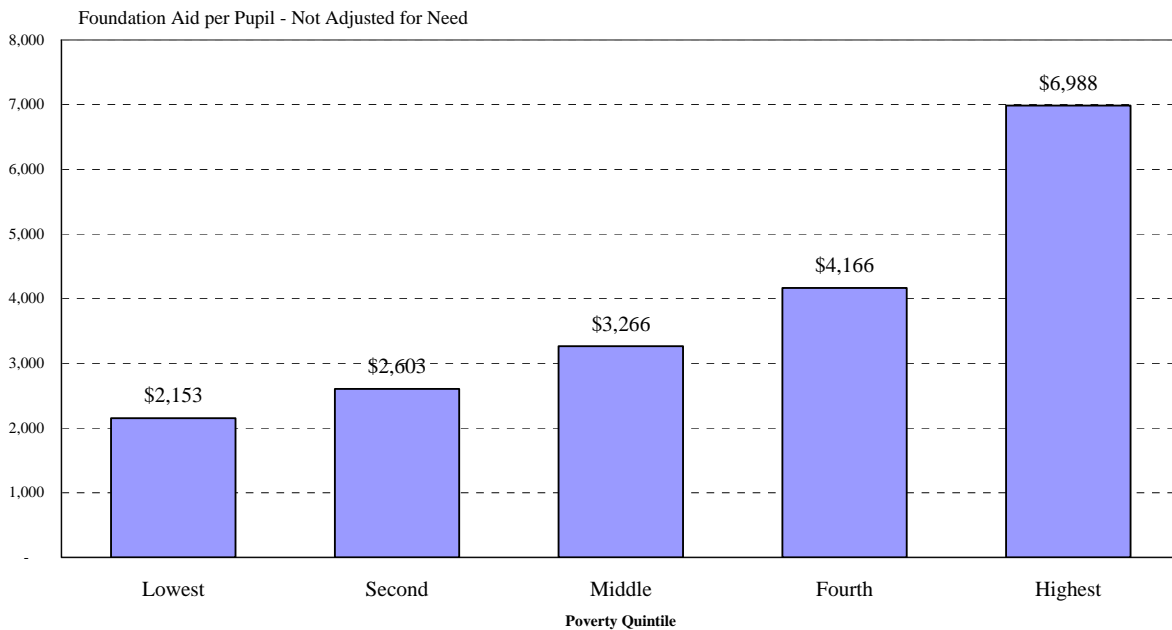
In 2007-08 New York enacted a new Foundation Formula that combined more than 30 different aid programs into a single "foundation grant." The per-pupil amount for the foundation formula is based on a NYSED study of per-pupil spending in schools meeting the Regents learning criteria. The per-pupil amount is adjusted to reflect student need using the Pupil Need Index which takes into account poverty (as measured by the 2000 Census), three-year average free and reduced price lunch rates and percent of students who are English language learners. The per-pupil amount is also adjusted to reflect differences in the cost of living across regions using the SED Regional Cost Index.

The per-pupil amount is multiplied by the district's pupil count which is based on average enrollment rather than attendance. This pupil account is also weighted to account for the higher costs of education special education students.

Each district's resources are reflected in the division of responsibility for this basic "foundation amount" between state and local revenues. Here the formula is a bit more complex but it is based on income per student and property wealth per student. Two calculations are made. The first calculation multiplies property wealth per-pupil by an expected tax rate (which varies directly by each district's income wealth index --average income per-pupil for the district divided by the statewide average income per-pupil) and subtracts this amount from the foundation amount to set the per-pupil state aid amount. The second calculation establishes a sharing ratio using the

district's Combined Wealth Ratio. A district's state aid is the higher of the two amounts. In addition, districts are guaranteed no less than a 3 percent per year increase in foundation aid. No district is allowed more than a 15 percent year-to-year increase. The full foundation aid amount is determined for the 2010-11 school year with the difference between the "base year" amount (2006-07) and the fully implemented 2010-11 amount phased in each year for four years.

Foundation Aid is distributed based on need and ability to raise revenues locally. Highest poverty Long Island school districts receive three times as much per student in foundation aid as the lowest

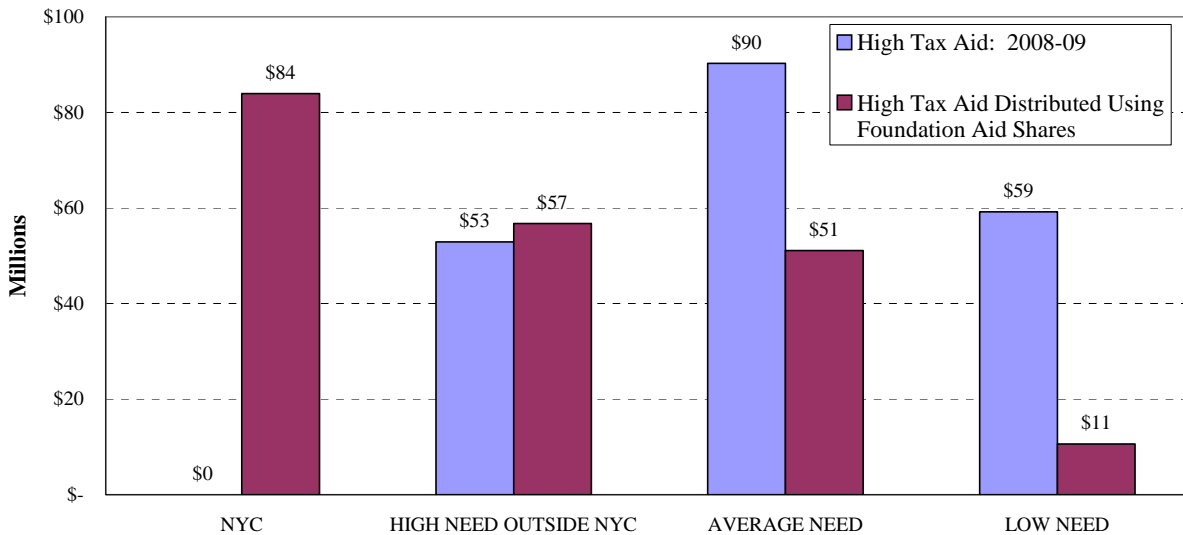


Other State Aid Formulas Not as “Equalizing” as Foundation Aid

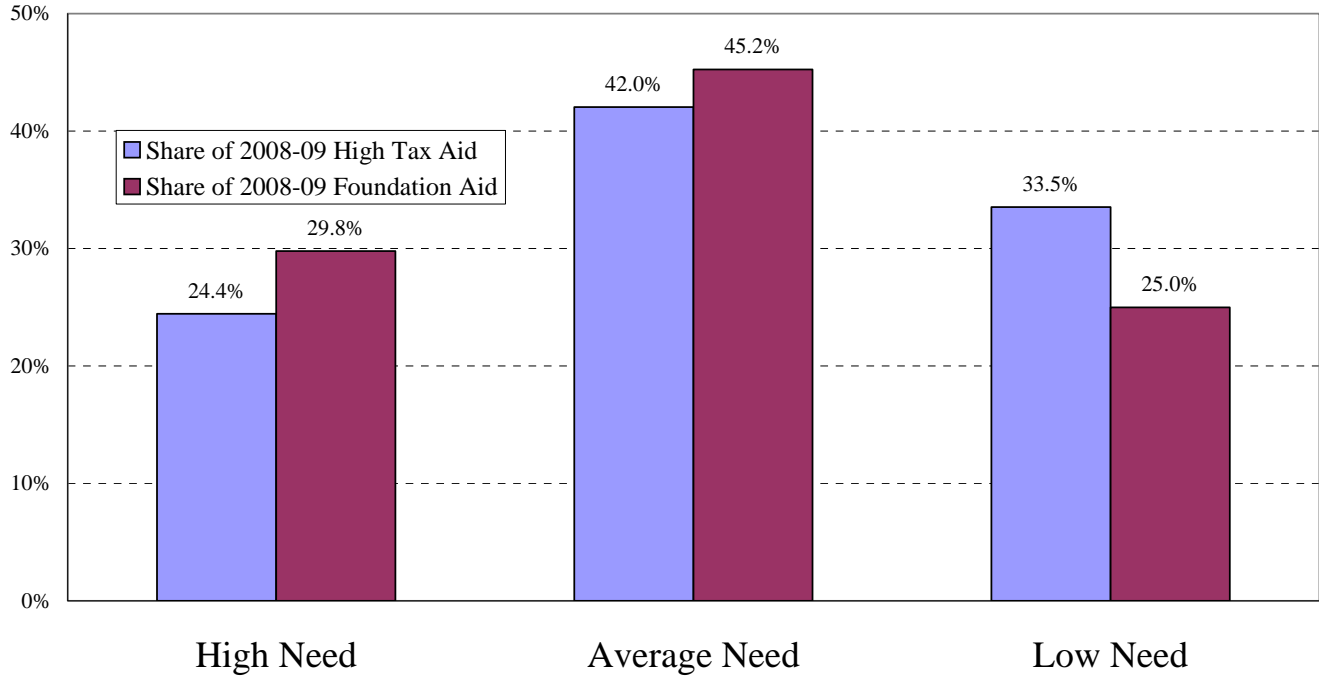
Unfortunately, not all state aid is distributed using the foundation formula. Some state aid continues to be expenditure driven, e.g. a percentage of actual expenditures are paid for by the states. This method is used for transportation assistance and building aid. Other aid programs use their own formulas to distribute aid. One of these programs is "High Tax Aid" which is distributed based on high per-pupil expenditures and particularly aimed at districts in Long Island and other downstate suburban counties. In addition, close to \$6 billion dollars per year is distributed to school districts through the STAR program. (The inequities in the distribution of STAR aid are discussed in the next section of this analysis.) As a result, total aid to schools has much less of an equalizing effect than foundation aid.

