An Agenda for a Better New York

Funding a Sound Basic Education For All New York's Children

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EXECUTIVE SUMMARY

This paper sets forth an approach to reforming New York State's system of financing elementary and secondary education that has the potential to provide a significant amount of property tax relief to the residents of school districts with relatively low levels of ability to pay per pupil. Under the reform approach proposed in this paper, a uniform state property tax rate would be applied, with the state then financing the difference between the yield of that tax and the amount necessary to provide a "sound basic education" for each pupil attending a district's schools. The paper examines the distributional impact of this plan with particular attention being given to 45 districts that have been identified by the Board of Regents as "high need" districts because of concentrations of poverty and of pupils with limited English proficiency.

The new statewide educational finance system proposed in this paper is consistent with the principles established by the Campaign for Fiscal Equity (CFE). CFE is a coalition of parent organizations, community school boards, concerned citizens and advocacy groups, which, for the last six years, has been involved in a legal challenge to the way in which New York State funds elementary and secondary education. In 1995, the Court of Appeals — New York State's highest court — upheld CFE's right to pursue a constitutional challenge to the current system on the basis of its claim that many children in New York are being denied their right to a "sound basic education." The case, *CFE vs. State of New York* is expected to go to trial this year. In conjunction with extensive preparation for the trial, CFE has undertaken a far-reaching public engagement process which produced a set of principles that could be used to guide the formulation of a fair system for funding a sound basic education for schoolchildren throughout the state.

This paper focuses on the financing aspects of a sound basic education. It accepts virtually all the findings of the four major publicly-funded, multi-year studies of the state's school finance system that have been completed in the last 30 years (the Fleischmann Commission, the Rubin Commission, the Salerno Commission, the Moreland Act Commission), and of the many reports on the subject of school finance reform that have been published by the Office of the State Comptroller and the New York Board of Regents. This paper, however, attempts to build upon these previous studies and reports by developing a specific, comprehensive, formula-based plan for funding public education in New York State in a way that would achieve the dual objectives of school finance reform and property tax relief. It also recommends appropriate revenue sources for funding these proposals.

Rather than trying to create logic and equity from within the existing state system, this paper proposes that virtually all of the current hodge podge of aid formulas be replaced with two powerful and understandable formulas.[1] The first, referred to as "basic operating aid," would

[1] In addition, the plan set forth in this paper does not address the ways in which the state contributes to the costs of pupil transportation or school building construction.

apply to all students in all school districts. The second formula — "special needs aid" — would recognize the special needs and costs of educating those students at risk as a result of poverty, limited English proficiency, and/or residence in a rural area.

Basic Operating Aid Formula

The basic operating aid formula proposed in this report is designed to be rational, fair, simple and understandable. It achieves the objective of targeting aid to poor districts by supplying the difference between the cost of providing the basic operations component of a sound basic education and a standardized "required local effort." School districts would not be rewarded for increasing expenditures, but every school district would be required to spend enough to achieve a sound basic education. School districts would have the discretion to raise and spend funds above the required level.

The paper does not attempt to determine a statewide average cost of providing the opportunity for a sound basic education but instead uses $8,000 per student as a proxy for the specific amount which, according to the CFE Fair Funding Principles, should be determined by the State. The basic operating aid formula incorporates regional differences in the cost of educational inputs using an index of school costs developed for the National Center for Educational Statistics by Jay G. Chambers.

A minimum required local effort establishes a floor from which state aid would be calculated. This analysis primarily examines a required local effort of $11.00 per $1,000 full value but includes consideration of local efforts of $9.00 and $13.00 per $1,000 full value. The minimum required local effort chosen largely determines the State's share of the total costs. Each district's basic state operating aid equals the difference between the amount estimated to be necessary to finance a sound basic education (number of students × adjusted sound basic education cost level) and the amount of revenue that would be generated by applying the threshold local effort (tax rate × full value) and federal basic operating aid.[2]

Aid for Students with Special Needs

The amount of State funding for special needs aid is directly related to the amount of basic operating aid. Special needs aid would be 15% of the total statewide basic operating aid, but the distribution among school districts would be quite different. The special needs aid formula would calculate each district's aid using a special needs index based on the number of high-risk students (based on current State Education Department definitions of poverty, limited English proficiency, and district population sparsity) adjusted by a wealth factor (the state share of the adjusted sound basic education aid).

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[2] Local school districts would be free to use revenues from sales taxes, consumer utility taxes and other revenues as well as the property tax to fund their share of educational expenses. School districts which currently have local tax rates below any of the levels of minimum required local effort analyzed would not be forced to raise their local tax rates unless the current local effort, basic operating aid, and the federal impact and Individuals with Disabilities Act aid were not sufficient to fund the basic operations component of the sound basic education level for that district.

Advantages of the Proposed Aid Formulas

The proposed basic operating aid and special needs aid formulas accomplish the objectives sought in educational finance reform and provide the funding necessary for a sound basic education. First and foremost, equity is achieved between rich and poor districts. State aid fills the gap between the required local effort threshold and the State-determined cost of a sound basic education. This funding scheme preserves both the importance of local effort and the ability of local districts to set the upper limit of school spending.

Even with a significant increase in total state aid, some school districts receive more state aid currently than under the proposed basic operating aid formula because of the current inequitable distribution of state aid. Hold-harmless aid can prevent any district from receiving less in basic operating aid than it now receives.

Both the basic operating and special needs aid formulas have few variables and are relatively straightforward. The state variables are the cost level established for a sound basic education and the minimum required local effort used in the state basic operating aid calculation. The district-level variables are the number of students (enrolled and attending, including summer school), the number of students at risk, current federal aid, the property tax base and the adjustments to recognize local differences in the cost of educational inputs.

The basic operating and special needs aid formulas are also stable. A school district could approach each new school year with confidence in its state aid expectations. The State Executive Budget for education would no longer be subject to the now customary unpredictability and wide variation in the year-to-year dollar and programmatic changes. School districts could return to their primary mission of educating children without being driven programmatically through state aid changes and without having to increase spending in order to get more state aid. The Board of Regents and the Department of Education could stay focused on educational outputs and on insuring that educational standards are being met.

This study uses revenue and expenditure data for the 1996-97 school year. Based on the 1996-97 financial data, the following observations are made if the proposed basic operating and special needs aid formulas had been in place in 1996-97.

* the State's share under the proposed basic operating and special needs aid formulas would grow to 54.6% (including a provision for hold harmless aid) from the current 39.3% share

* the additional State dollars required to fund a sound basic education would total $5.192 billion[3]

[3] This and subsequent summary figures assume the adoption of a hold harmless provision which would guarantee every district at least its current level of state operating aid. Without such a provision, the proposal requires less additional state funding.

* local property taxes would decrease by $2.137 billion

* the net effect on funding of a sound basic education would be an increase in expenditures of $3.056 billion.

Funding a Sound Basic Education and Recent Changes in State Aid and School Tax Relief

Since the 1996-97 school year, significant increases and changes have occurred in state aid, and the STAR program providing school tax relief has been enacted. Total education aid has increased by $1.7 billion and another $1.0 billion has been promised. The STAR program will cost $2.7 billion when fully implemented. The sum of this additional aid is significantly greater than the additional money that would have been required in 1996-97 to fully implement the proposed reforms.

The plan proposed in this paper distributes school aid much differently than the increases enacted in 1997 and 1998, which only exacerbated the inequities between wealthy and poor districts. The 45 school districts defined by the Department of Education as "high need" received 47% of 1996-97 state aid (excluding building and transportation); they will receive 34.4% of STAR money and they received 56.6% of the increased aid (that could be broken down by district) in 1997 and 1998. If STAR and the additional aid could instead be distributed using the proposed plan, those 45 high-need districts would receive 66.2% of that money.

Alternative Revenue Sources

The final section of this report examines alternative sources of revenues and concludes that given the significant cost of financing education, only a broad-based tax can provide sufficient revenues to meet State educational financial obligations. The report outlines the advantages and disadvantages of property taxes, the personal income tax, business taxes and consumption taxes and concludes that the preferred source of additional funds for education is the personal income tax.

INTRODUCTION

The purpose of this report is to set forth a promising approach to reforming New York State's system of financing elementary and secondary education, and to examine its fiscal implications. This approach to changing the way that New York finances its constitutional responsibility for educating all of the state's children was developed by the authors of this report on the basis of the "Statewide Fair Funding Principles for a Sound Basic Education" that have come out of the public engagement process that has been undertaken by the Campaign for Fiscal Equity over the course of the last several years.

Just as those principles are a work in progress and labeled as "draft," so too is this report. In this case, we have attempted to take those broad principles and then, in the language of financial analysis, to "cost them out." Doing this requires the making of a number of assumptions, but regardless of the choices that one might make in this regard, implementing these principles will invariably result in a substantial shift in the responsibility for funding elementary and secondary education from local school districts to the state government. In this report, we attempt to estimate how substantial that shift might be under several alternative scenarios, and then to examine the options that are available to the state for financing the resulting increase in its contribution to elementary and secondary education.

