



New York State  
School Boards  
Association

# The Perils of the Proposed Property Tax Freeze

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# The Perils of the Proposed Property Tax Freeze

As part of his 2014-15 executive budget, Gov. Andrew Cuomo proposed a property tax freeze that would effectively cap the amount of property taxes homeowners would pay over the next two years.

The New York State School Boards Association (NYSSBA) understands the crushing burden that many property taxpayers across the state are under. But there are better ways of relieving that burden – such as providing schools and other local governments with adequate state aid and meaningful mandate relief – than a cumbersome proposal that pits homeowners against schoolchildren and contains too many unanswered questions.

In addition to a lack of detail, vague generalities and logistical complications, the governor's proposal has the potential to disproportionately benefit areas with higher property wealth and a stronger tax base. The proposal would also fundamentally change the school budgeting process by effectively diminishing school districts' authority to make wise educational decisions. Moreover, the tax freeze would be paid for with anticipated budget surpluses created by restricted growth in school aid, which would make it harder for school districts to remain within the property tax cap without full-scale disruptions to the educational program.

## Drawbacks

2 The tax freeze proposal has two major drawbacks for school districts and their leaders. First, it may remove local decision making out of the hands of elected school boards and school administrators. By making the tax rebate contingent upon school budgets staying with the tax cap, the proposal puts immense pressure on school districts to adopt property tax levies that are at or under the tax cap, regardless of whether additional revenues are needed to provide a sound educational program. Moreover, in order to stay within the tax cap, schools need adequate state aid, which the governor's 2014-15 budget does not provide. Without adequate state aid and with a disincentive to raise the necessary revenues at the local level, school districts will have no choice but to engage in another round of damaging cuts to programs, services and staff.

Second, the proposal does not recognize the consolidations and collaborative service sharing school districts have already undertaken. Inadequate state aid, federal sequestration budget cuts and the property tax cap have already driven school districts to rethink how they operate. Many are already sharing services and wringing efficiencies from strained budgets.

For example, the Watkins Glen Central School District now provides transportation for Odessa-Montour district students, resulting in expected savings of about \$100,000 for the 2013-14 school year.<sup>1</sup> The Port Byron and Union Springs school districts are splitting the cost of their payroll and accounts payable operations, resulting in a savings of about \$26,000 a year.<sup>2</sup>

School districts have also sought to collaborate with other local governments. The Fredonia Central School District, for example, shares fuel services with the Village of Fredonia, and works cooperatively with the Village and Town of Pomfret to provide a school resource officer.<sup>3</sup> Under the governor's proposal, such efforts would not be recognized.

## Unanswered Questions

The tax freeze proposal raises a number of unanswered questions. For example, if the freeze will be paid in the form of a check sent to taxpayers in the fall, how will it also serve as a credit against taxpayers' state income taxes for that given year? Would such a payment from the state be taxable? How will the tax freeze benefit be determined for taxpayers with multiple residences? How will it be determined for taxpayers with multiple sources of income?

<sup>1</sup> James Post, "Odessa-Montour, Watkins Glen to share busing services," *Corning Leader*, July 25, 2013.

<sup>2</sup> Charley Hannagan, "Port Byron, Union Springs schools look at merging sports, business operations," *Syracuse Post-Standard*, January 14, 2014.

<sup>3</sup> Nicole Gugino, "Drop in enrollment, state funding forcing schools to do things differently," *Dunkirk Observer*, April 7, 2013.



These questions will undoubtedly create an organizational and procedural nightmare for the Department of Taxation and Finance.

Would taxpayers be eligible for freeze payments if their property tax bills increase due to a change in equalization rates or if municipalities perform a reassessment? What other external factors, outside of the control of taxpayers or school districts, would have an impact on eligibility for a freeze payment? Must school districts continue to remain at or below their tax cap level during the three savings plan years? What happens if the voters choose to override the tax cap amount in the out years? Do they effectively lose the tax freeze benefits from previous years? For a plan being promoted as a significant benefit for taxpayers, it remains to be seen who could actually qualify and whether those taxpayers might lose benefits already received, depending on the circumstances.

The proposal includes a provision that says the state may “withhold any state aid payments due to a school district that failed to fully implement [a plan] by the end of 2016-17.” Who makes that determination? For how long would state aid be withheld? What if a district cannot implement its plan because of external factors, such as a natural disaster or other emergency? How could the district recover withheld aid it is rightfully due? The proposal is a simplistic, coercive instrument with near-unlimited negative impact, but without any specifics.

How are school districts required to calculate “savings”? We know how much must be saved (a percentage of the total combined 2014-15 tax levy against districts participating in the savings plan), but will the savings be compared against current baseline budget levels or against future anticipated expenses? What if school districts can’t achieve the prescribed savings? Will taxpayers retroactively lose the tax freeze benefits they previously received? With the broad threat of withholding any state aid increases from districts that fail to implement their savings plan, it is unacceptable that these questions have not been fully answered.

Why are BOCES locked out of this process? Under the proposal, BOCES cannot serve as the organizational lead for districts’ savings plans, despite the BOCES regions serving as the geographical boundaries. The plan would not permit districts to work with BOCES in order to create cost efficiencies, even if BOCES already has the needed capability and services.