High tax aid is distributed through a complex formula that involves four different "tiers" of eligibility. Last year the state distributed a little over \$200 million statewide and \$139 million on Long Island through this program. Despite the use of "high tax" in the name, whether or not a district receives any aid from this program is tied more closely to the district's location and the level of operating expenditures than the level of taxes. For Tier One, 519 districts had residential tax levies that exceeded 3.2 percent of income, but more than half (296) were not eligible for Tier One of the program because their average operating expenses per-pupil were not greater than the state average. Tier Two of the program is targeted towards districts with tax levies greater than 5 percent of income but of the 119 districts that met this requirement, 40 did not have expenditures greater than the state average. Tier Three of the program did not require districts to spend greater than the state average but it was reserved for downstate districts. Tier Four of the program provided aid to 60 districts that failed to meet the criteria for the other three tiers that had received high tax aid in the past. Nineteen of these "hold harmless" districts were Long Island districts.

If High Tax Aid were distributed using a formula similar to the Foundation Aid formula, high need districts, especially New York City, would receive a greater share.
Most Long Island districts would receive less aid.

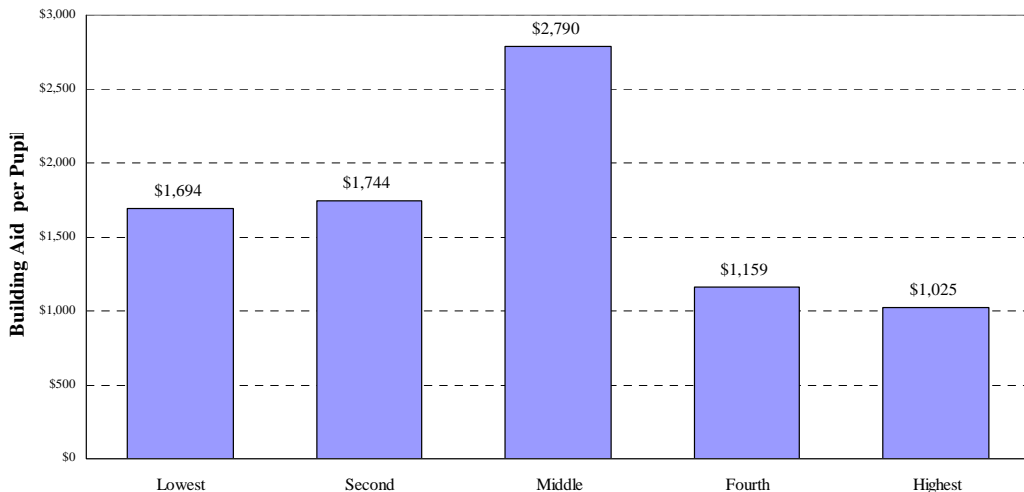


On Long Island, high need districts get a smaller share of high tax aid than their share of foundation aid.



Building Aid

Between 1998 and 2003, lower poverty districts received more building aid per pupil than higher poverty districts in Nassau County.

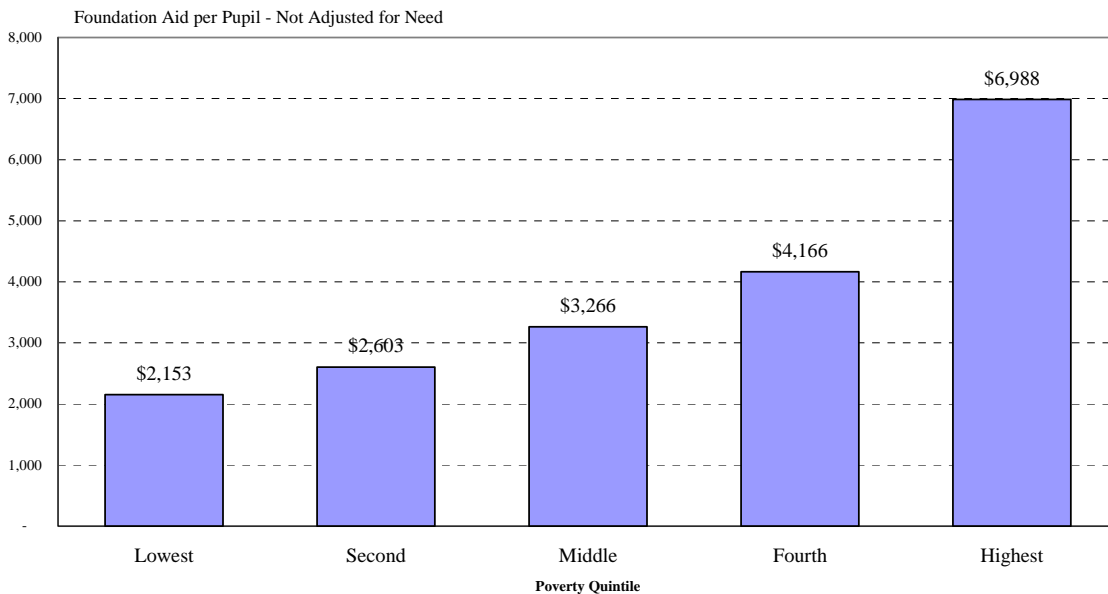


Building aid is another aid stream that tends to lessen the equalizing impact of the foundation formula. Building aid is "equalizing" because districts with fewer resources (generally as measured by the CWR) receive state reimbursements for building projects that constitute a higher share of total costs. However, very poor districts and districts with high tax burdens have been reluctant to engage in building programs, even if the state would cover a majority of the costs. Under the Pataki administration the state enhanced its building aid ratios to provide an even larger share of the costs but as the following chart illustrates, High-Need/low resource districts were less likely to take full advantage of those building incentives.

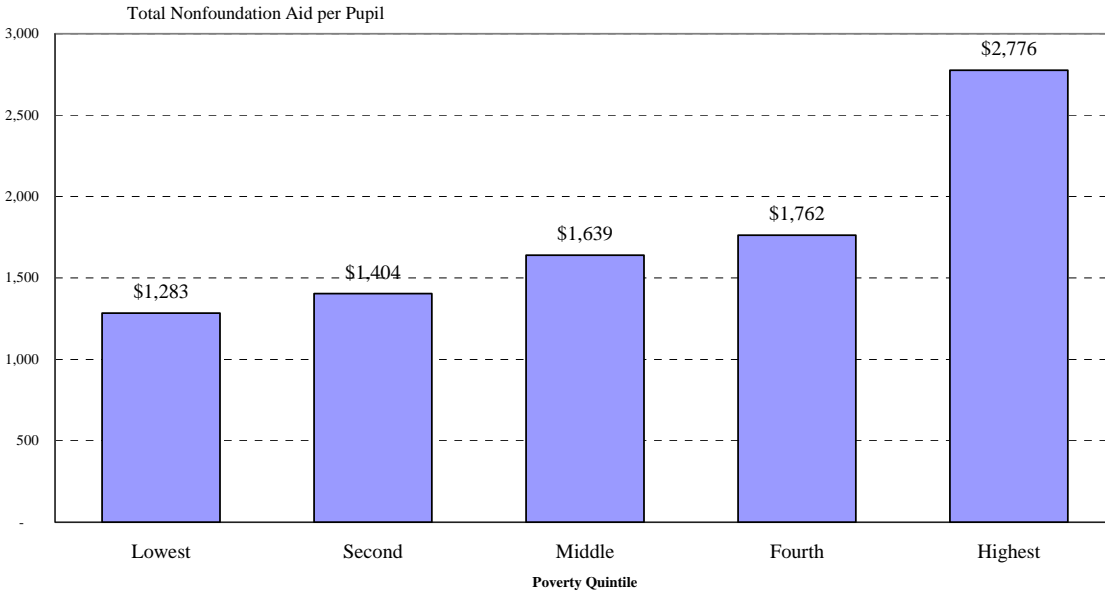
If all these "other" aid programs were distributed using a formula similar to the Foundation Aid formula, Long Island as a whole would receive much less aid than it currently receives. Long Island receives 11.8 percent of foundation aid but 13.11 percent of all other state aid and 22 percent of STAR payments. Even Long Island High-Need districts would receive less aid if all aid were distributed according to the statewide shares of foundation aid.