Background on the Campaign for Fiscal Equity and its Fair Funding Principles

The Campaign for Fiscal Equity (CFE) is a coalition of parent organizations, community school boards, concerned citizens and advocacy groups, which, for the last six years, has been involved in a legal challenge to the way in which New York State funds elementary and secondary education. In 1995, the Court of Appeals -- New York State's highest court -- upheld CFE's right to pursue a constitutional challenge to the current system on the basis of its claim that many children in New York are being denied their right to a "*sound basic education* (SBE)."[4] Since the Court of Appeals decision in *CFE v. State of New York*, CFE and its pro-bono counsel, Simpson Thacher and Bartlett, have been involved in an extensive discovery process in preparation for trial, which is now expected to begin in the late spring of 1999.

CFE has undertaken a far-reaching public engagement process to develop a set of principles to guide the formulation of a fair system for funding a sound basic education for schoolchildren throughout the state. Two years of extensive public meetings and community forums were used to discuss and revise a set of principles based on the common themes on fiscal equity reform contained in position papers issued by CFE, the League of Women Voters of New York State, the New York State PTAs, the New York State School Boards Association, and the New York State United Teachers. The revised principles were then presented to two larger

[4] The Court distinguished CFE's claim from that of the plaintiffs in the earlier *Levittown v. Nyquist* case, who had argued unsuccessfully that New York's school finance system was unconstitutional because it was characterized by significant inequalities in the availability of financial support for local school districts, resulting in significant unevenness in the educational opportunities offered to the children of the state.

meeting, one in Albany and one in New York City, where the diverse range of participating stakeholders expressed strong support for the ideas contained in the principles.

The first principle states that "the state should guarantee that every school district has sufficient funds to provide all students the opportunity for a *sound basic education*," which CFE has defined as follows:

> "A sound basic education consists of the skills students need to meet the Regents' learning standards, sustain competitive employment and function productively as civic participants capable of voting and serving on a jury. To provide the opportunity for a sound basic education to all students, every school must have essential resources and a climate conducive to serious teaching and learning."

The subsequent principles establish the framework for delivering on the broad goal established by the first principle. The second, third and fourth principles deal with the type of financing mechanism that should be used, and the fifth principle focuses on the importance of accountability in achieving the goal of a sound basic education for all New York's children. These subsequent principles are:

II. The State should determine the actual cost of providing all students the opportunity for a SBE.

III. The State should provide at least 50% of total statewide educational expenditures while requiring maintenance of a fair level of local funding efforts.

IV. The State should ensure greater fiscal equity among school districts.

A. The State should increase aid to poor districts but should not impose ceilings on expenditures of any other districts.

B. Increased aid should be provided for students who are at risk due to concentrated poverty, disability or limited English language skills, and for population sparsity.

C. Variations in local costs should be taken into account.

D. The current property assessment system should be reformed to ensure uniform standards and regular reassessments.

V. The State should require and support a comprehensive accountability system which will ensure that each school is providing all its students the opportunity for a sound basic education

<u>Operationalizing the Fair Funding Principles</u>

There are several key tasks which must be completed in order to operationalize the CFE principles. The first set of tasks includes those related to estimating the cost of providing a SBE. First, a determination must be made as to the resources necessary to provide a SBE to average students in New York.[5] Second, a methodology must be selected to adjust these resource levels to take into account the differences in input costs across school districts. Third, a mechanism must be developed to account for the additional resources needed to provide a SBE to students with special needs.

The second set of tasks involves the establishment of formulas that equitably allocate the responsibility for funding a SBE, including services for students with special needs, between the state government and the local school districts. This paper develops a funding model which guarantees sufficient resources to fund a SBE for every student in every school district, increases the responsibility of the State for providing funding, requires that a minimum and fair local effort be continued in the support of public education, and very importantly, properly recognizes the disparity in local resources and the special needs of students at risk.

This paper proposes that state funding be distributed in a way that compensates for the unequal distribution of taxable property across school districts by establishing the minimum local contribution to funding a SBE at a uniform statewide tax rate. State aid is then used to fill the gap between the revenues generated locally, federal support and the revenues needed to fund a SBE. The model used in the analysis can be adjusted to assess the implications of changing the minimum required local contribution. State aid for students with special needs would be distributed based on a formula which takes into account not only the number of students with extraordinary needs, but also the district's revenue-generating potential by using a wealth adjustment factor.

Both student equity and taxpayer equity are important issues. The proposed solutions address both and will achieve greater equity for students by removing interdistrict disparities in resources, and greater equity for taxpayers without forced sharing or redistribution of local revenues.

Criticisms of the Current System

The current programs providing state aid to education have not suffered from lack of study and attention in recent years. In the last 20 years, four special task forces (known as the Fleischmann, Rubin, Salerno, and Moreland Act Commissions) have all issued voluminous reports. In addition, in the last several years, the Office of State Comptroller has issued a series of reports on educational finance, with many suggestions for reform. The report most directly

[5] The precise cost of providing a SBE cost is not currently known. The second principle calls for the state to determine the actual cost. For the purpose of developing a fair and equitable funding formula to support the CFE principles, it is necessary to assume a cost amount per pupil for a sound basic education. The model on which this analysis is based allows for variation in the assumptions made about the SBE per pupil, so that subsequent analyses can be made at differing levels of expenditures to achieve a sound basic education.

addressing problems with the current state aid system is *Agenda for Equitable and Cost-Effective School Finance Reform*, issued in October 1996. The NYS Board of Regents regularly makes recommendations for changing the current system and it has recently published two collections of research papers of school finance experts, one of which dealt with "cost-effectiveness in education" and the other with "the generation of revenues for education." Private organizations have also published analyses of the current system, a recent example of which is the *Final Report* of the New York State United Teachers Ad Hoc Task Force on K-12 School Funding.

From the prior studies and the work of the Campaign for Fiscal Equity, it is reasonable to conclude that the current system:

* is unfair to pupils and taxpayers who have lower than average revenue-raising capacity and/or higher than average needs;
* involves numerous complex formulas that fail to meet any reasonable test of transparency and which sometimes operate at cross purposes
* contains too many categorical grant programs and other expenditure restrictions;
* includes some formulas that appear to discourage cost efficiencies;
* fails to provide adequate consideration to students with special needs; and
* does not recognize regional and/or local cost differences.

These same studies recommended that a new system of funding education in New York State:

* should be simple, rational and easy to understand;
* should allow greater flexibility to school districts in use of their state aid;
* should provide sufficient resources, coupled with a required local effort, to assure that every student has the opportunity for a sound basic education;
* should be sufficiently flexible to allow and encourage school districts to raise and spend funds above the threshold for sound basic education;
* should incorporate incentives to encourage cost efficiency in the provision of a sound basic education;
* should take into account local cost differences;
* should consider the extra resources necessary to meet higher educational standards and to educate students with special needs; and
* should provide additional state aid to districts with relatively lower revenue-raising capacity.

OVERVIEW OF THIS REPORT AND THE FPI MODEL

This report does not attempt to critique the current system. Rather, it acknowledges and accepts much of the work previously done by others, and turns instead to the analysis of an alternative approach. It presents an extensive discussion of the model used and the results produced, and concludes with an analysis of the revenue alternatives available to support the funding level required for a SBE. The appendices contain a fuller discussion of the methodology and data used.

Both the total amount of current state aid provided and the distribution of that aid are important in developing and understanding the implications and effects of increased State

funding for a sound basic education. State aid from revised formulas that meet the criteria and criticisms cited above will have a significantly different distribution than current formulas. This paper will compare the state aid necessary to achieve a sound basic education with current state aid distributions.

Expenditure and Revenue Data Used in the Analysis

The Department of Education and the Office of the State Comptroller collect extensive data on New York State school district revenues and expenditures. This project required the accumulation of a very large amount of data which was tailored to determine the expenditures and revenues related to a SBE. Appendix A describes in detail the various sources of revenue and expenditure data used in the project, the most important of which is the *Annual Financial Report* (ST-3 reports) filed each year by each school district with the Department of Education and the Office of the State Comptroller. The ST-3 forms report on revenues and expenditures from many funds. Since the focus of this analysis is confined to the resources needed to finance basic operations and services for students with special needs, only the General Fund and the Special Aid Fund are used in the analysis. Both revenue and expenditure data are adjusted to exclude transportation, community services, debt service, tuition payments for students attending other school districts, certain federal assistance and interfund transfers. After comparing the data on revenues and expenditures (which do not match up exactly), the analysis presented in this report utilizes revenue rather than expenditure information. This allows the analysis to focus on the three component sources of educational funding --- local, state and federal.

The analyses presented in this report use the ST-3 revenue data for 1996-97 as a baseline. This was the most recent year for which complete information was available at the time that this model was being finalized during the summer of 1998. The model developed by the Fiscal Policy Institute for this analysis can be updated to substitute later year ST-3 data for the 1996-97 data.