Why would the participating district with the largest student enrollment within a BOCES district serve as the “lead” district? What if the district does not have the resources, or desire, to lead and organize such an effort? What happens if a lead district withdraws from the plan, despite having or-

ganized it? This could derail the process for dozens, if not hundreds, of districts. Further, the largest district is often itself the most economically challenged.

The “carryover” provision of the property tax cap uses a district’s tax cap amount before exclusions (pension, capital construction, etc.) to determine eligibility. The property tax freeze proposal uses that exact same language when describing a freeze-compliant budget. Will districts again be told (at the last minute) that eligibility is based on that tax cap amount before exclusions, a number that’s essentially impossible for most districts to reach and will only create additional confusion and frustration among taxpayers?



## The Basics of the Tax Freeze Proposal

The governor’s tax freeze proposal aims to give property taxpayers a personal income tax credit for increases in their property tax bills for the next two years, subject to two conditions:

- In year 1 (2014-15), the state will provide tax rebates to homeowners outside of New York City with incomes of \$500,000 or less who live in school districts that stay within the property tax cap.
- In year 2 (2015-16), homeowners will receive the tax credit if school districts continue to stay within the tax cap *and* develop plans for sharing or consolidating services and eliminating duplication and overlap with other school districts in their BOCES region. Each plan must achieve aggregate savings of at least 1 percent of the total tax levy for all school districts in the plan in the year following the second year of the credit. This percentage increases to 2 percent and 3 percent in subsequent years. Failure to achieve planned savings could result in withholding state aid to the school districts.

## Disproportionate Benefit

One of the shortcomings of the proposed property tax freeze is its potential to disproportionately benefit wealthier school districts and districts with larger tax bases.

For example, suppose there are two school districts, each with 10,000 property taxpayers. District A, however, is wealthier than District B and had a property tax levy of \$50 million in 2013-14. District B, a less wealthy district, had a property tax levy of \$10 million in 2013-14. Since the property tax cap for schools in 2014-15 will be 1.46 percent (based on the lesser of 2 percent or the rate of inflation) and assuming neither district has any exemptions that would alter its formulated tax cap amount, District A would be allowed to increase its tax levy significantly more than District B (\$730,000 vs. \$146,000). Consequently, the benefit to each property taxpayer in District A would be much larger than in District B, as shown in the following table.

Not only would the tax freeze have a disproportionate impact on taxpayers in wealthier school districts, it may

	2013-14 property tax levy	Maximum levy increase in 2014-15 under a 1.46% cap	# of property taxpayers	Tax credit per property taxpayer
District A	\$50,000,000	\$730,000	10,000	\$73.00
District B	\$10,000,000	\$146,000	10,000	\$14.60

provide a disincentive in some cases to keep property taxes down. For instance, assume District A needs an increase in its property tax levy of only \$700,000 to meet its obligation to provide students with a quality education, rather than the maximum increase of \$730,000 it would be allowed to raise to remain within the tax cap. District A would have a disincentive not to ask for voters for a tax levy of \$730,000 because the state – not local property taxpayers – would pick up the tab for the extra \$30,000 through the tax rebate.

## Recommendations

The governor's property tax freeze proposal is unworkable and would further erode the essential programs and services school districts provide for students. NYSSBA opposes this plan and instead proposes two alternatives to cutting costs and keeping property taxes in check.

- 1. Provide adequate levels of state aid.** The state must keep its constitutional obligation to provide students with a sound, basic education. Without adequate state aid for education, school districts will be unable to both keep their tax levies within the tax cap and avoid crippling cuts in educational programs, services and staffing levels. Implementation of the Common Core Learning Standards, adherence to new teacher and principal evaluations, and soaring pension and health care costs are all costly endeavors.
- 2. Provide meaningful mandate relief.** Since the creation of the governor's mandate relief tax force in 2011, school districts have been promised meaningful mandate relief. But aside from the very welcome addition of a Tier VI to the state pension systems and the authority of school districts to buy from large purchasing cooperatives, little progress has been made. Unfunded state and federal mandates mean that schools must do even more with less.
- 3. MIX it up.** The Municipal Innovation eXchange, or MIX for short, is a collaborative effort among NYSSBA and the three statewide organizations that represent counties, cities and towns – the New York State Association of Counties, New York Conference of Mayors and the New York State Association of Towns. It recognizes the need for school districts and local governments to find ways to collaborate, share services and consolidate due to the fiscal pressures of inadequate state aid, federal budget cuts and the property tax cap. MIX encourages local governments and school districts to share with one another information on best practices in collaborative service sharing and keep the public informed about these efforts.

The concept of sharing is not new to school districts and other local governments. However, they have never had a systematic way of sharing their collaboration and cost containment plans with one another so they can be replicated elsewhere. This project will be valuable as municipal leaders across the state continue developing innovative solutions for their communities. NYSSBA believes this approach to regional collaboration is much more effective than the rigid, one-size-fits-all approach of the governor.

In sum, NYSSBA urges the governor and legislative leaders to rethink imposing a flawed proposed property tax freeze. There are wiser ways of reducing the property tax burden on New York's homeowners while still maintaining a quality educational system.