If we hold the amount of aid going to Long Island constant but redistribute the aid according each district's share of Long Island's foundation aid, we can see how other aid programs are much less equalizing than foundation aid. The following charts summarize the per-pupil (not adjusted for need) amounts of foundation aid, STAR, non-foundation aid and total aid including star for districts in each poverty quintile contrasting the actual distribution with the distribution had the aid been distributed using a formula similar to the foundation aid formula.

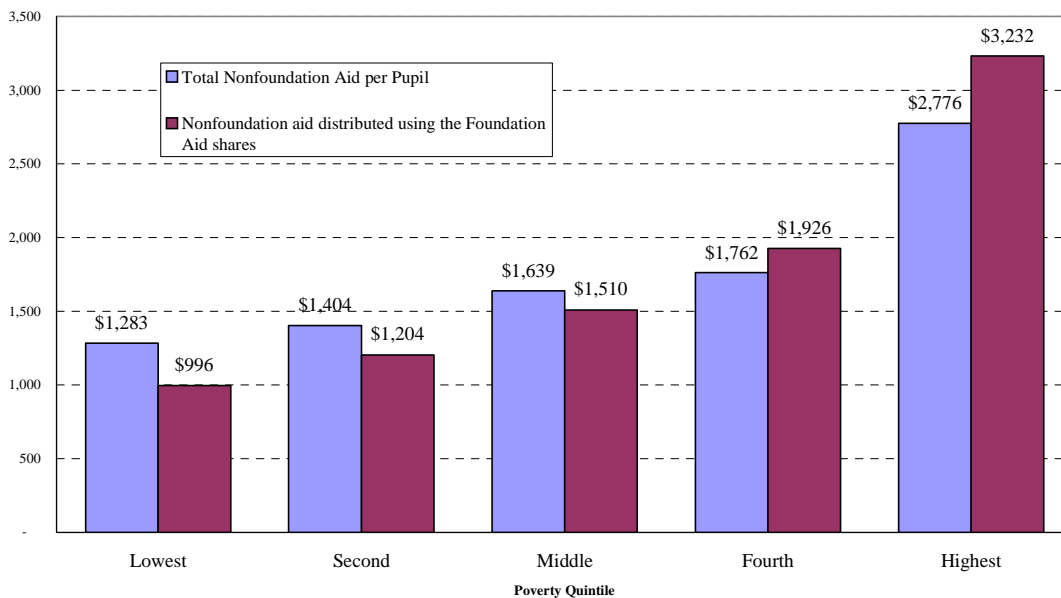
Foundation Aid is distributed based on need and ability to raise revenues locally. Highest poverty Long Island school districts receive three times as much per student in foundation aid as the lowest



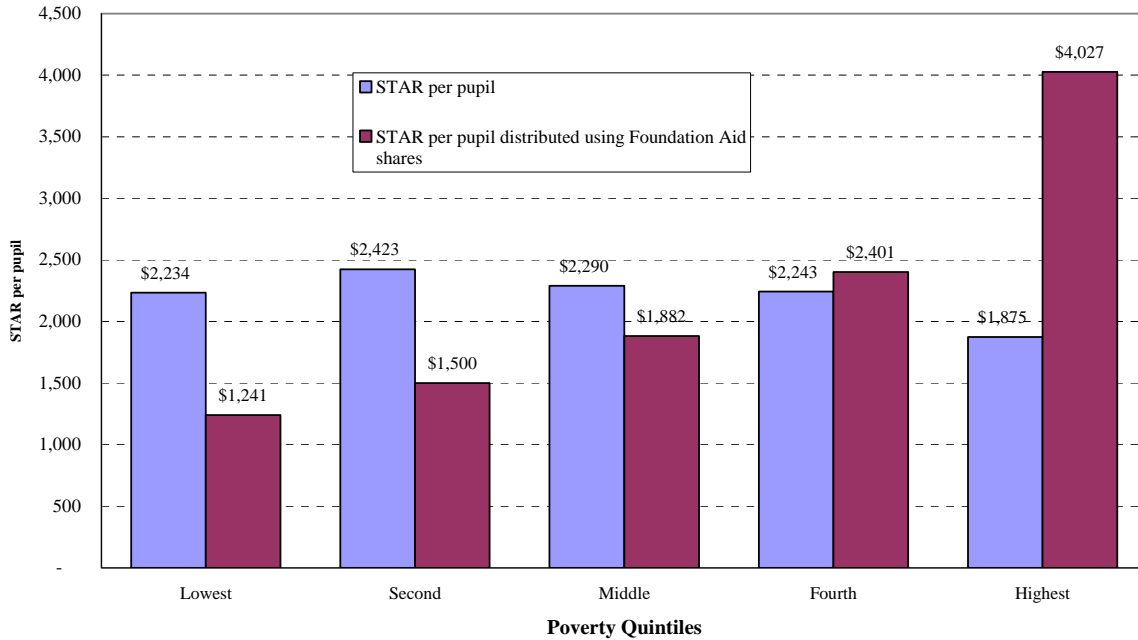
Other state aid programs provide more aid to higher poverty districts but aid per pupil in high poverty districts and aid per pupil in low poverty districts is not as stark.



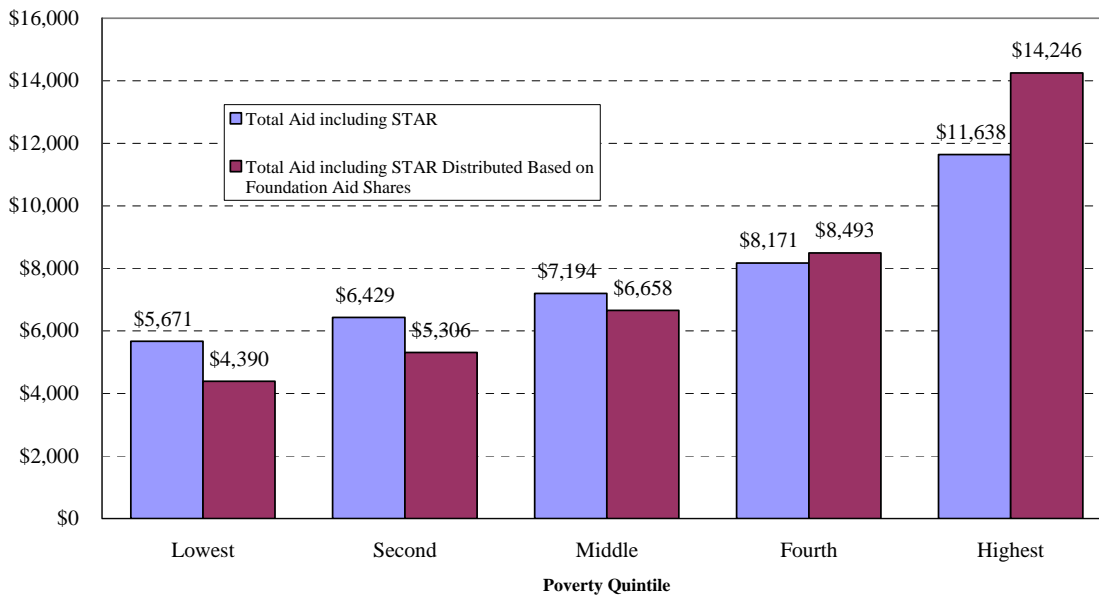
If all aid were distributed based on the foundation aid formula, more aid would flow to higher poverty districts.



On the other hand, high poverty districts receive the lowest per pupil STAR payments.



If total state aid (including STAR) had been distributed the same as each district's share of foundation aid, Long Island high poverty districts would have received 20 percent more aid per



PROPERTY TAX REFORM PROPOSALS: A FISCAL POLICY INSTITUTE ANALYSIS OF ADVANTAGES, DISADVANTAGES AND WHO BENEFITS

Over the last several decades, New York State has adopted a growing number of approaches to property tax relief — from the local option senior citizen exemption to the STAR program. And numerous additional proposals are now under active consideration by the New York State legislature. Property taxes are unpopular for a number of reasons:

- They are not related to income. A family or a business suffering a decline in income continues to pay the same level of property taxes.
- Unlike sales taxes and income taxes, property taxes are often paid directly in a lump sum.
- Since property taxes are based on "assessments" of property value, many taxpayers distrust the equity of the assessments and therefore consider property taxes unfair.
- Property taxes are the only tax on which there is a direct voter referendum through the votes on school budgets and budgets for other special taxing districts (fire departments, libraries, etc.). As such, these taxes bear the brunt of general taxpayer reaction to all forms of taxation. Among special taxing district budget votes, school budgets receive by far the greatest publicity and participation.

A) Current STAR Program is Misdirected

STAR Has Been the Primary Method of Distributing Property Tax Relief Across the State but STAR Benefits Are Distributed in a Manner that is Inconsistent with the Actual Property Tax Burdens Faced by Homeowners

In the mid-1990s, the burden being placed on local property taxes began to generate increased resentment by voters. Governor Pataki responded in January 1997 by proposing the School Tax Relief (STAR) program. Phased in over a four year period beginning with the 1998-99 school year, the STAR program is now delivering over \$3.3 billion per year to the state's school districts to write down the property taxes on owner-occupied, primary residences.

