

Fair Taxes:

The Key to Better Schools

*A Training Curriculum Prepared
by the Public Policy and Education Fund of New York
and the Fiscal Policy Institute*

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PPEF, affiliated with Citizen Action of New York, Inc., supports community organizing, research, and public education on issues of concern to low and moderate income New Yorkers.

FPI is a nonpartisan research and education organization that focuses on a broad range of tax, budget, economic and related public policy issues that affect the quality of life and economic well-being of New York State residents.

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Introduction

In its 2003 decision in the *Campaign for Fiscal Equity vs. State of New York*, decision, the Court of Appeals, New York State's highest court, ruled that the State of New York has failed to ensure that the New York City school system has sufficient funding to provide New York City school children with the opportunity for a "sound, basic education," as required by the state constitution. New York City school children faced -- and still face -- large classes, crumbling buildings, and out-of-date equipment and learning materials. These deficiencies prevent students from receiving a quality education.

There is now general agreement by citizens and governmental officials alike that a statewide solution is necessary to provide sufficient funding to New York City and the numerous other school districts that are unable to provide a quality education for their children. Funding a quality education for students statewide has been projected to require about \$8.6 billion more each year in state education operating aid, and about \$600 million each year to cover the debt service on the facilities improvements and expansions required to address the state's most critical unmet school facilities needs, ***bringing the total annual revenue requirement for a legitimate statewide solution to the CFE decision to about \$9.2 billion.***

The Governor and the Legislature appear to be deadlocked on how to resolve the court decision, and they have not provided the funding needed. ***One of the major reasons for the deadlock is that current state and local taxes are unable to generate the total additional funding necessary to fund the court decision without devastating other vital state needs, like health care.*** And, at the same time that we need additional funding for education, many middle and lower income taxpayers are feeling the pinch of higher and higher local property taxes.

The goal of this training curriculum is to provide you with the information that you need to understand, and to speak with others about, the education policy and tax policy issues that are involved in developing and advancing solutions to New York's current school funding situation, in a manner that is consistent with the court's CFE decision. This manual provides you with essential facts related to each of these two policy areas:

The **Education Policy Section**, beginning on page 1, will help in exploring our beliefs and values regarding public education.

The **Tax Policy Section**, beginning on page 10, will help in understanding the current tax system in New York, and in exploring alternatives to the current system.

Why Do Our Schools Need More Money?

Throughout New York State, too many students enter schools that are not equipped to ensure they succeed, and not just in our biggest cities. Recent statistics tell the story:

- ✓ Many students attend classes in outdated school buildings well over 50 years old, with conditions like poor ventilation and heating, broken and leaky roofs, and inadequate wiring.
- ✓ Over 30,000 students in poor school districts outside of New York City attend schools with no school library. One-third of these schools are in rural districts.
- ✓ Almost 1 of every 8 teachers in Rochester, Yonkers, and Syracuse teaches a subject he or she isn't qualified to teach.
- ✓ In New York City, 3 of 4 high school students attend overcrowded schools, and one-half of middle school students are in classes of 30 or more.

Students of color, poor and disabled students, and those whose first language is not English face even greater roadblocks, as they disproportionately attend school districts with conditions like those we've just described. New York State has the highest "funding gap" between poor and rich districts of any state in the nation.

Given these facts, it's no wonder that so many students don't succeed:

- ✓ One-out-of-seven of all 8th graders statewide scored at the lowest level on the state's math exam in 2004, indicating serious academic difficulties.
- ✓ Almost 1 in 5 students statewide didn't take the English Regents in a recent year, even though passing this test is required for graduation. Many end up dropping out of school.
- ✓ During the 1990s, almost half a million students left school statewide without graduating high school. In a recent year, 35% of Schenectady students, 31% of Binghamton students, and 56% of Hempstead (LI) students failed to receive a local diploma within 4 years. Rural districts face this problem too: 22% of Newfield students in Tompkins County, and 21% of Hannibal students in Oswego County also didn't finish on time.

There's no doubt that this record would improve if New York State adequately funded its public schools, and made education funding more equitable. The facts show that the more a school district spends, the greater the level of pupil achievement. This is true for rural, suburban and urban schools, in poor, middle-income and wealthy communities. And study after study indicates that if you invest in programs that work, such as class size reduction, and literacy programs, student achievement improves -- and the positive impacts may be even greater for students of color.

Does More Money Matter?

"Dollar bills don't educate students." President George H.W. Bush, 1991.

Opponents of funding reform argue that increased funding for schools – particularly to improve the performance of poor and minority students – is “throwing money away.” Rather than looking at New York’s huge funding gaps between rich and poor school districts, these individuals tend to blame low achievement on insufficiently motivated students or teachers, or the difficult conditions many children face at home. Spending more is a waste of funds, this argument goes.

