



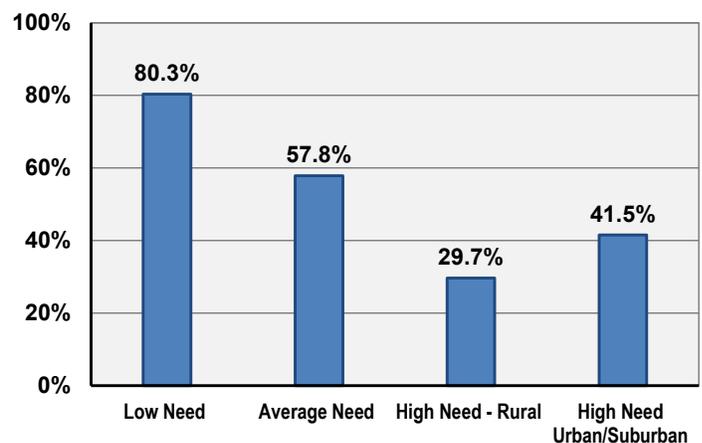
## Three Years of the Tax Cap – Impact on School Districts

Enacted in 2011, the State's property tax cap law generally limits the amount by which local governments and school districts, outside of New York City, can increase property taxes.<sup>1</sup> The tax cap, which first applied to the 2012-13 school year, limits a school district's tax levy increase to the lesser of the rate of inflation or 2 percent with some exceptions, including a provision that allows school districts to seek approval from voters to override the cap. The Office of the State Comptroller is responsible for collecting the data that is necessary to compute the tax cap. This report summarizes the experience of New York State's school districts during the first three years of budgeting under the tax cap law.

### School Districts and the Property Tax

- The property tax is the major revenue source for school districts. In 2013, school districts, excluding New York City, spent \$37.5 billion, of which 54.8 percent (\$20.5 billion) was raised through the property tax.
- Local wealth varies across the State, and therefore the State/local revenue mix among school districts varies substantially. State aid is allocated to school districts using a series of formulas which equalize for factors such as pupil need and district wealth (ability to pay). Districts that have low levels of wealth, or more pupils with special needs, will receive more State aid than wealthier districts with fewer high need pupils. As a result, high need districts are more reliant on State aid, and less reliant on the property tax, compared to average need or low need districts.
- The tax cap poses more of a constraint on those school districts that derive a larger portion of their revenues from the property tax.

Percentage of School District Revenue from Property Tax by Need Resource Category (2013)



## Overview of the Tax Cap

While commonly referred to as a 2 percent cap (possibly because of the law's reference to 2 percent in comparison to the rate of inflation), the actual increase allowed by the law is usually something other than 2 percent. For the 2014-15 school fiscal year, the inflation-related component of the formula was 1.46 percent, not 2 percent.<sup>2</sup> The formula also includes several other components which impact the tax levy limit calculation, such as growth in the tax base, payment in lieu of tax (PILOT) agreements, and exclusions for school district capital expenditures. As a result, the total allowable increase from 2014 to 2015 was 2.2 percent for districts, on average. Indeed, there were no school districts for which the allowable tax cap increase was exactly 2 percent, though 38 districts had an increase that rounded to 2.0 percent.

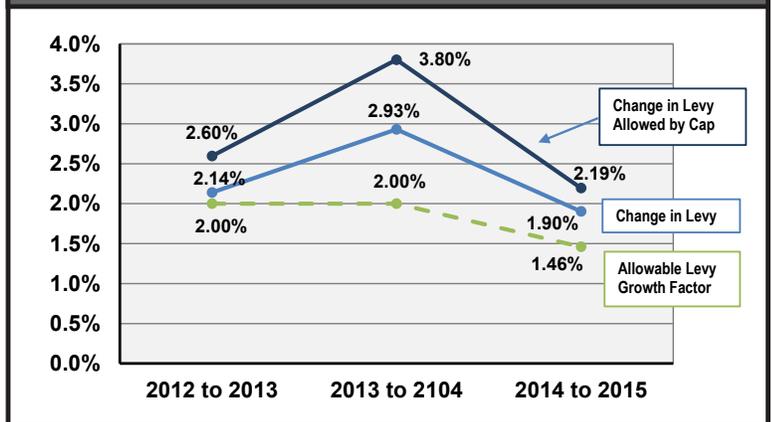
At the individual district level, there are clear exceptions. From 2014 to 2015, one district's allowable levy limit was 21.7 percent less than in the year prior while another district's allowable levy limit was 45.5 percent higher than in the prior year.<sup>3</sup> As mentioned above, outliers and large fluctuations are often caused by changing PILOT and/or capital exclusion amounts within the prescribed formula. The district that realized the lower (-21.7 percent) levy limit did so because the amount of its capital exclusion decreased significantly from one year to the next. The district that realized a higher (45.5 percent) levy limit did so because of a large decrease to its total PILOT amount from one year to the next.<sup>4</sup>

Based on the individual tax levy limit calculations, 363 school districts could have increased the tax levy by more than 2 percent (if they levied right up to the tax levy limit) and, of these, 62 could have increased the tax levy by 4 percent or more while still remaining under the cap. In contrast, 69 districts were held to less than a 1 percent increase—with 17 of these actually being subject to a levy decrease from the prior year.