- Basic STAR pays the school taxes on the first \$30,000 of property value for most non-elderly homeowners across the state. The \$30,000 amount is adjusted upward in New York City and eight other counties, including Nassau and Suffolk, by the relationship of the county's median home sale price to the state median sale price.
 - The adjustment factor was 2.3032 for Nassau County so STAR paid the taxes on the first \$69,096 of home value—more than doubles the exemption in most areas of the state.
 - For Suffolk County the factor was 1.8812, making the basic exemption amount \$56,436—almost double the basic exemption in most areas of the state.⁶

⁶ The 2007 sales price differential factor for Nassau County has not yet been announced. The 2007 sales price differential factor for Suffolk County is 1.9237.

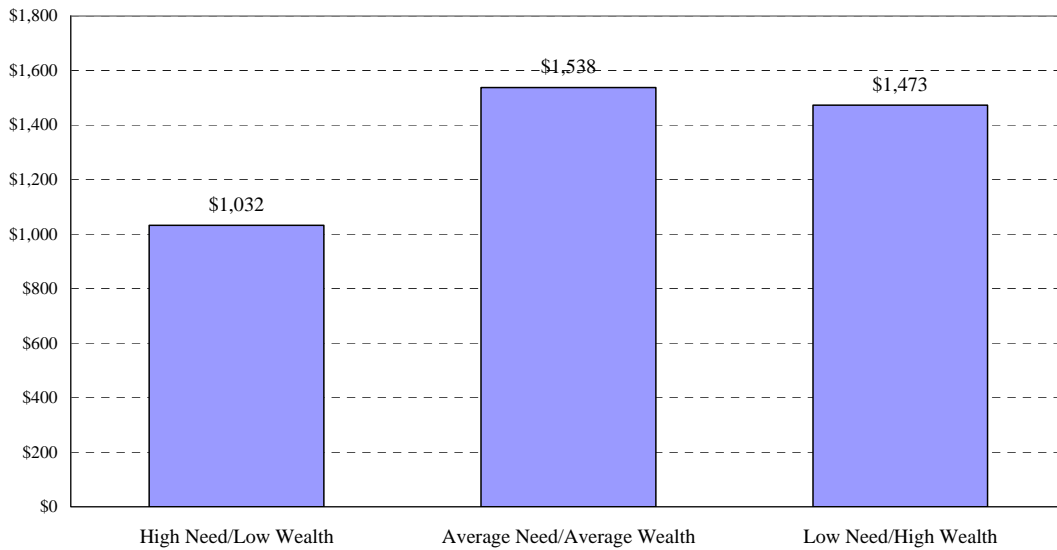
- Enhanced STAR provides larger exemptions for elderly homeowners with incomes below a certain income threshold; this income threshold is indexed for inflation and for 2007 is \$70,500. For most counties the enhanced exemption amount is \$56,800. As with the standard exemption, the enhanced exemption is adjusted upward in New York City and eight other counties.
 - For Nassau County the enhanced exemption is \$131,000—meaning that while most areas of the state the first \$56,800 of a homes value is exempted from school property taxes, in Nassau the first \$131,000 is exempted.
 - For Suffolk County the enhanced exemption is \$107,000

Some of the major flaws of the STAR Program include:

- STAR is more costly than it needs to be, given the limited amount of relief that it is delivering to those who are truly overburdened by property taxes. This is because it gives a little bit of relief to all homeowners—whether or not their property taxes are high relative to their needs.
- Since STAR provides relief to homeowners based on county averages, the amount of relief that particular homeowners receive is not related to their property tax bills, or their incomes, or, ideally, the relationship of their property tax bills to their income. As a result STAR violates both of the basic principles of tax fairness.
 - It violates the principle of “horizontal equity” because it does not give the same amount of relief to two taxpayers with the exact same incomes and the exact same property tax bills if they happen to live in different parts of the state.
 - STAR also violates the principle of “vertical equity” because two homeowners in the same school district, one with a much higher property tax bill relative to his or her income than the other, both receive the same dollar benefit.
- The STAR program distributes aid to school districts in a way that undercuts the equalizing nature of the school aid system. Under STAR, state aid is provided to school districts not on the basis of enrollment and student need but on the basis of the number of owner-occupied primary residences in the school district, the median home value in the county or counties in which the school district is located, and the school district’s property tax rate. As a result STAR provides more benefit to wealthier communities and communities with low rates of rental occupancy without regard to whether or not local property taxpayers are heavily burdened. An evaluation of STAR benefits across the state prior to 2007 shows that the per-pupil benefits have been largest in wealthy districts and smallest in poorer districts. The statewide per-pupil benefit in wealthy districts has been \$1,525, in Average-Need districts \$1,346 and in High-Need districts it has ranged between \$1,023. In New York City and the other "big four" (Yonkers, Syracuse, Buffalo and Rochester) STAR benefits per-pupil were a mere \$743. The patterns are similar across Long Island districts.
- The STAR program is also flawed in that it provides relief only to homeowners. This ignores the fact that tenants also pay property taxes. While homeowners pay property taxes directly, tenants, through their rental payments, carry a substantial portion (usually estimated as being more than one-half) of the property taxes paid by the owners of their buildings. But under STAR, neither tenants nor landlords receive any relief. Only the owners of owner-occupied primary residences are helped by STAR. The result is that school districts with

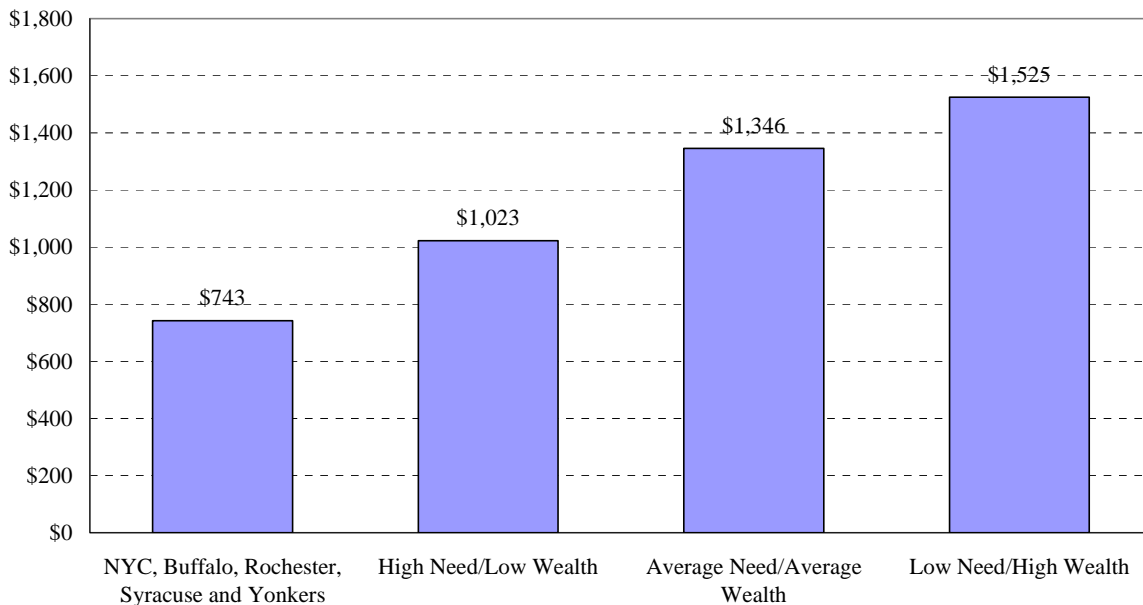
high percentages of renters such as Hempstead, Glen Cove, Long Beach and Wyandanch receive much less STAR aid per-pupil compared to wealthy districts with low rates of rental occupancy.

**STAR per Pupil by Need/Resource Category:
Long Island 2004-05**



Source: New York State Education Department Fiscal Profiles

**STAR per Pupil by Need/Resource Category:
New York State 2004-05**



Source: New York State Education Department Fiscal Profiles

STAR Supplement/Rebate program

In 2006 and again in 2007 and 2008, New York State supplemented the STAR program with a STAR rebate program.

- In 2006 homeowners received a rebate check equal to 30 percent of the value of their STAR exemption.
- In 2007 and 2008, homeowners will receive a rebate check, the value of which will vary by income. The program provides benefits to taxpayers on a sliding scale based on income, with benefits declining as income exceeds \$90,000 for upstate homeowners and \$120,000 for homeowners in the higher-cost New York City metropolitan region including Long Island. Taxpayers earning more than \$250,000 are not eligible to receive a check.
- Senior citizens who are 65-years or older and are already receiving an enhanced STAR exemption (worth significantly more than the basic STAR exemption provided to non-seniors) will receive a rebate check in addition to their enhanced STAR exemption if their income is below \$70, 650. Enhanced STAR recipients will receive their check automatically without filing an application.
- In either case, the rebate check is in addition to any tax relief homeowners receive as a reduction of their school tax bills under basic or enhanced STAR.