Pupil Count

This analysis uses a pupil count which averages enrollment and attendance numbers to take into account the long-standing controversy over which is the appropriate measure of the number of pupils. Summer school students are included in the pupil count, weighted by .12. Table I provides summary data on enrollment, attendance, summer school attendance and the pupil count used in the study. Appendix B provides a detailed analysis of the available measures of pupil count and how the pupil count used in this study was derived.

School Districts in the Study

New York has 710 school districts including a number of very small school districts and some which impose no local taxes. For purposes of this study, school districts with eight or fewer teachers are excluded as are special act school districts. The analysis in this report is based on 682 major school districts. Omission of the 28 school districts does not have a significant impact on this study, as these school districts collectively receive about $2 million in school aid annually.

District Type Groupings

The state's school districts are commonly aggregated by type for purposes of analysis. This report adopts the same groupings used by the Department of Education and a number of others in their studies of school finance: the downstate small cities, the downstate suburbs, New York City, the state's next four largest cities (Buffalo, Rochester, Syracuse and Yonkers), the rural counties, the upstate suburbs, and the upstate small cities. The counties or school districts included in each grouping are listed in Appendix C.

In addition to these groupings, the report also looks at the impact of the proposed funding method on the 45 districts that have been identified by the Board of Regents as "high-need districts." These high-need districts have nearly two-thirds or more of their students who are living in poverty or with limited English proficiency. Thirteen of these districts are in rural areas. These 45 districts educate 50% of public school students in New York and 79% of the minority students. The Regents have cited significant performance gaps between these districts and the average for the rest of the state. The 45 high-need districts are listed by county in Appendix C.

OPERATIONALIZING THE FAIR FUNDING PRINCIPLES

Establishing the Cost of a SBE

The second of the Fair Funding Principles provides that "the State should determine the actual cost of providing all students the opportunity for a SBE." Since New York State has not yet made such a determination, the Fiscal Policy Instituted has developed a model that allows for the determination, for each school district, of the state and local contributions that will be required **at whatever "the actual cost of providing all students the opportunity for a SBE" is ultimately determined to be**.

As currently constructed, the FPI model anticipates that the cost of a Sound Basic Education will be determined to consist of two components: (1) the amount necessary to provide a SBE absent special needs, and (2) the amount necessary to provide for special needs.

The first component of SBE is referred to in this analysis as the **basic operations component of SBE** (sometimes abbreviated as BOC-SBE). The amount of state aid provided to districts to support this part of the cost of an SBE is referred to as **basic operating aid**. The second component is referred to as the special needs component of SBE (abbreviated as SNC-SBE) and state aid for this purpose is referred to as **special needs aid**.

For the purpose of the analyses presented in this report, the cost of the basic operations component of the cost of a sound basic education (BOC-SBE) is assumed to be $8,000, prior to the cost adjustments discussed below. As indicated above, however, the model created for this study allows for the substitution of a cost other than the $8,000 figure. At any given level of "required local effort,"[6] the use of a higher or lower BOC-SBE cost figure will result in an

[6] As discussed in greater detail below, the analysis presented in this report has examined

increase or decrease in the required state contribution but will not change the required state contribution.

An analysis of the 1996-97 ST-3 revenue data results in an average of $8,215 in funds available per pupil for basic operations. *See* Table II. This does not include revenue which is utilized to provide for the transportation of pupils, building construction and debt service. Nor does it include the federal and state revenues which are currently dedicated to special needs, primarily the state's extraordinary needs aid (ENA) and the federal government's Title I aid. It does, however, include revenue that goes to several other purposes that would under this proposal be funded separately from SBE. These include the costs of educating severely handicapped children (the costs of educating other handicapped children would be included within SBE), the costs of services that must be provided to both public and nonpublic school pupils, and the costs of BOCES.

Local Cost Adjustment

One element of the third Fair Funding Principle provides that "variations in local costs should be taken into account." This principle represents a recognition of the fact that the price of educational inputs varies from district to district. The cost of living and the cost of doing business is higher in the New York City metropolitan area (New York City and Suffolk, Nassau, Westchester, and Rockland Counties) than in the rest of the state. Substantial cost variations can even exist in the prices of educational inputs among school districts within a county. Input costs are generally higher in an older, urban city than in an affluent neighboring suburb.

This analysis uses an index of school costs developed for the National Center for Educational Statistics (NCES) by Jay G. Chambers.[7] The Chambers index is described in Appendix D. Using the Chambers methodology, the cost indices for New York's school districts range from a high of 1.127 for the Freeport School District in Nassau County to a low of .778 for the Lake Pleasant School District in Hamilton County. New York City has an index of school costs of 1.040. As expected, nearly all of the school districts in the four suburban counties surrounding New York City have indices above 1.000.

Basic Operating Aid Formula

Basic operating aid (i.e., the state contribution to the funding of the basic operations component of a sound basic education) would be the basic form of state aid for public

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the fiscal impact of establishing the required local contribution at the equivalent of $9, $11 and $13 per thousand of full value. The model can also determine the impact of other required contribution levels. It can also be used "in reverse" to determine what the required local contribution level would have to be for an increase of a given amount in the state contribution.

[7] Jay G. Chambers, Director and Senior Research Fellow at the John C. Flanagan Research Center American Institutes for Research has conducted research and published a report for NCES entitled, *Geographic Variations in Public Schools' Costs*, October, 1997.

elementary and secondary school costs. It would replace all state aid programs other than those for the special needs component of a sound basic education and those for transportation, buildings, the education of severely handicapped children, services and materials provided to both public and nonpublic school pupils, and for BOCES and other joint services.

The formula for basic operating state aid proposed in this report is designed to be rational, fair, simple and understandable. It achieves the objective of targeting aid to poor districts by supplying the difference between the BOC-SBE level and a standardized "required local effort." School districts would not be rewarded for increasing expenditures, but every school district would be required to spend enough to achieve a sound basic education. School districts would have the discretion to raise and spend funds above the SBE level.

The amount of basic operating aid for each district would be determined as follows:

First, the per pupil BOC-SBE cost (assumed here to be $8,000 per pupil) would be multiplied by the district's regional cost factor index, creating the district's adjusted BOC-SBE per pupil amount.

Second, the district's adjusted BOC-SBE per pupil amount would be multiplied by the pupil count (the average of enrollment and attendance plus summer school students) to determine the total amount necessary in that district to fund the basic operations component of a SBE.

Third, the portion of the district's BOC-SBE costs to be borne by the state and the local district would be determined by subtracting federal aid for basic operations (impact and IDEA aid) from the total funding requirement.

Fourth, a statewide uniform tax effort (proposed in this report to be $11 per $1,000 of full value) would be applied to the district's property tax base to determine the amount of revenues that the school district would be required to contribute to the funding of the basic operations component of a SBE.[8] While the amount of the required local contribution would be determined through the application of a uniform full value tax rate, local districts would not be required to raise that amount entirely through property taxes. In those counties, for example, in which sales tax revenues are shared with school districts, those revenues would count toward the meeting of the local funding requirement. Districts would be allowed to levy local taxes above the minimally required level to fund educational services at levels greater than the minimally acceptable "sound basic education" level.

[8] The FPI model can be modified to look at the impact of varying this minimum required local effort. Tables X, XI, and XII provide detailed analysis of the impact of using $9.00, $11.00 and $13.00 per $1,000 full value as the minimum required local effort.

Fifth, the district would be provided with an amount of state aid for basic operations equal to the difference between (a) the state and local BOC-SBE funding requirement as determined by the first three steps outlined above, MINUS (b) the required local contribution as determined by the fourth step.

State aid for the basic operations component of SBE, therefore, is calculated in the following manner:

Basic Operating Aid = [(Adjusted BOC-SBE per pupil) X (Pupil Count)] - [Federal Aid for Basic Operations] - [(Statewide Uniform Tax Rate) X (Full Value)]

One advantage of this formula is that it preserves taxpayer equity by requiring a minimum equal effort while not sharing or otherwise redistributing locally raised revenues. At the same time, this formula achieves greater financing equity across districts by compensating for interdistrict disparities in property wealth per pupil -- which ranges among the district type groupings from $229,000 in Upstate Small Cities to $530,000 in Downstate Suburbs. *See* Table I.