This position has been shown to be wrong in court. After hearing the evidence, the judge in the landmark Campaign for Fiscal Equity case concluded that: "increased educational resources, if properly deployed, can have a significant and lasting effect on student performance." ***Here are some examples of how increased funding improves education:***

- ✓ **Class Size Reduction:** Tennessee students who had been placed in smaller classes had higher standardized test scores five years after the smaller classes were disbanded. By the 8th grade, ***students who had attended smaller classes in grades K-3 scored nearly a school year ahead*** of students who had attended larger classes. African-American children had double the gains of white children.
- ✓ **Teacher Quality:** A New York City study found that a 10 percentage point ***increase in a school's percentage of certified teachers was associated with as much as a 3.7% increase in students achieving reading standards.***
- ✓ **Literacy Programs:** A study of New York City first-graders below grade level that had been placed in a reading program that provides one-on-one and small group instruction by specially trained teachers found that ***83% of the students performed at or above grade level after completing the program.***
- ✓ **Pre-School Programs:** A study of predominantly African-American Chicago children found that ***children who participated in pre-kindergarten programs ultimately had lower dropout rates, more years of completed education, and were less likely to be involved in crime*** than children who didn't.
- ✓ **School Funding Reform:** After Union City, New Jersey received significantly increased funding as a result of the *Abbott v. Burke* litigation (comparable to the CFE litigation in New York), ***the number of 4th graders meeting state language arts standards increased from 45% to 86%.***

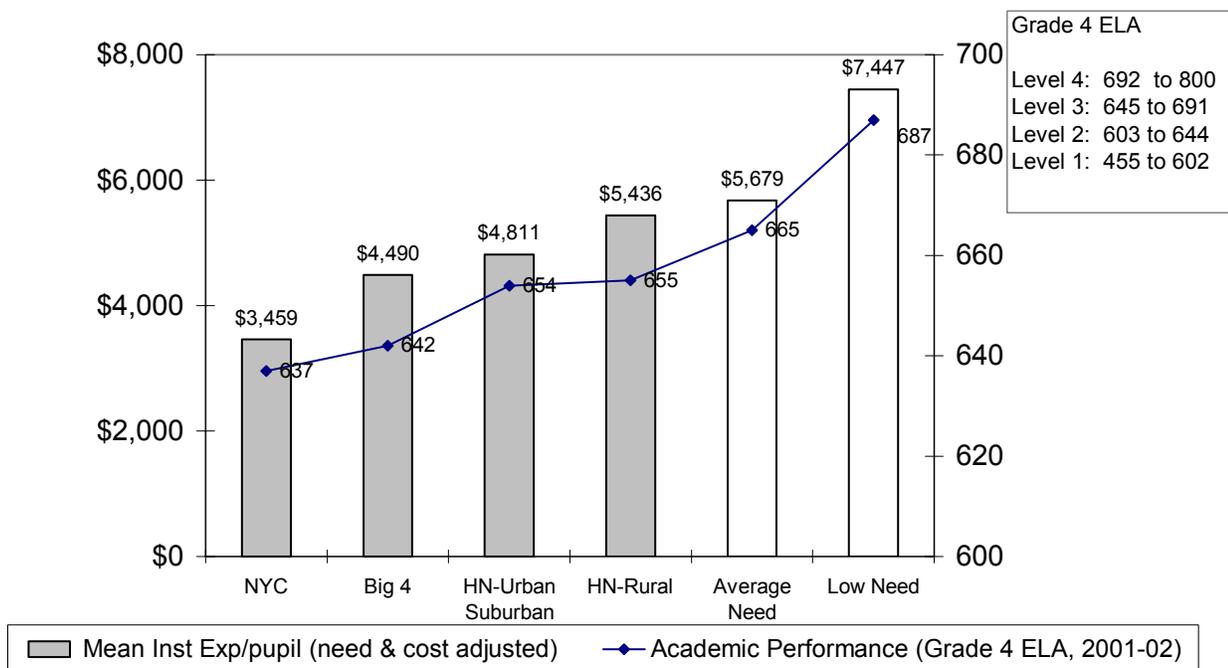
Sources:

Michael A. Rebell and Joseph J. Wardenki, *Of Course Money Matters: Why the Arguments to the Contrary Never Added Up*, January 2004; available at www.cfequity.org. (Bush quote is from page 5 of the report); Education Law Center, *Tracking Progress, Engaging Communities: Union City Abbott Indicators, Key Findings*, May 26, 2005; available at www.edlawcenter.org; New York City Department of Education, Division of Assessment and Accountability, *Flash Research Report #2: Impact of Teacher Certification on Reading and Mathematics Performance in Elementary and Middle Schools in New York City*; available at <http://www.nycenet.edu/daa/reports/>.

More money leads to higher test scores.

This is true for urban, suburban, and rural schools alike.