The "Middle Class" Star rebate is a step in the right direction but it does not go far enough.

- STAR rebates vary by income, so that a millionaire would get less than a middle-income family but it does not vary the benefit based on the relationship between a family's income and its property tax bill. Two families living in the same school district would get the same benefit if they both made \$50,000—even if one has a property tax bill of \$3,000 a year and the other a bill of \$6,000 a year.
- In addition, the 2007 "Middle Class" STAR rebate does not address the problem of two families with the exact same income and the exact same property tax bill getting substantially different benefits if they happen to live in different part of the state.
- Because STAR supplements also provide benefits only for owner-occupied dwellings, it continues to disadvantage those communities with large numbers of renters such as Hempstead, Glen Cove, Long Beach and Wyandanch.

B) Income Tax Property Tax Swaps

One general approach to providing property tax relief is to replace reliance on property taxes with income tax financing. These proposals build on widespread dislike for property taxes, sometimes described as the "most hated tax." There are a number of variations of this approach, each with its own set of strengths and weaknesses.

(1) Using local income taxes instead of property taxes to pay for schools. Some proposals call for using local income taxes rather than property taxes to pay for schools. Under these proposals local school districts would tax the incomes of residents in their districts using the New York State personal income tax system --- either adding a "surcharge" or a flat amount to each taxpayer's liability. This is

already done to some extent in Yonkers and New York City but would require state approval to be expanded to other jurisdictions. Major problems with this approach include:

- Difficult to administer and enforce, particularly where school district boundaries are difficult to discern and often not known by the taxpayers.
- Revenues would be subject to considerable volatility driven by business cycle changes that can have significant impacts on income levels; by contrast property tax revenues are more stable and predictable.
- If not all districts opt for local income taxes, taxpayers with multiple properties would be able to avoid tax liability by changing the location of their primary residence from a district with the income tax to a district without the tax.
- Budgeting for school districts would be difficult because it would be impossible to set the tax levy -- only possibility would be to set the surcharge rate or the per capita rate and forecast the expected revenues. Under the current system the district school boards and voters set the total tax levy based upon the budgetary needs of the district. An income tax system would be based upon setting a tax rate and projecting total revenues based upon projected income levels within the school district. As such a district might find that actual tax collections vary significantly from projections. While in some cases this might create budget surpluses, in others it might create deficits that could require mid-year layoffs and cutbacks in educational programs.
- Would not be equalizing --- higher income districts would be able to pay for schools with a much lower surcharge than that required for lower income districts. If all districts had the same tax rate, some would not have enough funds to reach adequacy while others would have the ability to build up reserves.
- Eliminates school taxes on primary residences but does not eliminate property taxes because property taxes are used to fund other local government functions.

(2) Establishing county level income taxes. A slight variation of this proposal would use county level income taxes rather than school district level income taxes to fund schools. This approach would eliminate some of the administrative problems in determining the school district of each taxpayer but would share many of the problems of the district level income tax. In addition, a county level income tax would require each county to develop a "formula" for distributing these revenues fairly among the school districts in its borders. Major problems would be:

- Revenues would be subject to considerable volatility driven by business cycle income volatility, by contrast revenues from property taxes are stable and predictable
- Taxpayers with residences in more than one county would be able to avoid tax liability by changing the location of their primary residence from a county with an income tax to a county without an income tax

- Budgeting for school districts would be difficult because it would be impossible to set the tax levy -- only possibility would be to set the surcharge rate or the per capita rate and forecast the expected revenues
- Would require counties to develop a school funding formula to fairly distribute these revenues among school districts. This process would be difficult and fraught with political considerations that may mirror the types of political decision-making around school aid that epitomized New York State's school funding formulas prior to the 2007 reform legislation
- Administrative complications for districts whose boundaries cross county lines
- Would leave in place inequities between higher income and lower income counties
- Eliminates school taxes but does not eliminate property taxes because property taxes are used to fund other local government functions

(3) A complete state takeover of school costs. The most reasonable "state takeover" proposals would replace local residential property taxes with state level personal income tax revenues. Less "reasonable" proposals call for the state takeover of school cost without specifying what revenues would be used to finance the takeover.

- **Optional vs. statewide:** One version of the state takeover proposal would allow each district to opt in or out of the state financing. An alternative to this would be to have the state takeover responsibility for all school districts in the state.
- **How much of the budget will the state takeover:** One important variable in the state takeover plans, whether or not they are optional, is how much of school budgets the state would takeover.
 - A complete state takeover would be extremely costly—in excess of \$9 billion annually
 - If the state takes over the current level of spending for all school districts, New York's inequitable spending patterns will be preserved and it will be very difficult to narrow the gaps between high spending and low spending districts.
 - A total state takeover of all revenues for all districts would implicitly eliminate local school district control of budgets and finances. New York taxpayers outside New York City and the big four cities have been able to vote on their school budgets. Wealthy districts have been able to choose to have a wide variety of programs. In some cases these include equestrian programs, Olympic size swimming programs and highly advanced high school curriculums that include courses in Latin and advanced Italian. Other districts facing tighter budget constraints have never implemented these "extra" programs. Under a total state takeover, all taxpayers in the state would become responsible for paying the bill for these programs in a few districts while other districts would be deprived of the ability to vote to have local funding to replicate such programs.
 - A total state takeover would eliminate cost control mechanisms that result from the annual process of putting the school budget up for a vote.

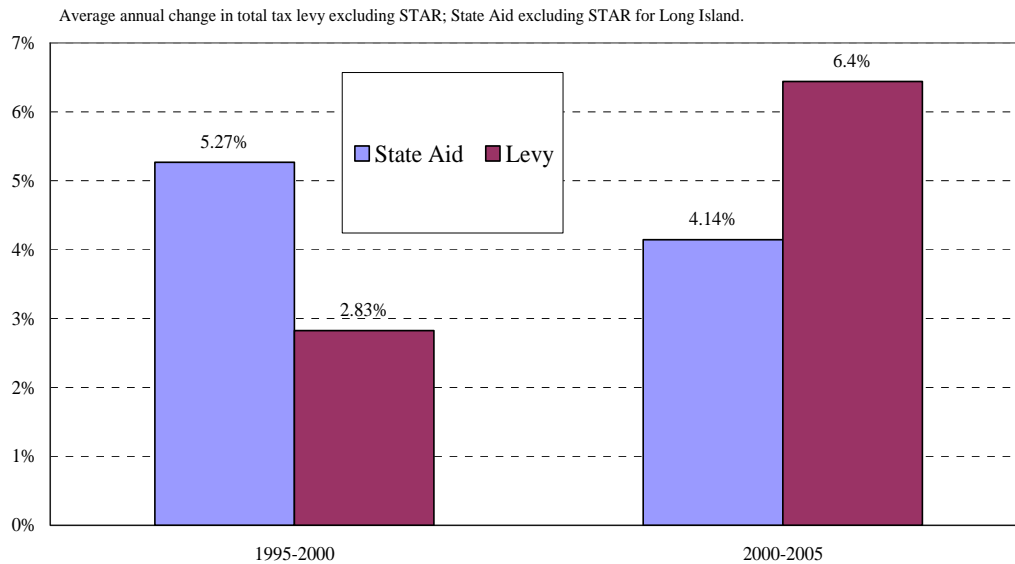
- Another version of the state takeover model would have the state take over the responsibility for revenues sufficient in each district to achieve "adequacy" (or perhaps some fraction of adequacy) as measured by some objective outside source. This would be more equitable than a state takeover of all current expenditures but would weaken the ability of the school finance system to adjust for differences in wealth and income across districts. The state would be paying 100 percent of adequacy costs in all districts rather than varying its share of responsibility with local ability to pay. Local control of school districts could be maintained by allowing local districts to levy a smaller property tax to cover expenses above and beyond the adequacy level. A major challenge with this approach would be the difficulty in fairly determining the adequacy level for each district.

(C) Increasing state aid for needy districts in order to reduce property tax rates. A different version of this approach is to increase state aid for needy districts sufficiently to enable them to reduce property tax levies. In response to the Campaign for Fiscal Equity lawsuit, New York increased state aid to all school districts by historic amounts in the 2007-2008 state budget. Most of these new funds are targeted to expand spending in schools that are not meeting New York's performance standards but some of the funds are targeted to reduce property tax burdens. This approach does not eliminate the property tax but reduces pressure to increase the property tax. Much of the recent pressure on property taxes can be related directly to the inadequacy state aid budgets.

- On Long Island, the overall tax levy grew by only 4.7% between 2006-07 and 2007-08 as a result of the large new investments the state made in school aid.
- As the new Foundation Aid program is fully implemented over the next three years, it should reduce pressure on property taxes. However, the accountability provisions contained in the Contract for Excellence require many low performing districts to target new funding to raising student achievement. Additional aid would be required to allow these districts to lower their property tax burden while also raising student achievement.

