

Ostroff Associates

Notes from 5/29/2019 NYS Senate Hearing Senate to evaluate P-12 Public Education Funding (Hearing focus: Sources of revenue)

This is the first of a series of hearings that will be held by the Senate to evaluate P-12 Public Education Funding. The main purpose of this first hearing is to look at revenue sources for the funding and what options may exist. The hearing on 5/29 did not focus on the way that funding is being distributed; this will be the focus of later hearings.

Dan Thatcher – NCSL

- Provided data to compare New York with other states to see how New York compares.
- Stated that Marijuana revenue has been generally low to school districts, contrary to the common belief.
- Data was made available: bit.ly/ncsl4ny

Emily Parker – Education Commissions of the States

- Three general categories of revenue exist – Federal, State and Local
 - Federal revenue makes up 5.3% of the revenue in NY (national average around 8%)
 - State revenue makes up 40.8% of revenue in NY (national average is 47.1%)
 - Local revenue makes up 53.9% of revenue in NY (national average is 44.9%)
- Property tax is more stable than income or sales tax.
- New York property tax payments are generally higher than most neighboring states, but not all.
 - Per capita, the average person in NY pays \$2,585 in property taxes – this is a statewide average, including NYC.
 - This is less than NJ and Conn in comparison.
- Average personal income tax in NY is around 4.55%, which is lower than NJ by comparison (5.31%)
- Various State Funding Mechanisms and Limitations
 - California
 - Prop 13 – real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.
 - Michigan
 - Centralization of education financing over the years
 - Secondary tax (statewide property tax) on non-homestead properties
 - New Hampshire
 - No income or sales tax
 - Statewide property tax
 - Highest % of state and local revenue from property tax
- Main forms of Property Tax Limitations
 - Homestead exemption – STAR, etc.
 - Circuit Breakers – lower income/% of income to property tax
 - Property Tax Exemptions

Questions:

- When you look at the statewide property tax average, it does not tell a real story of many areas in the state. Does anyone look at the equity of a home (elderly individual vs. new buyer) in any state around the state? (Brooks)
 - Different states have different rules on how states assess value – i.e., Delaware (not advisable – values are skewed both ways, vastly under/overvalued)

- Some laws have requirements where assessments are required every few years
- No other states look at equity of the property.
- The further we get away from local control, the less is spent on education (Antonocci) is this something that is seen across the country?
 - When states move to a centralized school funding methodology, it leads to equalization – but what we see is the top comes down and the bottom does not always come up as seen in Colorado.
 - There are some distribution solutions – in the way that the state can allocate resources to address inequities at the local level.
- We have worked for years on reducing property taxes – have you found any states that have tried to transition any portion of income tax to the schools to shift off of property tax (Little)
 - Michigan and California have done this.
 - County districts could be an option and so could smaller districts.
- How would you grade New York’s system? (Benjamin)
 - Having the conversation is a crucial start to begin to evaluate what is currently being done to understand what the needs are for the state.
- State spending cap – do other states have this? (Mayer)
 - Many states have a requirement that require K-12 to grow at a certain amount
- Have you seen other states putting exempt properties back on the rolls? (Martinez)
 - Boston was incentivizing tax-exempt buildings to start paying property taxes – such as museums etc.

Dr. Thomas Downes – Tufts School of Economics

- Begins with the criteria used to evaluate taxes by economist (economic efficiency, fairness (equity), ease of the administration, revenue stability, visibility, link between tax and spending).
- States that economist have significant evidence of when local governments have less stable revenue – there are generally lower outcomes.
- Income tax is the most volatile form of revenue.
- Sales tax is more stable than income tax, but has declining potential.
- In New York, property tax is not calculated as a state revenue source – but is generally the most stable form of revenue. **Consistently the most least popular tax by far.**
- Vermont – has developed a minimum local tax rate – large portion of property taxes is a state tax
- Tax Caps
 - A cap, which is placed on expenditures, effectively limits revenues for budgeting purposes.
 - Local property tax caps- generally speaking, the revenues that are lost from property tax limits are typically filled in through state sales and income taxes – in some states, local user fees and charges take pressure off the State.
 - Tax caps shifts the mix from property to sales and income taxes
 - If the tax limits are local – they do little to limit spending – similar to what was seen in Massachusetts
 - If you have a limit on local and a limit on state to raise revenue – that results in a decline in spending – California
 - Nationally, overrides are more likely to happen in high income communities, which leads to further inequities.
 - There is evidence nationally, not in New York that Caps lead to a decline in test scores and leads to greater inequity and outcomes.
 - New York specifically:
 - Constrained growth in property taxes – state aid generally has filled in other spending – but not all districts have been made whole.

- The declines in spending and revenue – has been concentrated in higher wealth districts – this is different from many other states.
- State aid flows have muted impacts in less wealthy districts – as they are generally less dependent on local property taxes.
- Overrides have been relatively limited in New York
- Increasing pressures on the State to fill in losses in high wealth districts
- Circuit Breakers are a decent model to make property taxes less burdensome.
 - The best designed circuit breakers kick in when property tax payments exceed a percentage of income., i.e., 2% of income.
 - Can be designed as a sliding scale or more progressive.

Questions:

- Are any state's circuit breakers or modifications on property taxes for those who are living in high value homes, but are low income, but have nowhere to go? (Mayer)
 - Some states have tried to adopt a reverse mortgage like policy – low take up
- Sales Tax increasing to taxing services – has any locality done this? (Benjamin)
 - No, there hasn't been anything that has been on this.
 - Isolated attempts, but some states have made it impossible to tax services – Arizona
- Could the STAR program be tweaked to be more in line with a circuit breaker? (Little)
 - Best option would be to start over – but you could reduce income cap and increase exemption value – but you would need to link it to tax payments as a percentage paid of income.
- Renters – paying property taxes through rent – is there a circuit breaker that makes sense to them, or is there is a way to address revenue from renters. (Mayer)
 - Some states have look at doing this – generally, the assumption is too much of the rent is dedicated to property tax but this is a design issue.

Dr. Bruce Baker – Rutgers

- NYS is high GDP/high spending state – spending is generally outpacing GDP
- Many districts have seen a decrease in school enrollment – similar to what was seen in Vermont.
- Smaller school districts in New York, seem to be benefiting more than larger school districts overall.