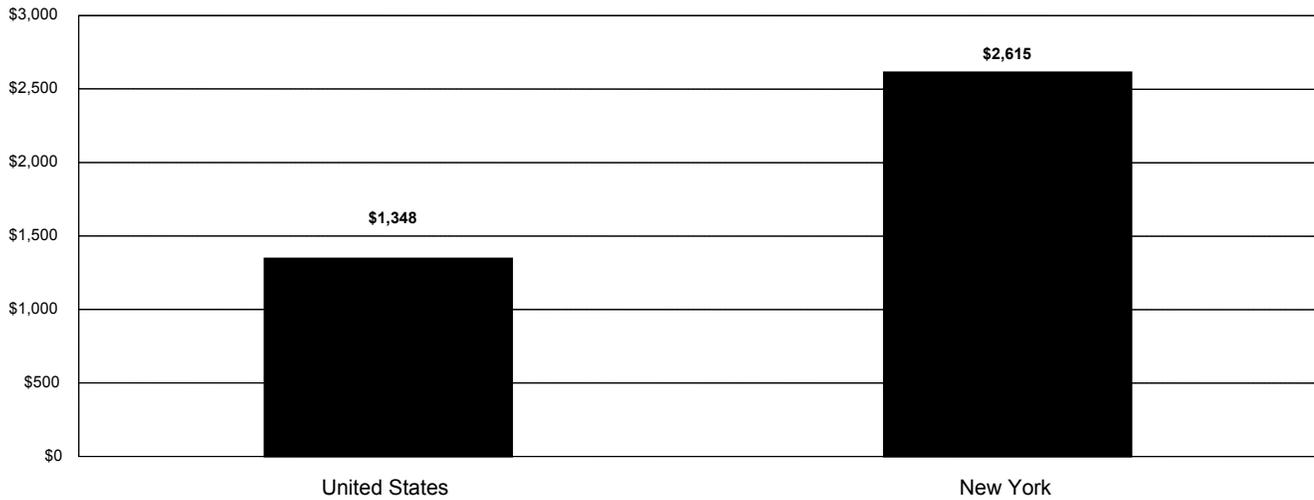
After Adjusting for Need and Regional Cost, the Higher the School District Spending, the Greater the Pupil Achievement



Source: Fiscal Policy Institute, *Balancing New York State's 2005-2006 Budget in an Economically Sensible Manner*, January 2005.

New York has the biggest gap in funding between high and low income school districts of any state.

Gap between highest and lowest-poverty districts in 2001-2002 (cost-adjusted dollars).



Source: *The Funding Gap 2004: Many States Still Shortchange Low-income and Minority Students*, Kevin Carey, The Education Trust, Inc., October 2004.

The Schools for New York's Future Act

The "Schools for New York's Future Act" (A.100) will provide enough funding to provide every child what the New York State Constitution guarantees: the opportunity for a "sound, basic education." The bill would provide over \$8 billion in added state funding for schools statewide after four years, when fully implemented. Each district would get one-fourth of the mandated funding in the first year. Here's how the bill works:

Where the money goes:

By expanding the total school aid pie, passage of the Schools for New York's Future Act would benefit all regions of the state and all types of school districts.

Using data developed beginning with the 2004-05 school year, the bill would provide after four years, an increase in education funding for 70% of New York's school districts:

- ✓ 100% for New York City;
- ✓ 90% for poor urban and suburban districts;
- ✓ 70% for the "Big 4 Cities" (Buffalo, Rochester, Syracuse, and Yonkers);
- ✓ 70% for poor rural districts; and
- ✓ 50% for average-need districts.
- ✓ **No district would have its state aid cut.**

How it works:

The bill establishes a simplified funding formula that ensures that every school district spends at least the "actual cost" of a sound, basic education, the constitutional requirement.

- ✓ Start With a Standard Amount for Each Child of About \$8000.
- ✓ Adjust the Standard Amount For Each District For Factors That Affect the Cost of Education: Regional Cost, and Low-Income and Disabled Children.
- ✓ Fairly Determine How Much the State and Local School Districts Should Each Pay, Based on Each District's Ability to Pay, and the Number of Poor Children in the District.
For many districts, local property taxes could decrease.

• **The bill ensures adequate school buildings to enable children to learn.** Bonds would be issued to provide an infusion of funds for critical facilities improvements.

• **The bill establishes a system that's accountable to parents and to taxpayers, and that ensures the new monies spent on education are used wisely.** Districts whose students are not meeting state standards would be required to develop plans -- with extensive public participation -- to measure outcomes in the areas critical to raising student achievement, including class size reduction, adequate schools facilities, quality teaching, pre-kindergarten, and services for at-risk students, including after-school programs.

The Tax Policy Challenge

When we ask “How can we afford to educate our kids?” some people say, “How can we afford NOT to?”

But other people have lots of good questions about where the money can and should come from. They also have lots of good questions about New York’s current tax system.

The following pages provide information that helps to answer these important questions:

The problem: What’s wrong with New York’s tax system for funding education?

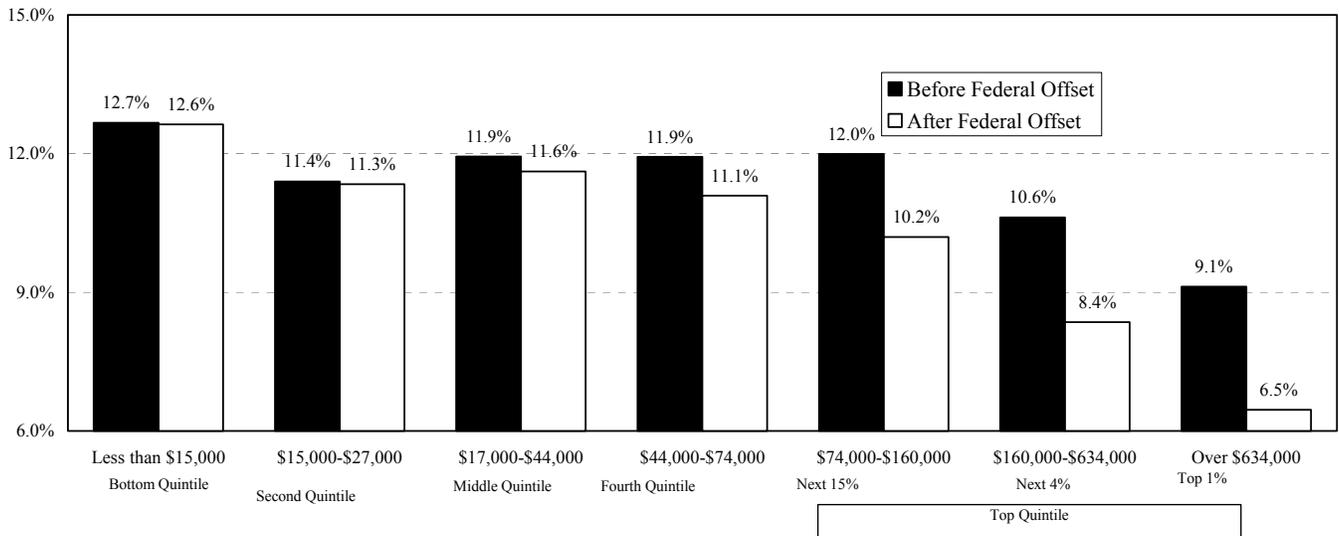
The cause: What is the cause of the problem?