As an example, a district with 2,500 aidable pupils, $ 800,000,000 in full value, a BOC-SBE level of $8,000, federal basic operations aid of $200,000 and a minimum required local effort of $11.00 per $1,000 of full value would have the following state aid calculation:

$8,000 × 2,500 pupils = $20,000,000	Total BOC- SBE Funding Requirement
$20,000,000 - $200,000 = $19,800,000	State & Local SBE Funding Requirement
$11.00 × $800,000 = $8,800,000	Required Local Contribution to BOC-SBE
$19,800,000 - $8,800,000 = $11,000,000	State Basic Operating Aid

Hold Harmless Aid

Using the SBE formula to determine state basic operating aid, some school districts would be entitled to less state aid than they are currently receiving. A hold harmless provision could prevent any district from losing state basic operating aid under the proposed formula. The amount of additional state aid needed to provide hold harmless protection is relatively small. If the minimum required local tax effort is set at $11.00 per $1,000 full value, the total cost of providing hold harmless aid is $269 million which represents only a 2.2% increase in the amount of basic operating aid under this proposal.[9] Table VIII provides a breakdown of basic aid by school district group with and without a hold harmless provision. In the 1970s and 1980s, hold harmless provisions basically benefitted some of the state's wealthier school districts. Since then, because of declining enrollment and other factors, the mix of districts protected by hold harmless provisions has changed substantially, with many moderate and low wealth districts now being affected.

[9] Further analysis is necessary to determine if the state aid increases adopted since 1996-97 have increased or decreased the cost of including a hold harmless provision in this plan.

At the $11.00 per $1,000 minimum required local tax effort, the number of districts that would receive hold harmless aid is quite substantial despite the relatively small amount of aid that would be needed for hold harmless. Nearly one third (216 out of 682) of all school districts would be eligible for hold harmless aid. Appendix E provides a detailed discussion of the distribution of hold harmless aid among school district groups and the impact of varying the local required minimum effort on the amount and distribution of hold harmless aid.

Local Effort

School districts, largely through the property tax, have a major role and responsibility in funding public education. In 1996-97 local jurisdictions generated $13.78 billion to support education, of which approximately $13.1 billion was used for basic operations support. Expressed as dollars per $1,000 of full value, the average local effort from all sources was $16.41 per $1,000 of full value to support all educational activities and $15.91 per $1000 full value to support basic operations.[10]

This proposal does not require a minimum tax levy, but it does require a minimum local contribution to the funding of the basic operations component of a SBE. A school district that is able to achieve that minimum contribution level with a lower tax rate would not have to levy property taxes at a rate greater than that which is necessary to produce the required local contribution. With hold harmless aid, very few school districts would have to increase their local effort to fund their contribution to the BOC-SBE level. With a minimum required local effort of $11.00 and hold harmless aid, only 10 school districts would be required to raise taxes.[11]

This model does not impose any upper limit on spending beyond the required BOC-SBE level. For the period considered in the analysis, 536 school districts already had BOC-SBE revenues in excess of their BOC-SBE level, while 146 were below their BOC-SBE level and would have to increase spending through a combination of increased state aid and/or local effort. Districts now spending at or near the BOC-SBE level may receive additional state aid, with which they might choose to spend at a higher level, rather than reduce property taxes. The model does assume that districts that are currently spending above the BOC-SBE level will continue services at their current levels.

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[10] The property tax is the primary means of providing local revenues for education contributing 96% of all local revenues for education in 1996-97. The balance of the local support for education comes from other taxes including sales taxes and consumer utility taxes.

[11] Only 53 school districts imposed property taxes of less than $10.00 per $1,000 full value for all educational purposes. Many of these were smaller districts, with only 11 having more than a thousand pupils enrolled and they were concentrated in several areas: 20 were in Suffolk County, 17 within the Adirondack park area, and 4 in the Catskill park area. *1995-96 Financial Data Report for School Districts* from the Office of State Comptroller.

In this proposal, a local jurisdiction is not required to set its property tax rate at the statewide minimum required local effort. A local jurisdictions may levy other taxes or raise other revenues as long as its required BOC-SBE funding contribution is achieved. As at present, sales taxes, consumer utility taxes, and other revenue sources are available to various districts. These revenues could be substituted for the property tax in achieving the required local contribution.

Special Needs Aid

Students who are at risk of educational failure as a result of poverty, limited English language skills, and living in sparsely populated areas require greater educational services and therefore require higher educational expenditures. Accordingly, to achieve a sound basic education for *all* students, some districts will need additional state aid.

For this study the total amount of state special needs aid provided is set at 15% of the total state basic operating aid available before hold harmless payments. Thus, as state aid increases under the basic operating aid formula, special needs aid will also increase. In reviewing the projected 1998-99 state aid distribution, the state aid for limited English proficiency and extraordinary needs constitutes 7.6% of all state basic operating aid. Thus, special needs aid at the 15% level would provide almost twice as many funds for these purposes and may begin to address the concerns of the Board of Regents for the support needs of the 45 high-need districts.

The pupil counts for special needs aid are those used by the Department of Education in the calculation of extraordinary needs aid (ENA) for 1996-97 --- 1,564,822.[12] This appears to be a very high number, representing 56.3% of enrollment and 62.7% of attendance but this is because a student may be double-counted, or even triple-counted in the extraordinary needs pupil count. In New York City, Buffalo and Rochester the extraordinary needs pupil count exceeds the attendance count. *See* Table I.

The formulas proposed for distributing enrichment aid take into account local ability to fund education. Local ability to fund education is measured by the ratio of the state share of the district's adjusted BOC-SBE to the average state share of BOC-SBE funding. Districts with less than average ability to fund education (primarily due to lower total property values) will have higher than average state contributions to basic operations.

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[12]Two other methods of distributing enrichment aid were tested, but were found less desirable. One approach used the existing distribution of aid under the 1996-97 extraordinary needs aid formula. This approach is not consistent with the SBE basic aid formula, as the extraordinary needs aid formula utilizes a foundation level of $3,900 and a wealth measure of adjusted state gross income. The other approach used the existing distribution of federal Title I moneys. Fiscal disparities and capacities are not adequately recognized in the Title I distributions, so that high wealth districts receive significant amount of Title I funds.

The specific formulas used for the determination of a school district's special needs aid

$$\frac{\dfrac{District\ Basic\ Operating\ Aid\ Per\ Pupil}{Adjusted\ District\ BOC - SBE}}{\dfrac{Statewide\ Average Basic Operating Aid\ Per\ Pupil}{Statewide\ Average BOC - SBE}} = Wealth Adjustment Factor (WAF)$$

are as follows:
The district's share of the extraordinary needs pupil count is then multiplied by the wealth adjustment factor and the total amount of state special needs aid to calculate the amount of state special needs aid the district will receive.

$$\frac{District\ EN\ Pupil\ Count}{Total\ \ EN\ Pupil\ Count}\ X\ Statewide\ Special\ Needs\ Aid\ X\ WAF = District\ Special\ Needs\ Aid$$

FISCAL IMPACT ANALYSIS

The proposed SBE funding formulas would significantly improve the financing of educational services in New York State consistent with the principles developed by the CFE public involvement process. In order to ensure every student access to sufficient resources to fund a SBE, overall spending on education would have to increase. Table IV summaries the additional revenues which would be required statewide, in New York City and in the 45 High-Need Districts.

In addition to increasing the total revenues available to fund a SBE, the proposed funding formulas shift responsibility from local jurisdictions to the state. The FPI proposal increases the state share of educational revenues from 39.29% to over 50%, with or without a hold harmless provision. Table V provides data on the state share of revenues to support basic operations and the state share of total SBE revenues under the FPI proposal.

For most districts the increase state aid for education will result in an increase in revenues available to fund a SBE without the need for additional local revenues. Statewide the local revenues required would decrease by approximately $2 billion. Table VI summarizes these changes in local effort.

Basic Operating Aid for a Sound Basic Education

To fund the BOC-SBE at the $8,000 level with a $11.00 per $1,000 total value minimum required local effort would require a $3.848 billion increase in state aid. This increase would consist of a $3.578 billion increase in basic operating aid and a $0.269 billion allocation to fund the hold harmless provision.

The overall percentage increases in state basic operating aid with a hold harmless provision is 45%. However, wide variations in percentage increases occur among the school district groupings. Given the inequities of the current state aid formulas this is not unexpected.

Percentage Increase in State Aid for Basic Operating Expenses By School District Group

	With Hold Harmless	Without Hold Harmless
Statewide	45.0%	41.8%
45 High-Need Districts	52.4	51.8
Downstate Small Cities	34.1	31.7
Upstate Suburbs	49.1	47.8
Upstate Rural	11.2	3.3
Downstate Suburbs	39.3	27.2
Upstate Small Cities	25.1	22.9
New York City	66.0	66.0
Big Four Cities		
Buffalo	0.0	-0.3
Rochester	35.2	35.2
Syracuse	4.6	4.6
Yonkers	29.6	29.6

Special Needs Aid

Special needs aid is designed to offset some of the added costs of educating students at risk due to concentrated poverty, limited English language skills, and population sparsity. The special needs aid is set in this proposal at 15% percent of basic operating aid, exclusive of hold harmless aid. Special needs aid would thus grow as basic operating aid grew. With the $11.00 per $1,000 required minimum local effort, the state special needs aid would total $1.820 billion.