The effectiveness of this approach is demonstrated by the graph on the next page. This graph shows the correlation between higher increases in state school aid and smaller property tax hikes. The graph shows that increasing state school aid significantly is proven to be effective at lowering property tax hikes. In order to target this aid at the property tax problem it must be directed primarily to High-Need and Average-Need districts. However, for low performing school districts it is important that a significant portion of these aid increases go to improving student performance. The Contract for Excellence provides an effective method to address educational needs.

On Long Island, as in Other Parts of the State Growth in the Overall Tax Levy is Inversely Related to Changes in State Aid for Public Schools



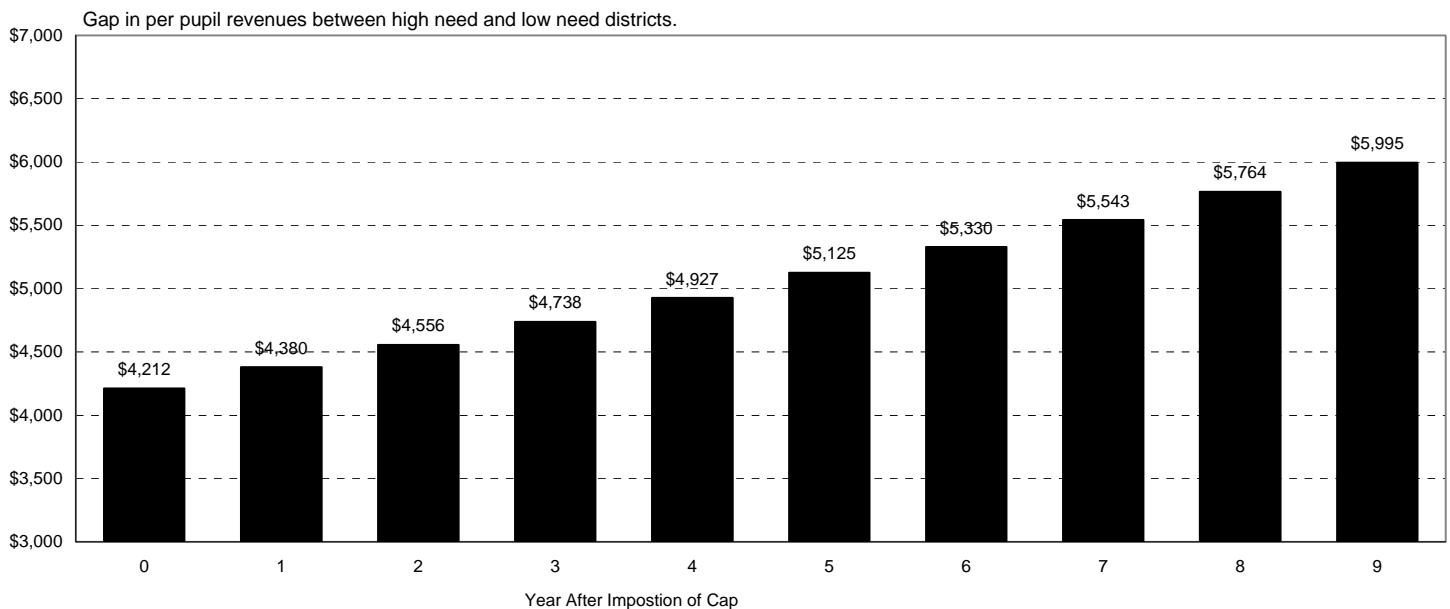
Sources: State Aid and STAR payments from SED Fiscal Profiles, 1994-95; 1999-2000; 2004-05. Tax levy from appendix of OSC Report, Property Taxes in New York, 2006.

(D) Establishing caps on school budgets. A school spending cap would be fundamentally inconsistent with a statewide solution to the Court of Appeals decision in the CFE case. Even under the proposal advanced by Governor Pataki in the proceeding before the Special Masters in the CFE case and in the subsequent appeals, 177 of the 639 districts analyzed needed to increase spending for purposes of providing a Sound Basic Education over and above the levels needed to meet ordinary annual changes in the cost of educational inputs. Modifying this model to make the corrections recommended by the Referees in the CFE case, 477 districts would require additional spending over and above inflationary increases.

A percentage-based spending cap of this type would institutionalize and exacerbate the inequities inherent in the current system, as shown on the following chart. Moreover, caps set at 4 percent or at the level of the Consumer Price Index are inconsistent with the costs increases school districts currently face. The Consumer Price Index is designed to measure changes in the cost of a market basket of goods and services bought by “typical” families in the United States. It does not measure the changes in the cost of the basket of goods and services purchased by educational institutions. School districts have been forced to increase spending at a rate much higher than the rate of change in the Consumer Price Index just to stay even because so much of their spending is on health insurance premiums and pensions, two items that have increased in cost in recent years at a rate much faster than the rate of increase for other items.

The idea of a cap on school budgets can have appeal as it seems to provide one simple step to address rising property taxes. The 2007 *Long Island Index* found that 55% of Long Islanders polled support “placing a cap on how much school districts can raise from local property taxes each year.” Responses to other questions in the same survey would indicate that Long Islanders would not necessarily favor such a cap if it meant deterioration in the quality of education. When asked about “cutting current teachers’ salaries, pension plans and other benefits in order to reduce school property taxes” 65% of Long Islanders were opposed. Even among seniors, who often feel the greatest tax burden and usually no longer have school-aged children, 59% opposed such a plan. Similarly 61% of Long Islanders opposed such cuts for new teachers as well as existing teachers. Rectifying the idea of a cap with Long Islanders’ strong commitment to quality education would seem near impossible as any cap would result in lowered revenues for public education over time.

Low need districts on Long Island already spend \$4,000 more per student than high need districts. A spending cap on school budgets would make the gap between need and low need districts even worse.



Source: \$4,212 gap based on NYSED Fiscal Profiles 2004-05 adjusted for regional cost differences and poverty.

FISCAL POLICY INSTITUTE RECOMMENDATIONS

The attention that is currently being given to property tax issues in New York State is in large part the result of the efforts of organizations and individuals who, for a variety of reasons, have argued for years that the property tax should be replaced completely; or that it should be replaced as the basis for school funding; or that New York State should substantially reduce its reliance on the property tax for economic policy reasons or for tax fairness reasons. While differing in their emphasis and advocacy style, all of these people and organizations shared an interest in a classic type of "tax reform." Whether consciously or unconsciously or subconsciously they were all saying in one way or another that, as far as they were concerned, the property tax is not sufficiently related to various homeowners' relative "ability to pay."

Despite the "tax reform" roots of the current property tax debate, tax "reform" options are receiving virtually no attention as elected officials, the media, advocates and the general public considers a variety of approaches to tax relief. This is not really surprising given the fact that between 30% and 40% of homeowners in the state have property tax bills that represent unacceptably large percentages of their income. But it is disappointing to many of us who want to make the New York's overall tax system more equitable by reducing the state's reliance on local property and sales taxes and increasing its reliance on taxes based on ability to pay, primarily the individual and corporate income taxes. Thus, our interest in legislation that combines meaningful property tax relief in the short run with a long run plan for reforming the state-local tax system.

In addition to providing for the assumption by the state, over a reasonable period of time, of a targeted \$10 billion in local government responsibilities, the long run plan for reforming the state-local tax system should also provide for the creation of a tax reform study commission, with members to be appointed by the Governor and all four parties in the Legislature, and the establishment of a statutory requirement for both a periodic study of the incidence of the overall state-local tax system and analyses of the distributional impact of proposed tax legislation.⁷

Property Tax Relief - An Immediate Need

During the last two years, local real property tax reform groups have been successful in making the wonky idea of a middle class circuit breaker a front burner issue in New York State government and politics. Large portions of the public understand what a circuit breaker is and there is broad public support for the idea of a middle class circuit breaker as a way to deal with situations in which homeowners are significantly overburdened by their property taxes. But a dilemma regarding the "funding" of such a circuit breaker may end up stopping its enactment for the time being.

⁷ Three states - Maine, Minnesota, and Texas - have enacted laws of this type. These three states and two others (Colorado and Oregon) have completed periodic studies of the incidence (i.e., the distributional impact) of their tax systems.

The main circuit breaker bill pending in the Legislature, referred to as the Galef/Little bill after its main sponsors, would create a relatively generous middle class circuit breaker. It endeavors to limit the cost of this property tax relief by establishing a 5-year residency requirement (which reduces the estimated annual cost of the proposal from about \$2.5 billion to about \$1.65 billion) and by excluding renters from participation (which eliminates an estimated \$1.3 billion in costs). It then proposes to cover the \$1.65 billion cost of the circuit breaker by eliminating the STAR rebate check program established in 2006 and substantially restructured in 2007. This switch or swap would eliminate a program that provides relatively small checks to all homeowners and establish a circuit breaker credit that will provide significant relief to those homeowners who are truly overburdened by their property taxes. While most of us in this room would probably support this swap, there is opposition in some important quarters in the Legislature to the idea of taking this "benefit" away from many homeowners. Some legislators would be willing to cover the cost of the circuit breaker by a high end income tax increase but this alternative may also fail to attract the level of support necessary for enactment.