The solution: How can we change the New York tax system so that we can afford to educate our kids?

The impact: What is the likely economic impact of raising the money necessary to fund a sound basic education for all of New York’s children?

The problem: New York Taxes are NOT Fair

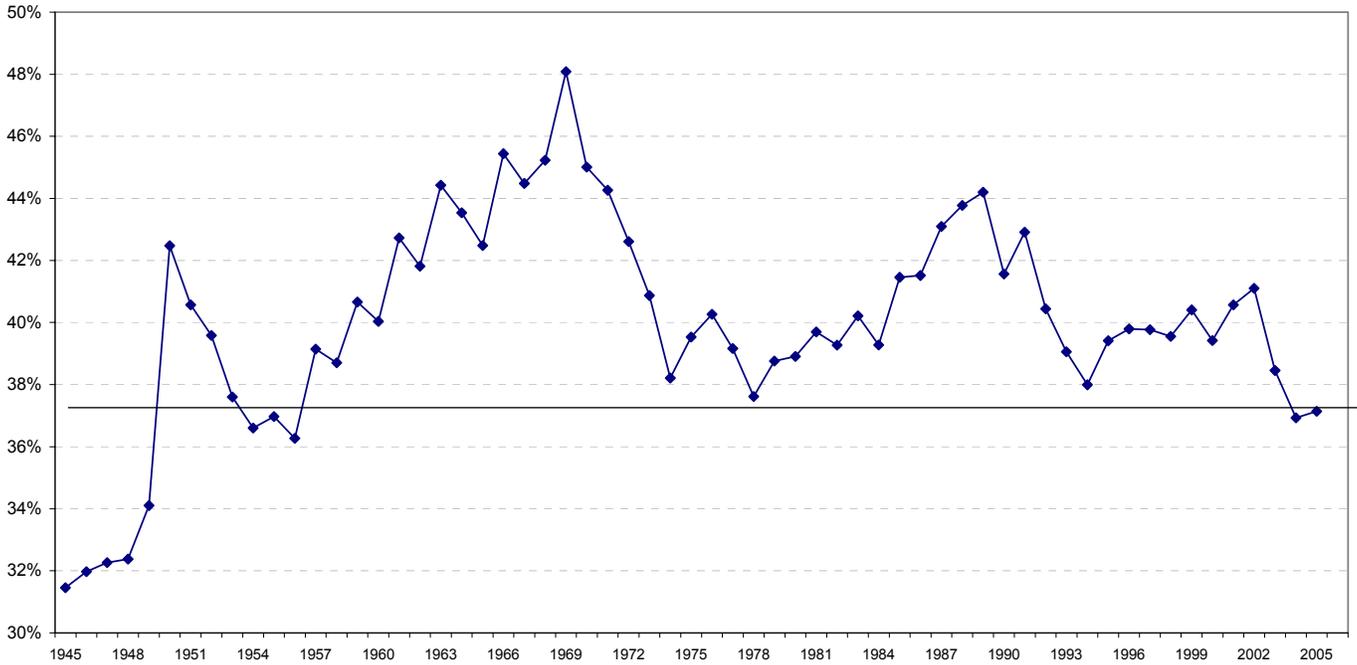
Overall, the wealthiest 5% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers. When federal deductibility is taken into consideration, the differences are even greater.



Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers, before federal offset.

New York Relies Too Heavily on Regressive Local Sales Tax and Local Property Tax Revenues to Fund Education

State Aid (not including STAR) as a Percent of Public School Budgets



Source: State Education Department, Analysis of School District Finances in NYS School Districts, December 2004.

New York State ranks second in the nation as to the percentage that local taxes (property and sales taxes) are of total taxes (state and local).

In fact, New York is one of only 3 states in the nation to raise more from local taxes than state taxes.