Components of the Special Needs Distribution Formula

	State Aid as a % of BOC-SBE	Wealth Adjustment Factor	Share of Total Students at Risk

Statewide	52.8%	100.0%	100%
45 High-Need Districts	62.1%	117.6%	62.9%
Downstate Small Cities	23.9%	45.3%	1.1%
Upstate Suburbs	40.0%	75.8%	9.1%
Upstate Rural	58.5%	110.8%	5.4%
Downstate Suburbs	31.2%	59.1%	7.1%
Upstate Small Cities	59.9%	113.4%	7.2%
New York City	61.8%	117.0%	62.9%
Big Four Cities			
Buffalo	75.4%	142.8%	2.6%
Rochester	75.2%	142.4%	2.1%
Syracuse	70.0%	132.6%	1.2%
Yonkers	48.0%	90.9%	1.3%

Districts will benefit from special needs aid only to the extent that they have students within the three designated at risk categories. Nearly 80% of special needs aid goes to the 45 High-Need school districts. Reflecting the urban dimensions of poverty concentration and limited English language skills, the 45 High-Need districts, New York City and the other four largest cities would receive a larger share of the special needs aid funds than their share of the basic operating aid.

Share of Total State Aid by School District Group

	Percent of Students at Risk	Share of Total Students at Risk	Share of Special Needs Aid	Share of Basic Operating and Special Needs Aid
Statewide	59.0%	100%	100%	100%
45 High-Need Districts	96.3%	62.9%	77.9%	55.9
Downstate Small	50.3%	1.1%	0.8%	1.1

Cities				
Upstate Suburbs	23.7%	9.1%	9.5%	20.7
Upstate Rural	43.4%	5.4%	5.6%	7
Downstate Suburbs	21.7%	7.1%	5.7%	13.7
Upstate Small Cities	54.4%	7.2%	7.7%	8.1
New York City	100.4%	62.9%	62.4%	43.4
Big Four Cities				
Buffalo	94.5%	2.6%	3.3%	2.3
Rochester	94.7%	2.1%	2.6%	1.8
Syracuse	81.7%	1.2%	1.4%	1.1
Yonkers	92.4%	1.3%	0.2%	0.8

The impact of the wealth adjustment factor included in the special needs distribution formula can be seen by comparing the share of "at risk" students with the share of special needs aid. While the 45 High-Need Districts have 62.9% of the at-risk students they receive 77.9% of the special needs aid because they have relatively less revenue-raising capacity. On the other hand, the Down State Suburbs and Yonkers receive a smaller share of special needs aid than their share of at-risk students because they are relatively wealthier than the other school district groups.

Changes in Total Revenues Available to Support a Sound Basic Education

Total revenues available for education would increase by 13.3%, or $3.056 billion. On a per-pupil basis, funding available to support basic operations and special needs would grow from the current level of $8,680 to $9,833. The basic and special needs aid formulas result in both increasing educational funding and shifting a portion of the current local effort to the State. The following table shows the dynamics that occur under the formulas for state and local funding.

Funding Changes with SBE Proposal		
	Change in Revenues (billions)	% Change from Current Revenues
State Aid	$5.192	57.5%
Local Effort	(2.137)	16.3%
Aggregate Effort (includes federal support)	$3.056	13.3%

The following table shows the aggregate percentage increases in state aid for each school district group, with and without hold harmless aid.

Aggregate (Basic Operating and Special Needs) Increase in State Aid		
	With Hold Harmless	Without Hold Harmless
Statewide	57.5%	54.5%
45 High-Need Districts	70.6	70.1
Downstate Small Cities	44.7	42.4
Upstate Suburbs	54.8	53.6
Upstate Rural	19.5	11.9
Downstate Suburbs	44.1	32.2
Upstate Small Cities	36.7	34.6
New York City	85.0	85.0
Big Four Cities		
Buffalo	15.9	15.6
Rochester	52.9	52.9
Syracuse	19.8	19.8
Yonkers	45.2	45.2

The aggregate state aid increases vary widely within the different school groupings. With hold harmless, state aid will increase by 57.5% while without hold harmless aid state aid would increase by 54.5%. New York City would receive the largest percentage increase --- 85.0%.

State Share of SBE Revenues

The state share of public education revenues varies somewhat depending on the expenditures and revenues included in the calculations. This study excludes from consideration the costs and revenues associated with transportation and buildings. Federal aid, whether for a basic operations or special needs has been held constant. State aid in 1996-97 represented 39.3% of the cost of providing a sound basic education. The proposed basic and special needs aid formulas would increase the state share to 54.6% with hold harmless and 53.5% without hold harmless.

Local Effort to Fund a SBE

Shifting to the proposed SBE funding scheme could reduce the local share of the cost of education by $2.137 billion or 16.3% with a hold harmless provision. Without the hold harmless provision local effort could still be reduced by $1.868 billion or 14.3%. Table IX provides detailed information on the proposed local effort required and the changes in local effort. Without hold harmless the local effort would increase in Buffalo. The most significant reductions in local effort would occur in Rochester, Upstate Noncity Suburbs, Upstate Small Cities, and Yonkers.

The impact of the proposed funding changes on local effort can be shown by the effect on local tax rates. Without hold harmless aid a number of school districts would have to increase their local effort to achieve the target SBE funding levels. With a hold harmless provision, the necessity for local increases in tax effort virtually disappears.

Change in Local Effort Requirements

	With Hold Harmless	Without Hold Harmless
Districts with Rate Increase	10	222
Districts with Rate Decrease	460	460
Districts with No Change	212	0

Impact of Changing the Required Local Minimum Effort

While this analysis assumes a local minimum required effort of $11.00 per $1000 full property values, the model can be adjusted to demonstrate the impact of different minimum required local efforts. Detailed results of the impact of different local effort requirements on state, local and total revenues are included in Tables VII through XII. As the minimum local required effort increases, the required incremental state basic operating aid decreases. Since special needs aid is set at 15% of state basic operating aid, the incremental state special needs aid also decreases. For example, if the minimum threshold were set at $13.00 rather than $11.00 the state basic operating aid would decline by $1.233 billion or 32% while special needs aid would decline by $0.214 billion. On the other hand, if the minimum required local effort were lowered to $9.00 per $1000 full property value, the incremental state basic operating aid would increase by 36% or $1.389 billion and special needs aid would increase by $0.231 billion.

Varying the minimum required local effort also changes the cost of implementing a hold harmless provision. At the lower required effort the cost of the hold harmless provision is $121 million; at the higher local required effort, the cost of the hold harmless provision is $467 million, a 4.4% increase.

Similarly, the lower the local minimum effort, the fewer the school districts forced to increase local tax rates to achieve the SBE Basic Operating Revenue requirements. With a hold harmless provision and a $9.00 minimum required local effort only one district would need to raise taxes. With a $13.00 minimum required local effort, 22 districts would need to raise taxes.

Changing the local minimum effort also changes the distribution of state basic operating aid across school district groups. The following table shows the shares for each group under the current system and under three alternative minimum threshold scenarios.

Share of Total State Basic Operating Aid by School District Group with Hold Harmless

	Current	$9.00	$11.00	$13.00
Statewide	100%	100%	100%	100%
45 High Need Districts	50.10	52.16	52.66	52.69
Downstate Small Cities	1.18	1.19	1.09	1.09
Upstate Suburbs	21.70	22.17	22.31	22.30
Upstate rural	9.41	6.88	7.22	7.67
Downstate suburbs	15.49	15.80	14.88	14.39
Upstate small cities	9.48	7.93	8.18	8.42
Big five Cities	42.73	46.03	46.31	46.14
New York City	35.48	40.57	40.63	40.13
Buffalo	3.10	2.02	2.14	2.37
Rochester	1.85	1.64	1.73	1.81
Syracuse	1.40	0.96	1.01	1.07
Yonkers	0.90	0.84	0.81	0.75

From this tabulation what is most significant is the pattern of the share of state operating aid going to the Downstate Suburbs and Yonkers. As the amount of total aid under the basic operating aid formula decreases, the share of the total going to the Downstate Suburbs and Yonkers decreases. Conversely, for all other school district groups as basic operating aid decreases their share of total basic operating aid increases.

The share of state basic operating aid distributed under the proposed formulas increases for the 45 High-Need districts, the Upstate Suburbs and New York City as compared to the current distribution at any of the analyzed levels of local effort. As the minimum required local effort increases from $9.00 to $11.00, the 45 High-Need districts, the Upstate Suburbs, the Upstate Rural districts, Upstate Small Cities, New York City and the three largest upstate cities gain shares. As the minimum required local effort increases from $11.00 to $13.00, the share of total state basic operating aid falls slightly for New York City, Downstate Suburbs and Upstate Suburbs.

Since special needs aid is tied directly to the amount of state basic operating aid, as the minimum local threshold increases and state aid decreases, state special needs aid will also decrease. At the $9.00 threshold state special needs aid would total $2.051 billion while at the $13.00 threshold state aid for special needs would be $1.606 billion.