While there are some changes that we would like to see in the substance of the circuit breaker proposal, and while the state's current budget outlook creates a large number of competing demands for the revenue that could be produced by a high end income tax increase, the enactment during the upcoming special session of the Legislature of a significant middle class circuit breaker financed in either of those two ways, would be an extremely important and significant victory for hard pressed homeowners. If a middle class circuit breaker is not enacted in the upcoming session because of concerns with the two possible funding mechanisms now being discussed, consideration should be given to the possibility of phasing in this relief mechanism through one or more of the following or similar means: increasing the income limit in several annual or biennial steps rather than beginning with the \$250,000 income limit included in the current legislation; decreasing the percent of income threshold in several annual or biennial steps (i.e., starting at eight or nine percent of income and then reducing that percent to the six, seven and eight percent limits contained in the current legislation); establishing a maximum credit amount and then increasing that maximum amount in several annual or biennial steps.

In terms of the substantive recommendations, two seem relatively easy to resolve (either positively or negatively) while two others will take time and/or money. (1) Given a particularly compelling issue of the times, household income for purposes of the circuit breaker should not include, for some reasonable number of years, disability compensation received by veterans on account of an injury or illness incurred or aggravated during military service in the post-9/11 wars in Afghanistan and Iraq; (2) The criteria for determining a homeowner's eligibility for circuit breaker relief and for determining the amount of such relief should not vary with the homeowner's place of residence; (3) The tax reform study commission should use the results of the first study of the incidence of New York's state-local tax system to review the distributional impact of the items of income included in the definition of household income for purposes of the circuit breaker and make recommendations to the Governor and the Legislature for any changes in this definition that the commission deems appropriate; (4) The middle class circuit breaker should include renters particularly if it is to be funded by an increase in the income tax or in some other

tax of general applicability.

Tax Reform - A Continuing Priority

The core idea of the tax reform part of the omnibus bill will be to increase the progressivity of the state income tax and to use the revenues produced for a reduction in local property taxes by shifting additional costs from the local to the state levels.

In thinking about ways of substantially reducing the reliance on the property tax, two approaches provide useful starting points. First, Assemblyman Kevin Cahill and Senator Kenneth LaValle have introduced similar bills that would have the state government assume all of the costs of what those bills refer to as a "basic quality education," with the details to be fleshed out by the Commissioner of Education under guidelines to be established by the State Legislature. These two bills each provide (different) mechanisms for funding, at local option, of educational services above the basic quality education level. Second, the State Senate has, on several occasions, passed versions of legislation (referred to as NY-STOP or Stop taxing Our Property) that provides for the state government to take over responsibility for funding the portions of school budgets (for purposes other than debt service) that are currently funded by property taxes on owner-occupied primary residences.

The foundation formula reform plan that was enacted into law in 2007 represents an important breakthrough in the way that the state government shares in the costs of a sound basic education. By establishing a method for calculating, for each school district in the state, a foundation funding level (i.e., a funding level akin to that referred to as a basic quality education in the Cahill and LaValle bills), this 2007 law provides a basis for estimating the cost of these bills. The foundation funding formula established in 2007 also provides a basis for making sure that the approach embodied in the Senate's STOP bills would, if enacted, treat all school districts in the state on a fair and equitable basis. Since some school districts spend well above the foundation level in order to provide their students with a very high quality education, while others are still funding their schools at levels below the foundation level, taking over whatever school districts are currently spending would institutionalize those inequities while providing state aid to school districts on a very inconsistent basis.

The foundation funding level for the 2010-11 school year for all of New York State's school districts, under the foundation formula law as enacted in 2007 and as modified earlier this year, is an estimated \$36.1 Billion. Based on the statutory formulas by which responsibility for funding this foundation amount is divided between the state and the local school districts, it is anticipated that in 2010-11 that the state will provide an estimated \$18.5 billion is foundation aid to those local districts. All of this assumes that the state government will honor the multi-year school funding commitments that it made in 2007 to settle the Campaign for Fiscal Equity and we certainly hope that this turns out to be the case. But we must acknowledge that there is at least some uncertainty given Governor Paterson's economic and budget forecasts.

If the state were to assume responsibility for funding 100% of the foundation amount as suggested by the Cahill and LaValle bills (and if such a commitment was fully phased-in in 2010-11, which it will not be), it would mean that the state would be responsible for an additional \$17.66 billion of local school costs. So rather than making this assumption, we suggest that once the initial 4-year phase-in of the new foundation formula is completed in 2010-11 and the State Education Commissioner has completed an updating of the basic "per-pupil foundation amount" that the state government, in addition to paying its current share of the foundation amount, that the state also gradually increase its share of the foundation amount. We suggest that the omnibus bill include a commitment to accomplish \$6 billion of such shifting of responsibility from the local property tax base to the state tax base over the course of the decade beginning in 2011 and ending in 2020.

Earlier, we indicated that the omnibus bill should provide for the assumption by the state, over a reasonable period of time, of \$10 billion in local government responsibilities. So where is the other \$4 billion? At its meetings and in its report, the Suozzi Commission has constantly repeated that school property taxes account for 62% of all local property taxes in New York State. This is true only if we count the STAR reimbursements provided to school districts as taxes paid by property owners. Statewide, if we treat STAR as what it is (i.e., state aid), we then see that the school taxes that property owners pay makes up 56% of local property taxes statewide - - but that figure varies tremendously. It's 37% in Allegheny County, 37% in Fulton, 39% in Cortland and Cattaraugus counties but it's 71% in Saratoga and Putnam counties. Why the bigger differences? Because some counties have much greater concentrations of needy individuals relative to their tax bases than do other more prosperous counties. And that ends up making the local share of costs such as Medicaid a much greater lien on some counties' tax bases than on others. Similarly, some counties have one or more older cities and/or villages with responsibilities for urban services.

One important lesson is that we should not make public policy based on averages. So, in addition to recommending that we shift \$6 billion of school costs from the local school property tax base to the state tax base, we suggest that we do something similar in regard to revenue sharing with the state's cities, towns and villages, and in regard to the division of responsibility for the non-federal share of Medicaid costs.

For general purpose local governments, cities, towns and villages, the primary pressure that the state has placed on local governments is a negative. It's because of not sticking to its revenue sharing commitment. The underlying law, which gets "notwithstanding" every year, is that the state is supposed to share 8% of revenue with local governments. In the 1980s, when Governor Carey was Governor, we had our first freeze on revenue sharing in order to allow one of the state's earliest multi-year income tax cuts to be phased in as scheduled despite the recession that the nation was then experiencing. In the budget problems of the early 1990s, no major state program was cut more than revenue sharing — from over \$1 billion a year to less than \$500 million a year. FPI's recommendation in this regard is that over the course of the 2011 to 2020 decade that the state phase in a \$3 billion increase in revenue sharing with its cities, towns and villages,

In regard to Medicaid, the state should honor its commitment to picking up increases in the local share in excess of 3% per year. But in addition to this, we recommend that the omnibus bill include language that will gradually increase the state share of Medicaid costs in a way that bases each county's share of Medicaid costs on objective measures of each county's relative "ability to pay" and, in the course of doing so, shifts an additional \$1 billion in costs from the local property tax base to the state tax base.

Between now and 2010, the state may very well need to enact a temporary income tax surcharge to get through the recession - similar to the temporary personal income tax increase that was enacted in 2003 for three years. If it does take such a step, it should continue that tax increase as a source of funding for the property tax reductions being recommended for implementation during the coming decade.

This approach is less costly than the Cahill and LaValle bills but it is more balanced geographically. Putting all \$10 billion into taking over the full cost of the foundation formula would have a much greater impact on the overall property tax burden in more prosperous counties and less of an impact in less prosperous upstate counties. But the omnibus bill will also establish a process by which the Governor and the Legislature are required to consider a much greater takeover of local costs as part of the annual revenue forecasting and budget making process.