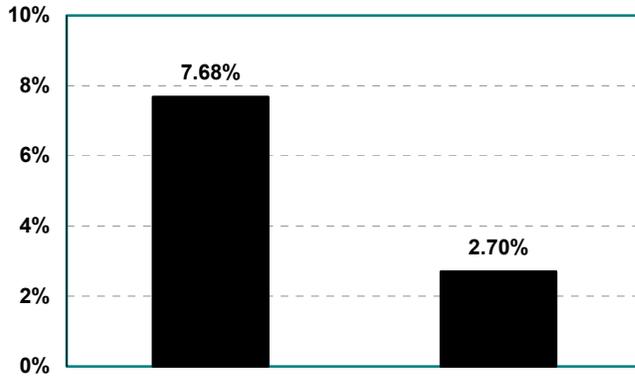
Local Taxes as a % of Total Taxes - 2002

	<u>Percent</u>	<u>Rank</u>
United States	40.9%	
<u>Five States with the Greatest Local Shares of State-Local Tax Revenue</u>		
Texas	51.4%	1
New York	51.3%	2
Colorado	50.2%	3
Alaska	47.4%	4
New Hampshire	47.3%	5
<u>Five States with the Smallest Local Shares of State-Local Tax Revenue</u>		
West Virginia	23.5%	46
Vermont	22.7%	47
Hawaii	19.3%	48
Arkansas	19.1%	49
Delaware	19.1%	50

Source: U.S. Bureau of the Census

Property taxes in New York State have been increasing almost 3 times faster than people's income in the past 4 years.

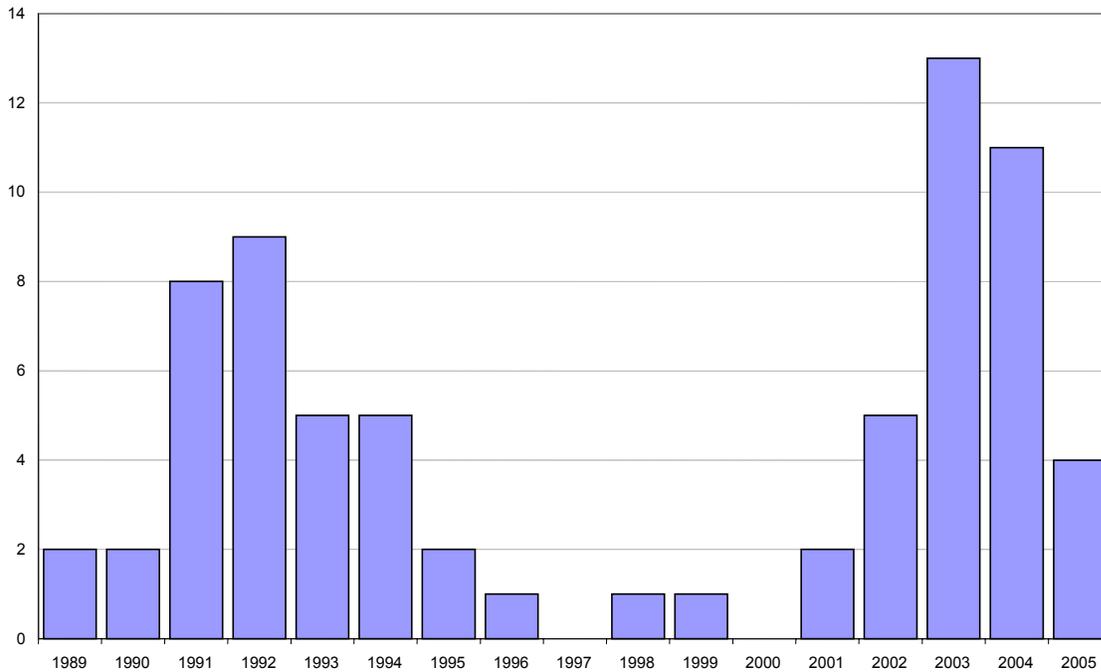
Average annual rate of growth, 2000 through 2004



Sources: Personal income data from the Bureau of Economic Affairs. Real Property Tax Levy data from the Office of the State Comptroller, "Overlapping Real Property Tax and Levies." Note: Real property tax levy is for local government fiscal years ending in 2000 and 2004. Because some fiscal years end June 30 and others end on December 31 and other dates, the personal income figures used in this chart are for the 12 month periods ending on September 30th of each year.