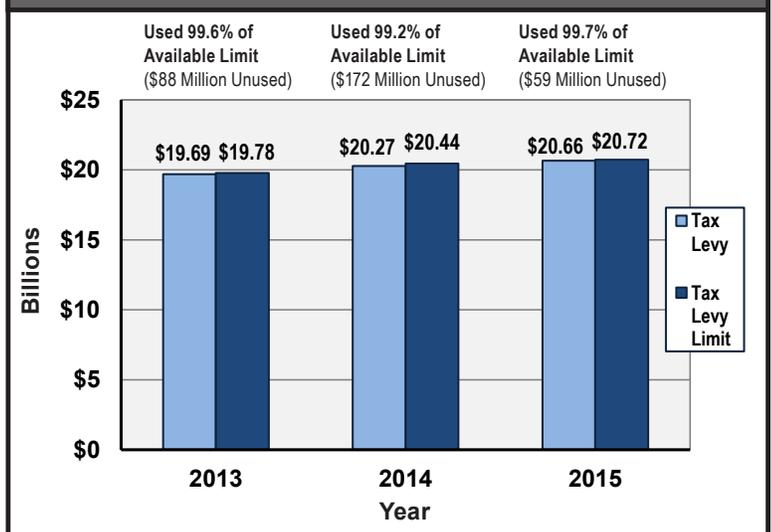
For school districts overall, the total levy increase allowed by the tax cap has ranged from 2.2 percent to 3.8 percent during the first three years the law has been in place. School districts levies increased each year at a rate slightly less than what was allowed by the tax cap—and school districts planned to stay under the tax cap in 2015 by a total of \$59 million, consuming 99.7 percent of their available tax limit.<sup>5</sup>

From 2014 to 2015, the levies of average need districts increased the most in terms of percentage—increasing it by 2.2 percent and remaining under the allowable increase of 2.4 percent. High need rural districts had an allowable increase of 2.3 percent while increasing the levy by only 1.3 percent—the smallest percentage increase compared to other need resource groups.<sup>6</sup>

**School District Tax Cap Results:**  
Year-Over-Year Change in Tax Levy Compared to Change Allowed by the Tax Cap



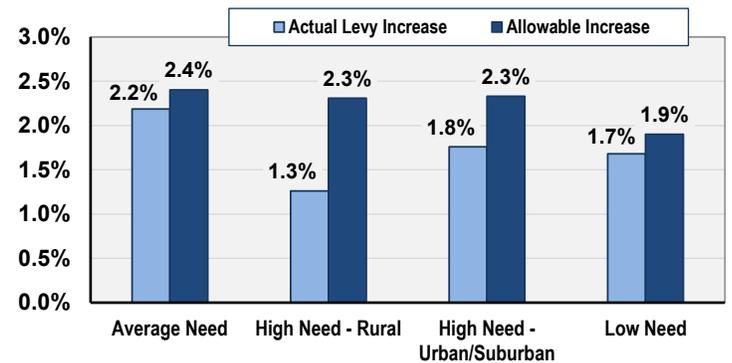
**School District Tax Cap Results:**  
Tax Levy Vs. Tax Levy Limit