Total revenues available for education would increase from $2.841 to $3.286 billion depending on the alternative selected. As the local required effort increases the overall increase in revenues available for education falls. On a per-pupil basis, total funding for a sound basic education including special needs would grow from the current level of $8,680 per pupil to $9,752 at the $13.00 required local effort or to $9,920 at the $9.00 threshold.

The proposed SBE Funding Formulas result in both increasing educational funding and shifting a portion of the current local effort to the State regardless of the level of the local required effort. The following table shows the dynamics that occur under the formulas for state and local funding for the three alternatives.

State and Local Funding Changes with SBE Proposal

	$13		$11		$9	
State Aid	Billions	% Change	Billions	% Change	Billions	% Change
State Aid	$3.746	41.5%	$5.192	57.5%	$6.812	75.4%
Local Effort	($0.904)	6.9%	($2.137)	16.3%	($3.526)	26.9%
Aggregate Effort	$2.841	12.35%	$3.056	13.28%	$3.286	14.28%
Share of SBE Funding Attributable to the State	49.4%		54.6%		60.3%	

The local effort required undergoes modest changes at the $13 minimum required local effort, but that impact rises dramatically as the minimum required local effort is lowered. Reducing the minimum required local effort produces small increases in overall revenues for education, but results in significant upward adjustments in the revenues required from the State. The state share

of educational revenues can be effectively adjusted by changing the minimum required local effort.

The following table shows the aggregate percentage increases in state aid for each school district group at each alternate level of local effort.

INCREASES IN TOTAL STATE AID			
	Minimum Required Local Effort		
	$9.00	$11.00	$13.00
Statewide	75.4%	57.5%	41.5%
45 High Need Districts	88.6	70.6	53.19
Downstate Small Cities	75.7	44.7	27.65
Upstate Suburbs	71.1	54.8	39.30
Upstate rural	27.3	19.5	13.64
Downstate suburbs	70.2	44.1	25.24
Upstate small cities	47.8	36.7	26.30
Big five Cities	95.1	76	57.37
New York City	106.2	85.1	64.18
Buffalo	22.1	15.9	14.45
Rochester	61.9	52.9	44.06
Syracuse	27.1	19.8	13.99
Yonkers	69.2	45.1	21.31

While all school district groups benefit from lowering the tax rate threshold the downstate small cities, downstate suburbs, Yonkers, and upstate rural school districts receive larger proportionate increases.

STATE AID CHANGES SINCE 1996-97 AND STAR PROGRAM IMPACT

Since 1996-97 state aid for education has been substantially increased. The state has also enacted the STAR program, a property-tax relief program where the state makes payments directly to school districts to write down the property taxes on owner-occupied dwellings through what amounts to s state-funded homestead exemption. While various state budget documents include these STAR payments in calculating the state's contribution to the cost of elementary and secondary education, it is important to note that STAR does not provide any additional revenues to meet the needs discussed in this report or to assist in funding the cost of implementing the Regents' new higher learning standards. The STAR program is essentially a mechanism through which the state is substituting about $2.7 billion of state funds for an equivalent amount of local funds without addressing the underlying problems in the way elementary and secondary education is funded in New York State.

While the STAR program could be much better targeted, thus reducing its cost and making more state resources available for the purposes outlined in this report, the state's experience with STAR is instructive for another purpose. It shows that it is possible to tackle a major issue by establishing a multi-year implementation plan. Frequently, when it comes to the reform of the state's school funding system, the costs appear to be overwhelming and dampen the state's willingness to implement a reform plan. We know from STAR and from the actual increases in school aid that the amounts of money actually committed over time are sufficient to implement major reforms if those funds are allocated in a strategic rather than an ad hoc manner.

The Division of the Budget has estimated that the property tax relief portion of the STAR program will cost $2.236 billion when fully implemented in 2001-02. STAR also has an income tax reduction component for New York City which will cost $ .464 billion. FPI estimates the cost of property tax relief will be $2.103 billion. (This difference of $133 million with the Division of the Budget is due to different estimating techniques: the Division of the Budget estimate anticipates increases in property tax, while the Fiscal Policy Institute estimate is based solely on current data.) Using the FPI estimate plus the $464 million estimate of the impact of reduced New York City personal income taxes gives a conservative estimate of the total cost assumed for the STAR program of $2.587 billion.[13]

A comparison of the Department of Education state aid files for 1998-99 with 1996-97 shows a $1.425 billion increase in education aid.[14] Excluding state aid related to transportation and buildings leaves an estimated increase in basic operating aid and special needs aids of $1.165 billion.[15]

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[13] Of this amount, $1.5 million of STAR property tax relief corresponds to school districts not included in the study.

[14] Data from the computer files of the State Department of Education produce slightly different state aid changes than those reported by the Office of State Comptroller.

[15] The Legislature has committed extra funding over the next three years for full-day kindergartens, reduced class sizes in grades K-3, textbooks, software, computers, education technology, and tax freeze/reduction incentive aid. Cumulatively, these aid increases total $959 million. Additional commitments have been made to fund prekindergarten programs, which are expected to total an additional $825 million. These funds are not allocable by school districts and have not been included as part of the analysis, but it is important to recognize the commitments made and the additional funds expected to be provided to fund education in the immediate years ahead.

The combination of the $1.165 billion in school aid increases and $2.587 billion in STAR program payments results in an additional $3.752 billion going to school districts --- a 41.5 increase over the current $9.032 billion supporting a SBE.[16] The $3.752 billion very closely approximates the $3.717 billion in additional state aid required to implement the proposed plan with a minimum required local effort of $13 per $1,000 full value and a hold harmless provision. Adding $3.752 billion in state funds results in a minimum required local effort of $12.41 without hold harmless and $12.99 with hold harmless (with the special needs aid at 15% of basic aid). Significant further additions in state aid would be required to achieve the minimum required local effort levels of $9.00 or $11.00.

Equally important, as additional funding for education, is the distribution of those funds. The State Comptroller in the June 1998 report *School Finance Issues in the 1998-99 Enacted Budget* is extremely critical of the distribution of the additional aid being provided. To quote the Comptroller:

> "Unfortunately, the large school aid increase was provided without any real reform of the formulas, which are now even more complex than ever. ... The larger picture is that the changes enacted did very little to improve the equity of the aid distribution and nothing to improve its efficiency." (p. 1-2)

The Comptroller also notes that while school aid payments produce payments that are equalizing in impact, STAR payments when measured on a per-pupil basis have "a completely opposite distribution with the wealthier school districts receiving proportionally greater STAR reimbursements" because the STAR exemptions go only to homeowners and are adjusted upward for higher property values and higher taxes. The comptroller estimates that upon full implementation, the poorest tenth of school districts will receive an average of $648 in STAR aid per pupil, less than half of the average $1,558 received by the wealthiest tenth. (*School Finance Issues*, p. 24).

This study confirms and supports the Comptroller's analysis. Current state aid formulas ignore standards of fairness, equity, simplicity, and efficiency. Table XIII shows the state aid distribution of the additional $1,165 million in aid, the distribution of the $2,587 in the STAR program, and the combined distribution of both. These distributions of funds are contrasted with distributions that would have occurred under the basic operating aid and special needs aid formulas.

This table shows the disproportionate flow of STAR funds --- 35.5% --- to the Downstate Suburbs. This contrasts with the 18.4% share of the two-year state aid increase, and the 4.8% to 9.1% share under the SBE formula, depending on whether or not there is hold harmless aid.

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[16] The above comparisons can only be made on the basis of the assumptions of no inflation and no pupil growth. During the past two years there has been modest inflation. Pupil enrollment has increased by nearly 2%, but pupil attendance has declined by 4.3%.

In contrast, the 45 High-Need districts would receive 71.2% of the SBE aid without hold harmless and 66.2% with hold harmless. Their share of state aid increases since 1996-97 has been 56.6%, but they receive only 34% of the STAR funds (including the $464 million in personal income tax reduction in New York City). Of STAR property tax relief, only 16.4% will be received by the 45 High-Need school districts. The 45 High-Need districts are significantly disadvantaged by the STAR distribution and, to a lesser degree, by the distribution in increased state aid during the past two years.

The school district grouping least affected by the different allocation methodologies is the Upstate Suburb group. Its share of the aid increases is 17.1% while under the SBE formulas it would have received 21.2% without hold harmless and 19.9% with hold harmless. Under STAR it will receive 20.7% of the funds.

The funds that will be paid out under the STAR program could have been used to achieve greater school funding fairness, rather than severely worsening school finance equity. While adding significant dollars, the changes that have occurred since 1996-97 have in fact made the achievement of the standards of fairness, equity, simplification, and efficiency more difficult to attain.

REVENUE SOURCES FOR INCREASED STATE AID

Funding a statewide sound basic education requires an increased financial commitment by the State. During the past two years the state has shown a willingness to provide significant additional funds for education, but unfortunately the funds were not allocated in ways that address the current glaring and blatant inequities. To achieve funding for a SBE and meet the principles of fairness, equity, simplicity, and efficiency, both an infusion of new funds and a significant redistribution of state aid dollars must occur.