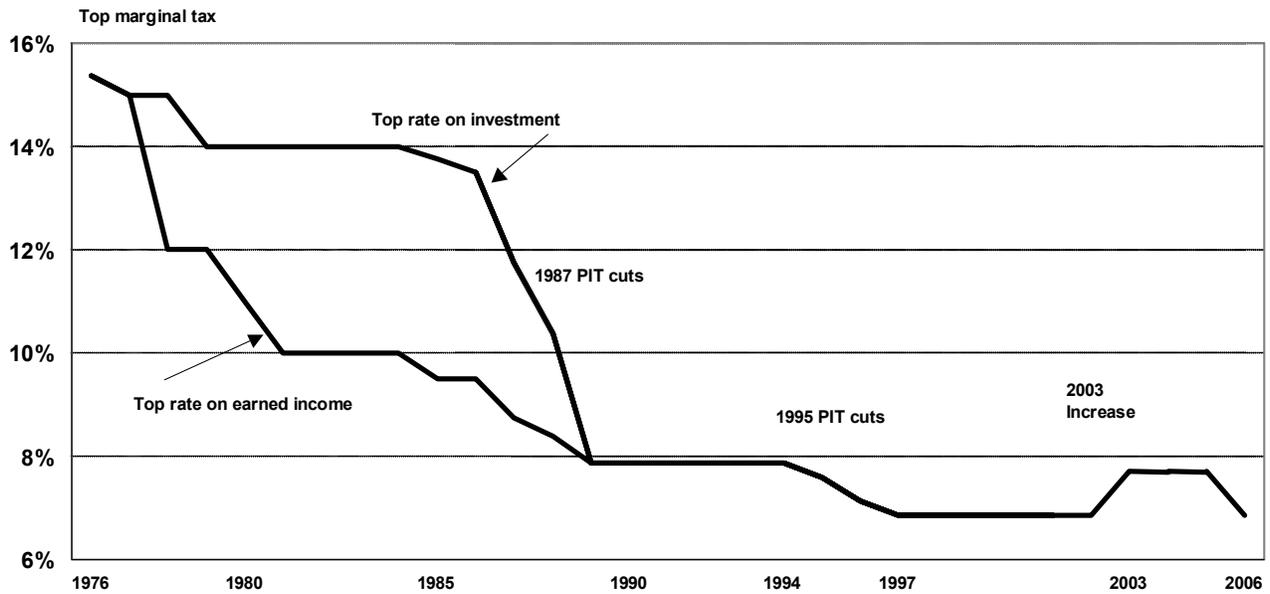
Since May 2001, 34 of the 57 counties outside of New York City increased their sales tax rates.

Number of Counties Increasing Their Sales Tax Rates, by Year



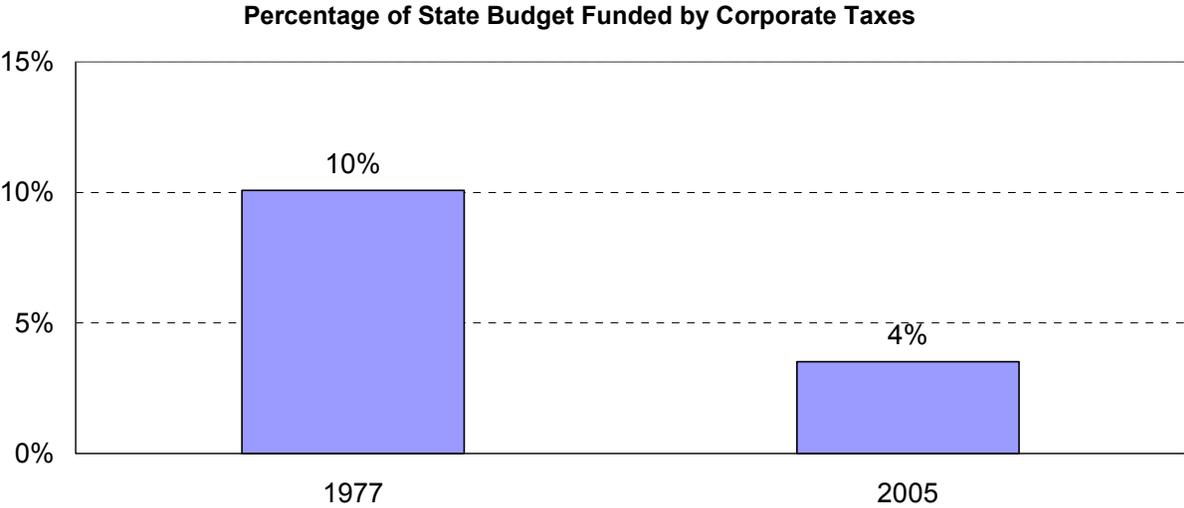
Source: Institute for Taxation and Economic Policy, *Achieving Adequacy: Tax Options for New York in the Wake of the CFE Case*, 2005, p 30.

New York State has cut the income tax rate paid by the wealthiest New Yorkers by more than 50% in the last 25 years.



Source: Fiscal Policy Institute, *Balancing New York State's 2004-2005 Budget in an Economically Sensible Manner*, January 2004.

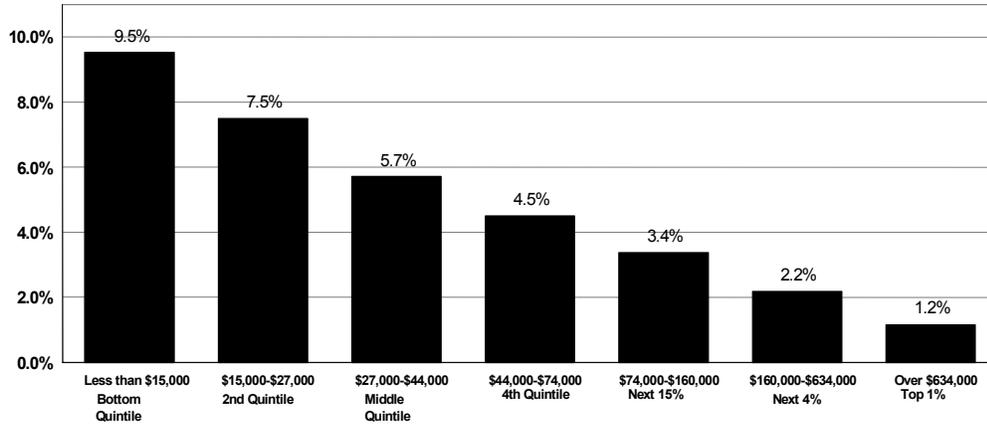
Corporate taxes now account for 4% of the state budget, down from 10% in 1977.