APPENDIX A

Districts that do not receive state aid (fewer than 100 students)

New Suffolk Common School District
Sagaponack Common School District
Wainscott Common School District

Districts that are not K-12 or 1-12

K-8 Only Districts

Island Park Union Free School District
East Moriches Union Free School District
Springs Union Free School District
Montauk Union Free School District
Tuckahoe Commons Common School District

Central High School Districts and Associated Elementary School Districts

Valley Stream Central High School District
Valley Stream 13 Union Free School District
Valley Stream 24 Union Free School District
Valley Stream 30 Union Free School District

Sewanhaka Central High School District
Elmont Union Free School District
Franklin Square Union Free School District
Floral Park Union Free School District
New Hyde Park Union Free School District

Bellmore – Merrick Central High School District
North Bellmore Union Free School District
Bellmore Union Free School District
Merrick Union Free School District
North Merrick Union Free School District

K-6 Only Districts

Amagansett Union Free School District
Fire Island Union Free School District
Remsenburg Union Free School District
Quogue Union Free School District
East Quogue Union Free School District
Oysterponds Union Free School District

Appendix B

Tax increase on a \$450,000 home if district raises expenditures by \$250/student			
District Name	Number of Students	NYS Defined Need Level	Increased Tax
Fire Island Union Free School District	47	6	\$ 1.72
Amagansett Union Free School District	119	6	\$ 3.37
Bridgehampton Union Free School District	161	6	\$ 3.85
Quogue Union Free School District	128	6	\$ 3.99
Montauk Union Free School District	366	6	\$ 10.20
Oysterponds Union Free School District	107	6	\$ 10.75
Fishers Island Union Free School District	57	6	\$ 11.30
Southampton Union Free School District	1,730	6	\$ 11.87
Remsenburg-Speonk Union Free School District	178	6	\$ 13.30
Shelter Island Union Free School District	249	6	\$ 13.77
Sag Harbor Union Free School District	934	6	\$ 21.41
East Hampton Union Free School District	1,957	6	\$ 21.85
Tuckahoe Common School District	348	6	\$ 21.97
Springs Union Free School District	555	6	\$ 23.63
East Quogue Union Free School District	458	6	\$ 35.13
Southold Union Free School District	1,014	6	\$ 40.62
Oyster Bay-East Norwich Central School District	1,628	6	\$ 42.05
Port Jefferson Union Free School District	1,267	6	\$ 47.71
Locust Valley Central School District	2,284	6	\$ 47.81
Manhasset Union Free School District	2,819	6	\$ 49.45
Island Park Union Free School District	774	5	\$ 50.48
Greenport Union Free School District	679	5	\$ 51.26
Great Neck Union Free School District	6,189	6	\$ 51.43
Mattituck-Cutchogue Union Free School District	1,581	6	\$ 52.15
Lawrence Union Free School District	3,553	5	\$ 52.38

Tax increase on a \$450,000 home if district raises expenditures by \$250/student

District Name	Number of Students	NYS Defined Need Level	Increased Tax
New Hyde Park-Garden City Park Union Free School District	1,798	6	\$ 54.91
Westhampton Beach Union Free School District	1,711	6	\$ 57.90
Bellmore Union Free School District	1,263	6	\$ 61.03
Merrick Union Free School District	1,940	6	\$ 61.78
Floral Park-Bellerose Union Free School District	1,629	6	\$ 62.49
Bellmore-Merrick Central High School District	5,871	6	\$ 67.55
Port Washington Union Free School District	4,786	6	\$ 68.51
Franklin Square Union Free School District	1,927	6	\$ 69.32
Jericho Union Free School District	3,219	6	\$ 69.81
Hampton Bays Union Free School District	1,752	5	\$ 69.86
Cold Spring Harbor Central School District	2,132	6	\$ 70.09
Sewanhaka Central High School District	8,630	5	\$ 70.94
Valley Stream 30 Union Free School District	1,489	5	\$ 71.53
North Shore Central School District	2,755	6	\$ 71.73
Garden City Union Free School District	4,212	6	\$ 74.00
Valley Stream Central High School District	4,583	6	\$ 74.12
Mineola Union Free School District	2,865	6	\$ 76.57
Valley Stream 13 Union Free School District	2,143	5	\$ 77.28
Valley Stream 24 Union Free School District	1,090	6	\$ 77.77
East Williston Union Free School District	1,833	6	\$ 77.99
Roslyn Union Free School District	3,355	6	\$ 78.30
Northport-East Northport Union Free School District	6,475	6	\$ 79.28
Hauppauge Union Free School District	4,130	6	\$ 81.01
Long Beach City School District	4,399	5	\$ 81.08
North Bellmore Union Free School District	2,467	6	\$ 81.15
Glen Cove City School District	3,063	5	\$ 81.37

Tax increase on a \$450,000 home if district raises expenditures by \$250/student

District Name	Number of Students	NYS Defined Need Level	Increased Tax
Syosset Central School District	6,677	6	\$ 83.48
North Merrick Union Free School District	1,312	6	\$ 87.40
Riverhead Central School District	4,801	5	\$ 87.64
Carle Place Union Free School District	1,465	6	\$ 88.98
Hewlett-Woodmere Union Free School District	3,283	6	\$ 89.51
Herricks Union Free School District	4,077	6	\$ 91.18
Huntington Union Free School District	4,203	5	\$ 92.02
East Moriches Union Free School District	780	6	\$ 94.53
Half Hollow Hills Central School District	9,974	6	\$ 95.33
Elmont Union Free School District	4,234	5	\$ 98.13
Hicksville Union Free School District	5,309	6	\$ 101.87
Rockville Centre Union Free School District	3,622	6	\$ 101.95
Plainview-Old Bethpage Central School District	4,999	6	\$ 106.47
Shoreham-Wading River Central School District	2,702	6	\$ 109.44
Malverne Union Free School District	1,663	5	\$ 111.63
Massapequa Union Free School District	8,353	6	\$ 118.33
Bethpage Union Free School District	3,035	6	\$ 120.44
East Rockaway Union Free School District	1,266	5	\$ 123.34
Three Village Central School District	8,004	6	\$ 123.56
South Huntington Union Free School District	6,137	5	\$ 124.13
Oceanside Union Free School District	6,323	6	\$ 126.33
Kings Park Central School District	4,126	6	\$ 128.01
West Hempstead Union Free School District	2,372	5	\$ 128.58
Lynbrook Union Free School District	3,140	6	\$ 129.20
Smithtown Central School District	10,541	6	\$ 130.28
Farmingdale Union Free School District	6,410	5	\$ 130.32
Amityville Union Free School District	2,843	3	\$ 130.78

Tax increase on a \$450,000 home if district raises expenditures by \$250/student

District Name	Number of Students	NYS Defined Need Level	Increased Tax
Seaford Union Free School District	2,750	6	\$ 133.14
Connetquot Central School District	7,125	5	\$ 133.93
Babylon Union Free School District	1,975	6	\$ 135.88
Commack Union Free School District	7,561	6	\$ 138.63
Harborfields Central School District	3,662	6	\$ 138.96
Elwood Union Free School District	2,606	5	\$ 141.90
East Meadow Union Free School District	7,972	5	\$ 145.63
Uniondale Union Free School District	6,242	5	\$ 152.74
Bayport-Blue Point Union Free School District	2,537	6	\$ 154.54
Deer Park Union Free School District	4,483	5	\$ 155.30
Plainedge Union Free School District	3,589	6	\$ 159.57
Bay Shore Union Free School District	5,811	5	\$ 159.88
Baldwin Union Free School District	5,482	6	\$ 162.12
Wantagh Union Free School District	3,660	6	\$ 162.41
South Country Central School District	4,787	5	\$ 163.02
Westbury Union Free School District	4,013	3	\$ 163.20
Miller Place Union Free School District	3,104	5	\$ 163.56
Longwood Central School District	9,745	5	\$ 164.30
Sachem Central School District	15,528	5	\$ 164.56
Brookhaven-Comsewogue Union Free School District	3,946	5	\$ 164.95
Sayville Union Free School District	3,535	5	\$ 168.30
Island Trees Union Free School District	2,851	5	\$ 168.85
Mount Sinai Union Free School District	2,437	5	\$ 173.51
Center Moriches Union Free School District	1,386	5	\$ 177.42
Islip Union Free School District	3,647	5	\$ 178.80
Levittown Union Free School District	7,987	6	\$ 178.92
Patchogue-Medford Union Free School District	9,144	5	\$ 181.62

Tax increase on a \$450,000 home if district raises expenditures by \$250/student

District Name	Number of Students	NYS Defined Need Level	Increased Tax
West Islip Union Free School District	5,874	6	\$ 181.88
Middle Country Central School District	11,520	5	\$ 183.24
West Babylon Union Free School District	4,896	5	\$ 184.31
Eastport-South Manor Central School District	3,639	5	\$ 185.32
East Islip Union Free School District	5,472	5	\$ 192.40
North Babylon Union Free School District	5,161	5	\$ 198.58
Rocky Point Union Free School District	3,617	5	\$ 199.31
Copiapue Union Free School District	4,911	3	\$ 202.73
Lindenhurst Union Free School District	7,482	5	\$ 208.83
Freeport Union Free School District	6,951	3	\$ 226.83
Central Islip Union Free School District	6,453	3	\$ 266.12
William Floyd Union Free School District	10,191	3	\$ 270.27
Roosevelt Union Free School District	2,945	3	\$ 303.92
Hempstead Union Free School District	6,913	3	\$ 312.35
Wyandanch Union Free School District	2,254	3	\$ 314.39
Brentwood Union Free School District	17,158	3	\$ 325.67

NYS Defined Need Level

3 = High-Need Districts

6 = Low-Need Districts

These categories are based on a measure of a district's ability to meet the needs of its students with local resources. This measure is calculated by dividing a district's estimated poverty percentage by its Combined Wealth Ratio.