Following are suggestions for raising significant amounts of new revenues for education. This work builds on the February 1995 *Final Report -- Study of the Generation of Revenues for Education*, a series of policy briefs commissioned by the Board of Regents.

The STAR Program

STAR is a form of state aid --- despite its ostensible purpose of providing school property tax relief for homeowners. As shown earlier, the STAR program funds least benefit the neediest school districts exacerbating the inequities of the current school aid formulas. Therefore, the STAR program as presently designed should be abandoned and its funds made available for the SBE state aid formula distribution. This will significantly reduce the amount of new State funding required for a SBE.

On the positive side, the STAR program establishes an important linkage between State and local revenue systems. The focus in Albany in recent years has been on reducing State imposed taxes, with little or no concern for the implications on locally imposed taxes. The

STAR program shifts attention to the locally imposed real property tax, with the reduction in local revenues replaced with State revenues.[17]

The goal of providing school property tax relief could be achieved through a homestead exemption. The exemption could be a flat dollar amount, a percentage of the full value of the homestead, or a combination of the two. A fixed dollar exemption has the highest degree of progressivity. Higher homestead exemptions could also be provided to senior citizens. A statewide homestead exemption would create uniformity throughout the State. (An inequitable, feature of the STAR program is that it provides different exemptions to homeowners in the same school district with homes of identical value, who live in different counties.)

New York has a solid precedent for an expansive homestead exemption. The state has long provided many taxpayers with preferential treatment. Article 18 of the Real Property Tax Law provides for a four-class property tax system in New York City and Nassau County, with homeowners the preferred class with lower tax rates (and in New York City also with lower assessment ratios). In the rest of the State, Article 19 allows a homestead option in certain situations for local governments desiring to have higher tax rates on non-homestead property.

Legislative commitments have been made for additional school funding of the school fiscal years beginning in 1999, 2000, and 2001. The anticipated funds related to a SBE need to also be factored into the funding available. Given a BOC-SBE level of $8,000, additional funding of up to $3 billion, beyond the STAR funds and current commitments, would be required depending on the alternative chosen for the minimum required local effort and hold harmless. Additional funding of this magnitude can only come through increases in broad-based taxes. The major revenue sources for consideration are a statewide property tax, the personal income tax, consumption taxes, and business taxes.

Statewide Property Tax

[17] An unintended side effect of the STAR program may be to increase spending for education. With reduced pressure on the property tax, school district voters may be more amenable to increases in school district spending. Duncombe and Yinger estimate that average spending will increase 14% and the school tax rate will increase by one-third as a result of the STAR program, thereby boosting taxes for apartments, commercial, and industrial property.

A statewide property tax is often mentioned as a funding solution for education. Statewide property taxes collected from wealthier districts could be disbursed back to the poorer school districts.[18] Property wealth falls very unevenly across New York State. The statewide average full value per enrolled pupil in 1995-96 was $300,261. At the low end of property wealth in school districts, the full value per enrolled student in the Bolivar-Richburg School District in Allegany County was $81,000 per pupil. On the other extreme, Sagaponack, a small school district in Suffolk County, had a full value per enrolled pupil of $37,001,100, almost five hundred times greater than Bolivar-Richburg. Many small school districts have very high per-pupil full values, explaining in part why many small school districts choose not to merge. For example, Amagansett School District in Suffolk County has $5,837,600 full value behind each enrolled pupil while the Southampton School District in Suffolk County has $2,217,700 in full value for each enrolled pupil.

The property tax, whether imposed statewide or locally, has a number of positive features: it is stable and predictable; it is simple to adjust the tax base to raise the desired levy; and the assessment base tends to increase incrementally. Additionally, the cost of administering the property tax in relationship to the revenues generated is low, and the payments are deductible for income tax purposes --- resulting in a federal subsidization of state and local revenue.

Imposing a statewide property tax in New York, while not impossible, would be extremely difficult because property tax administrative practices and policy are so diverse. Overcoming these complexities and putting aside home rule provisions would be a major undertaking. New York courts have ruled that similar taxpayers in the same taxing district must be treated the same. Thus different tax rates or exemptions could not be provided a homeowner in Nassau County than an identical homeowner in Buffalo under a statewide property tax for education. Appendix F includes a detailed discussion of some of the areas that must be considered in contemplating a statewide property tax.

Personal Income Tax

The personal income tax is the bedrock of the state's revenue system. In 1996-97, it raised $16.4 billion, over half of all state tax revenues. The personal income tax is the most progressive of major taxes, and is the primary means to balance the regressivity of the property and sales taxes. Its broad base and its progressivity make it the best source of new infusions of revenue for spending on education.

The income tax in New York has been the target of the bulk of the recent tax cuts. Since 1994, about two-thirds of state tax cuts have come out of personal income. Since 1976, the top tax rate in the state has been cut by more than half, from 15.375% to 6.85%. The full annual cost of the 1995 income tax cuts --- the reduction in the top rate from 7.875% to 6.85% --- is estimated to be $4 billion. There is no evidence supporting the theory that the cuts in the

[18] This approach is now being tested in Vermont, where a statewide property tax for education of $1.10 is being imposed.

personal income tax between 1976 and 1997 have been effective stimulants to the State's economy. Despite the substantial tax cuts in 1987, 1988, and 1989, New York immediately suffered one of the deepest recessions in its history. Only when the top rate was stabilized did the State's downturn end. Despite the tax cuts of 1995, 1996, and 1997, job growth in New York lags behind the neighboring states and the nation as a whole.

New York has an extreme income distribution: it is the only state in the country where over half of all family income is held by the richest fifth of families.[19] Over the past 16 years, this has gotten worse. In the mid-1990s, the average income of the wealthiest fifth of New York families was 19.5 times greater than that of the poorest fifth. This is the biggest difference of all the states, and is far worse than the national average of 12.7. Citizens for Tax Justice confirmed these findings: in 1995, the average income of the top 1% of families was more than 25 times the average income of the middle 20% of families, as compared to a national average of 17 to 1. Moreover, the degree of inequality seemed to be increasing.[20]

Many factors account for the increasing income inequality in New York. Growing wage disparities result from the loss of domestic manufacturing jobs, the decline of unionization, and the demand for highly skilled workers generated by the technology advances changing the fundamental U. S. economy. The growing disparity in nonwage income is derived from the fact that rents, dividends, interest payments, and capital gains disproportionately accrue to families at the top of the income distribution. Capital gains and other investment income is particularly significant in New York, because so many upper-income New Yorkers make a living on Wall Street.

The findings on the distribution of income in New York with its great economic extremes suggests the need for a significant degree of progressivity in the personal income tax. The nature of New York's economy, as a residence for high-income individuals and an employment center with large economic rewards for those with top earnings, can easily accommodate the need for a progressive income tax approach. Income tax policy changes can help blunt the effects of the growing income inequality and at the same time provide a realistic way for the State to afford increased educational funding in order to achieve a SBE for every child. The robust growth in the incomes of the wealthiest New Yorkers suggests that taxes are not an impediment to the growth in the tax base.

The nature of any personal income tax increase would determine the ultimate value of the federal tax deductibility provisions. Chernick estimates as much as 30 to 40% of a personal income tax increase could be exported to the rest of the nation through deductibility for federal

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[19]Center on Budget and Policy Priories (CBPP), *Pulling Apart: A State-by-State Analysis of Income Trends,* Washington D.C., December 1997.

[20] Citizens for Tax Justice, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,* 1996.

income tax purposes.[21] In addition, he estimates an additional fraction of 10 to 15% would be paid by nonresident who earn substantial amounts of income in New York.

Both the work of the Economic Policy Institute (EPI) and the Fiscal Policy Institute (FPI) provide direction on the nature of the personal income tax increases that should be considered. EPI would increase the marginal tax rate from 6.85% to 8.00% for taxable income of $60,000 or more; and increase the top marginal rate to 9.00% for taxable income of $250,000 or more. FPI would also increase the top marginal rates but would do so by adding three brackets: taxable income of $100,000 or more (7.125%); taxable income of $150,000 or more (8.125%); and taxable income of $200,000 or more (9.125%). Either set of recommendations would yield approximately $1.7 billion in incremental revenues.

Utilizing the personal income tax to fund a sound basis education, in addition to achieving New York's educational goals, can lead to a fairer and more equitable tax system.

Business Taxes

While this report recommends the use of the personal income tax to provide the additional State funds needed for funding a sound basis education, business taxes offer an alternative source to generate some of the required incremental revenue.

Corporate franchise tax collections, when compared to the State's economy, have been in decline. Profitable corporations are contributing an increasingly smaller share of the State budget. In 1981 the corporate franchise tax comprised more than 8% of all taxes collected. For 1998-99, the corporate franchise tax will be about 6% of all taxes. Although New York's corporate franchise tax rate is above the national average, the amount of taxes that a corporation actually pays is lower than it would be in many other states due to its many credits, exemptions, exclusions, and abatements. The State's annual *Tax Expenditure Report* shows that business corporations receive an estimated $1.6 billion in special deductions from income or subtractions from taxes each year.