Source: Fiscal Policy Institute calculation from data included in New York State Executive Budget.

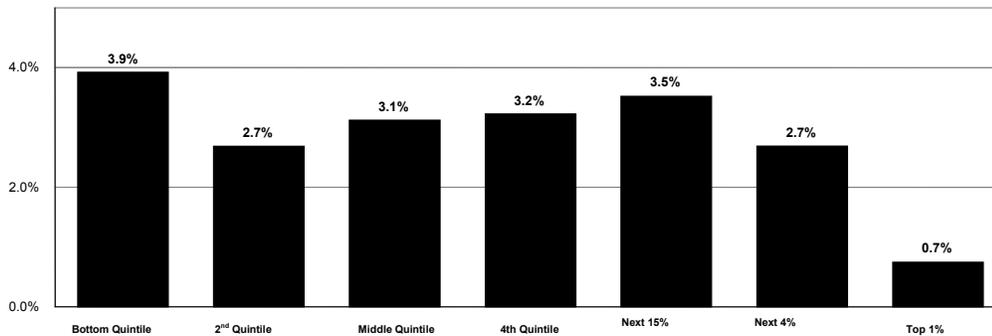
Sales taxes in New York are "regressive." The more you make, the less of your income you pay in taxes.

State and local sales taxes as a percent of family income in New York.



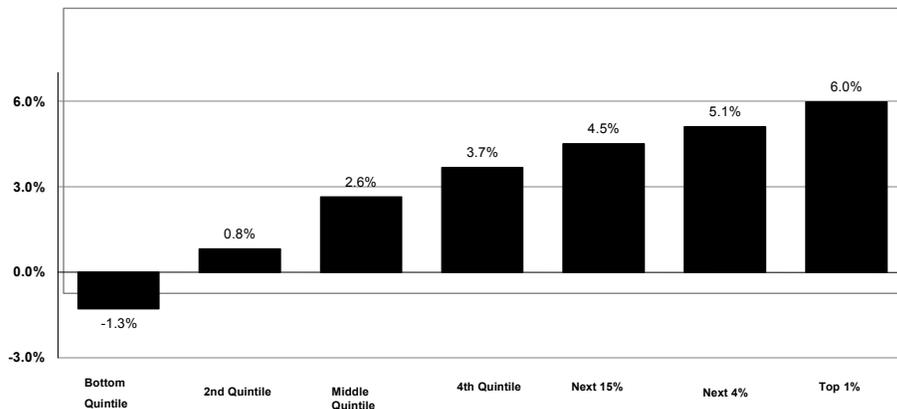
Property taxes are regressive, but not as regressive as sales taxes.

Property taxes as a percent of family income in New York.



Personal Income Taxes in New York are "progressive." The more you make, the more of your income you pay in taxes.

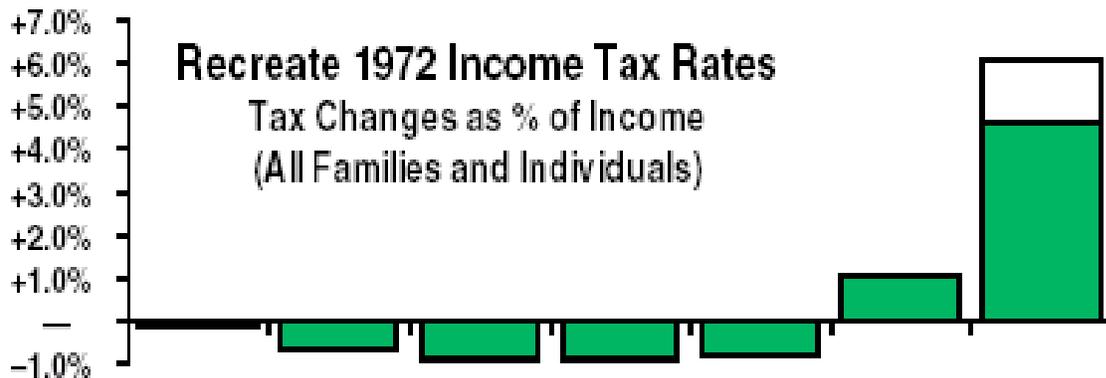
Personal income taxes as a percent of family income in New York.



Source for all three charts on this page: Institute for Taxation and Economic Policy, 2003. Note: All 3 charts show 2002 tax law at 2000 income levels for nonelderly taxpayers.

Raising taxes on the 5% of New Yorkers with the highest income, while reducing income taxes for the other 95% by reinstating New York’s 1972 tax structure, would raise about \$7.8 billion a year for the state.