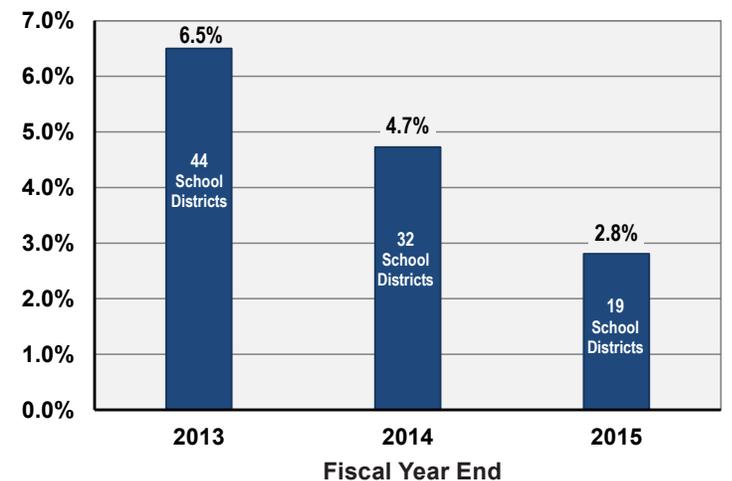
## Overriding the Tax Cap

- School districts can legally exceed the tax levy limit by seeking an override. An override requires at least 60 percent voter approval and, as a result, fewer school districts override the tax cap compared to other types of local governments, which only need to obtain a vote of at least 60 percent of their governing boards. If a school district's budget fails twice, the district is then held to a "zero-growth" budget that also includes restrictions on how money is used to fund programs.
- The number of school districts overriding the tax cap has declined each year. In school year 2013, 6.5 percent of school districts exceeded the tax levy limit. By school year 2015, the number of school districts overriding the tax cap decreased by more than half, to 2.8 percent. This decline may be due in part to the newly enacted Property Tax Freeze Credit ("tax freeze").<sup>7</sup> Generally, the two-year tax freeze program provides credits to qualifying taxpayers who live within taxing jurisdictions that remain within the tax cap. Taxpayers will not be eligible for the credit if their school district exceeds the tax cap—providing added incentive for districts to stay under the cap.
- Over the three years that the tax cap has been in place, 79 school districts (11.7 percent) have exceeded the tax cap at least once. One district, the Kiryas Joel Union Free School District, exceeded the cap in each of the three years, and 14 districts exceeded the cap in two of the three years.
- Low need and average need districts were twice as likely to override the tax cap compared to high need districts. These districts receive less State aid than high need districts, and are therefore more dependent on property taxes to fund their programs.

**Allowable Tax Levy Increase and Actual Levy Increase by Need Resource Category (2014 to 2015)**



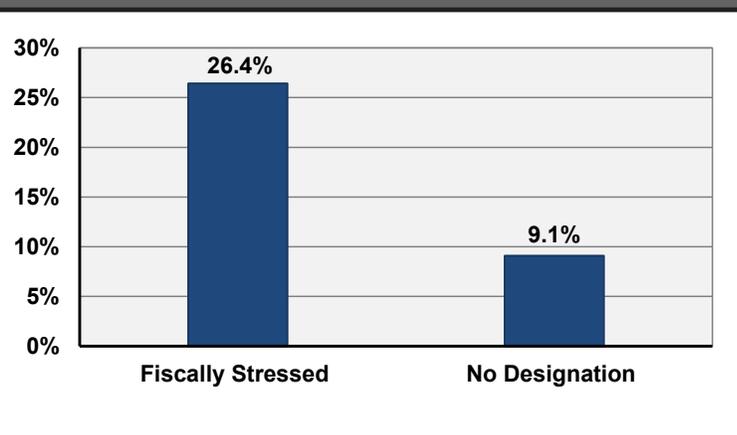
**School District Tax Cap Results: Percentage Exceeding the Tax Cap**



# Local Government Snapshot

- In general, school districts' decisions to override the tax cap were based, at least in part, on necessity. Comptroller DiNapoli recently implemented a Fiscal Stress Monitoring System to evaluate and report on the level of fiscal stress being faced by localities and school districts across the State. School districts received their first round of scores in January 2014. When examining the relationship between fiscal stress and tax cap overrides, we found that in each of the three years the law has been in effect, fiscally stressed school districts were nearly three times more likely to override the tax cap when compared to school districts that were grouped in the "No Designation" category.
- Of the 19 school districts that are overriding the tax cap for the 2014-15 fiscal year, five (26 percent) were found to be in fiscal stress.

Percentage Exceeding the Tax Cap at Least Once in Three Years by Fiscal Stress Designation



**Note:** The analysis in this report is based on school district tax cap filings for three years (2012-13, 2013-14, and 2014-15) as well as the tax freeze certification filing for the 2014-15 school fiscal year. Determinations as to whether a school district exceeded the tax cap were made by comparing the tax levy limit (as calculated in the submitted form) against the prior year levy reported in the following year's form. Years listed in the report refer to fiscal year end. Tax cap results do not include the fiscally dependent Big Four city school districts of Buffalo, Rochester, Syracuse and Yonkers because the tax levy for these districts is subject to their respective City's tax cap

<sup>1</sup> General Municipal Law §3-c, Education Law §2023-a

<sup>2</sup> This component (allowable levy growth factor) for the 2015-16 school year, will be 1.62 percent.

<sup>3</sup> Fonda-Fultonville (-21.7 percent) and Barker Central (45.5 percent).

<sup>4</sup> For more detail on the levy limit formula, visit: <http://www.osc.state.ny.us/localgov/realprop/schools/files/formula.pdf>

<sup>5</sup> Based on data collected from school district tax freeze certifications, filed in 2014.

<sup>6</sup> The need/resource categories referenced in this report were developed by the New York State Education Department and represent a district's ability to meet student needs using local capacity. For information on the definitions of these categories, see: [www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf](http://www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf)

<sup>7</sup> Chapter 59 of the Laws of 2014 (Part FF).



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