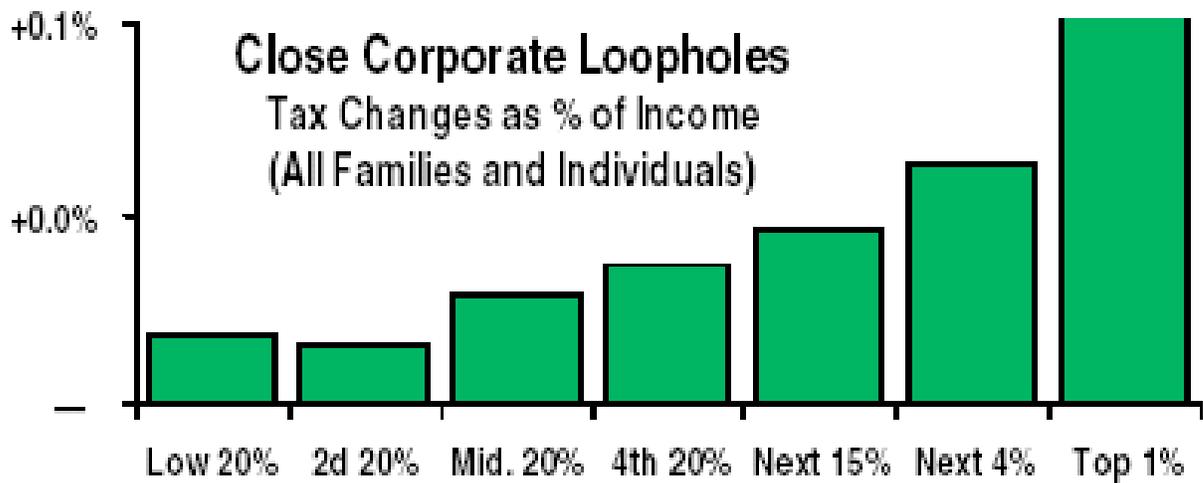
(Under this proposal, the 1972 tax brackets would be indexed for inflation, so the 15% top marginal rate would apply to taxable income over \$236,000 in 2006. This proposal would raise at least \$1.2 billion from nonresidents, primarily high-income residents from New Jersey and Connecticut who commute into New York to work.)



Source: Institute for Taxation and Economic Policy, *Achieving Adequacy: Tax Options for New York in the Wake of the CFE Case*, Option 1, page 41. Note: the white portions of the bars shows the portion of the tax increase that would be offset by federal deductibility.

Plugging some of the loopholes in New York's Corporate Income Taxes would raise about \$1 billion a year.

(Because most of the corporate tax is exported to stockholders and customers throughout the world, the impact of this option on New Yorkers is minimal.)



Source: Institute for Taxation and Economic Policy, *Achieving Adequacy: Tax Options for New York in the Wake of the CFE Case*, Option 12, page 44.

Economic Impact of Education Spending

Most policymakers would prefer to see New York State’s schools receive adequate funding --- yet many fear that raising taxes might hurt the state’s economy. In evaluating these fears, it is important to remember that public spending offers economic benefits that must be measured against the social costs of tax increases --- and the economic benefits of public spending are especially pronounced when spending is focused on education.

To estimate the economic impact that additional education spending and various revenue options would have on the state’s economy, the Institute for Taxation and Economic Policy (ITEP) used an economic model that is specifically designed to reflect New York’s particular economic and demographic structure. The model is a general equilibrium model, developed by Regional economic Models, Inc (REMI) that takes into consideration the linkages between the various industries within the state, between industries and the workforce, and between the state and national economies. The model allows fiscal policies with opposing tendencies, such as tax and spending increases, to be analyzed simultaneously, so that the net impact of these opposing policies can be observed.

The ITEP analysis found that increasing education spending by \$6 billion would increase employment in New York State by 1.26% and that an \$8 billion increase would increase employment by 1.67%. If this increased investment in education could be done without raising taxes (i.e., with “pennies from heaven”), that would be the overall economic impact. ITEP then evaluated the offsetting impact of paying for this increased investment with each of several different revenue sources. The negative impact on employment of raising \$8 billion would range from 1.25% if that revenue was raised through sales tax increases to 1.17% if that revenue was raised through property tax increases to 1.04% if raised through the income tax. The income tax has the least negative impact for several reasons including the fact that more of this tax than other taxes is paid by nonresidents, the fact that more of this tax is offset by federal deductibility than other taxes, and the fact that less of the income tax comes out of income that would otherwise be spent in the economy because of the fact that a much greater portion of this tax comes from the portions of personal income that are not necessary to meet the cost of life’s necessities. The result is that the positive economic effect of the additional education spending outweighs the negative economic effect of the commensurate tax increases, and that the overall positive economic effect is greatest when the spending increase is funded with an increase in the personal income tax.

	Impact of Education Spending with Various Revenue Sources						
	Gross Effects (percent change)				Net Effects (percent change)		
	Education Spending	Personal Income Tax	Property Tax	General Sales Tax	Personal Income Tax	Property Tax	General Sales Tax
Impact of \$6 billion							
Total Employment	+1.26	-0.78	-0.87	-0.94	+0.48	+0.38	+0.32
Gross State Product	+1.10	-0.67	-0.75	-0.80	+0.44	+0.35	+0.30
Personal Income	+0.78	-0.52	-0.58	-0.62	+0.27	+0.20	+0.16
Impact of \$8 billion							
Total Employment	+1.67	-1.04	-1.17	-1.25	+0.64	+0.51	+0.43
Gross State Product	+1.47	-0.89	-1.00	-1.07	+0.58	+0.47	+0.40
Personal Income	+1.05	-0.69	-0.78	-0.83	+0.36	+0.27	+0.21

Source: Institute for Taxation and Economic Policy, *Achieving Adequacy: Tax Options for New York in the Wake of the CFE Case*, page 53.