[21] Howard Chernick, *A Revenue-Raising Plan for New York*.

EPI recommends reducing the investment tax credit from 5% to 2% of qualifying investment, thus returning it to the 1973-78 level. Other changes in the investment tax credit would be to limit the minimum useful life of qualifying assets to seven years from the current four years; limiting the carry-forward of unused credits to five years, rather than 10 years; and reducing the research and development credit to 5%, rather than 9%. These changes would produce an estimated $150 million in revenues. EPI also recommends the elimination of the double-weighting of receipts in the formula for determining New York's share of net corporate income. This proposal would be applicable to the general corporation tax, the bank tax, and the insurance tax for an estimated revenue yield of $58 million.[22]

FPI in the 1998-99 SENSES Counterbudget recommends some different changes in corporate taxation. It recommends elimination of the investment tax credit for manufacturing (estimated to produce $163 million in revenues). New York has one of the most generous investment tax credits in the nation: no other government has an investment tax credit as high as New York's relative to its top corporate income tax rate. Unlike in most other states, New York's investment tax credit is provided as a matter of right, without requiring either job creation or location in an enterprise zone or other designated area.

FPI also recommends several changes to strengthen the Alternative Minimum Tax (estimated to yield $75 million): no firm could use its preferences to reduce its tax liability by more than 50%; the same financial accounting would be used to report to shareholders would be used in calculating the Alternative Minimum Tax; corporations could no longer carry net operating losses backward and forward in calculating the Alternative Minimum Tax. Other changes to New York's corporate income tax that could raise revenues for education are: (1) to reduce the exclusion of subsidiary income, worth $100 million; (2) to reduce the exclusion of investment income, worth $140 million; (3) to limit the ability of industrial development authorities to abate state taxes, worth $60 million; (4) to reduce abuse of point-of-purchase exceptions; (5) to recover subsidies from firms that do not live up to the conditions of tax abatements, worth $15 million; and (6) to eliminate the last step of corporate surcharge reduction, worth $250 million.

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[22] The double weighting of receipts in the State's apportionment formula is intended to provide an incentive for firms to locate their production facilities in New York and export products to other states and abroad. A corporation that produces in New York and sells outside the State will pay a relatively smaller corporation income tax than a corporation that produces outside the State and sells its products in New York. In theory, this incentive lowers the cost of production in New York relative to the cost of earning income. In practice, the double weighting of receipts, coupled with the high tax rate of 9%, creates an incentive for multi-jurisdictional companies to reduce their tax liabilities in New York by taking advantage of transfer pricing. In transfer pricing a corporation operating in New York, as well as other states, can charge an artificially low price on purchases by the out-of-state division from the New York division, while the New York division pays an artificially high price on purchases from the low tax rate state.

Consumption and Use Taxes

Consumption and use taxes are generally regressive in nature and therefore are not the preferred source of new funding for education. In most of the State, the combined state-local sales tax is already 8%, higher than the sales tax in nearly all other states. However, there are some changes in the sales tax base that might be considered in the search for new revenues.

EPI and FPI have quite different recommendations when it comes to consumption and use taxes. EPI recommends five changes, worth $272 million in additional revenue, including:

- expand the tax base to include more personal services, including laundering, dry cleaning, tailoring, weaving, pressing, and shoe repairing and shining --- $63 million.
- increase the cigarette tax by 6 cents a pack, from 56 cents to 62 cents --- $58 million. This would increase the cigarette tax differential between New York and the bordering states of New Jersey and Connecticut, and lead to a probable increase in out-of-state sales.
- increase tax rates for beer, wine, and liquor by 10% --- $30 million.
- increase the motor fuel tax by 2 cents, from 8 cents to 10 cents ---$52 million. New York's gasoline taxes are understated: in addition to the 8 cent per gallon tax, there is a 14 cent per gallon tax on petroleum distributors and the state-local sales tax applies to gasoline.
- reimpose the hotel occupancy tax at a 2% rate ---- $56 million. In 1994, the State eliminated the special 5% hotel occupancy tax, and New York City reduced its occupancy tax from 6% to 5%. Lower tax rates have not led to lower room rates. Room rates have since risen by 30% in New York City, as the results of favorable exchange rates and reduced crime rates, bringing increased tourist and business travel to New York City.

It should be recognized that the increases in gasoline, cigarette, and alcohol taxes will impose higher burdens on the poor than on the wealthy.

FPI in *The Right Choice for New York - A Fair Tax System for Fiscal Stability and Growth*, also recommended expanding the sales tax base to increase the fairness of the tax. By broadening the sales tax base to include services which tended to be purchased by wealthier individuals its regressivity could be reduced. Broadening the base increases the revenue-raising capacity without increasing the rate and it creates greater stability in tax collections. By applying the sales tax to the service sector, which is growing more rapidly than the goods sector, the growth rate in tax revenue would also increase.

FPI recommended expanding the sales tax to cover currently untaxed business services. It estimated that $1,090 million could be raised by taxing accounting, bookkeeping, and auditing; computer and data processing; engineering and architectural services; legal services; and management consulting. Local governments would also benefit by broadening the sales tax base.

Sales taxes are declining as a percent of disposable income. This results in part from a shift to a more service-oriented economy. Other states have recognized this shift and broadened their sales tax bases to respond to the shift to the service sector. Some tax a broad range of professional and personal services, while others tax only a limited number of services.

While not advocating that consumption and use taxes be expanded to finance the State's responsibility for a sound basic education, they do remain alternative approaches, and, depending on the choices made, offer varying amounts of revenue raising potential.

CONCLUSION

This paper has provided a starting point for the design of a new system to finance elementary and secondary education in New York State which operationalizes the principles established by the Campaign for Fiscal Equity through their extensive public engagement process. One important conclusion of this paper is that funding a sound basic education requires an increased financial commitment by the State but the analysis goes further to discuss how increased State aid should be distributed across districts as well as potential revenues sources.

The state aid formulas used in this analysis are designed to be rational, fair, simple and easy to understand. State aid levels would be set at levels sufficient to fill the gap between the required local effort and the State-determined cost of providing the opportunity for a sound basic education. Equity is achieved between rich and poor districts while preserving the ability to school districts to set the upper limits on school spending. The determination of "required local effort" takes into account the unequal distribution of taxable property across school districts. This paper breaks new ground in proposing a formula for the distribution of special needs aid designed to offset some of the added costs of educating students at risk due to concentrated poverty, limited English language skills and population sparsity in a way which also takes into account the distribution of taxable property.

The distributional impact of the proposed formulas is significant. First, the proposed formulas would shift responsibility for financing elementary and secondary education from the local jurisdictions to the state. State aid would increase from 39% of the cost of education to more than 50%. In addition, use of the alternative state aid formulas proposed in this study would target districts that have been identified by the State Department of Education as "high-need." For example, while these districts currently received 50.1% of state basic operating aid, under the proposed formula their share would grow to 52.7%. When special needs aid is included in the analysis, the share of the high-need districts grows to 56%.

Finally the report provides a realistic assessment of the potential sources for increasing state support for primary and secondary education in New York. The report recommends that the STAR program be abandoned because of its tendency to exacerbate existing inequities and suggests that the state consider a homestead exemption to provide property tax relief. The funds that would have be used to finance the STAR program could then be made available to finance the system proposed in this report. The paper also examined local property taxes, business taxes, consumption taxes and the personal income tax, concluding that the personal income tax is the most promising source of additional revenues.

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Appendix A

Expenditure and Revenue Data Used in the Analysis

Primary Revenue and Expenditure Data Sources

Each year school districts must file an *Annual Financial Report* with the Department of Education (ST-3). This is a financial accounting document, not an educational program document. The latest year for which ST-3 data is complete is the 1996-97 school year. Although this data has not been completely audited by the Department of Education, in order to have the state aid analysis and comparisons as close to current as possible the 1996-97 data series was selected. While the intent of the ST-3 is to provide a uniform statement of revenues and expenditures of districts, school districts may interpret the instructions and account codes differently. However, this should not significantly affect our analysis for two reasons. First, this paper is not aimed at or intended to result in an accurate school district by school district analysis. Second, in most instances broad account codes are used, so that variations that occurring within subaccounts are not important.

The ST-3 forms contain many funds, including: General Fund, Special Aid Fund, School Food Service Programs Fund, School Store Fund, Public Library Fund, Debt Service Fund, Capital Fund, Agency Fund, Expendable Trust Fund, and Non-expendable Trust Fund. Our focus is on the revenues and expenditures directly associated with the provision of a sound basic education. For this reason, only the General Fund and the Special Aid Fund are used in the analysis. The Special Aid Fund traditionally accounted for educational activities supported with Federal aid. Currently, expenditures for State categorical aid programs are also accounted for in the Special Aid Fund.

Many analyses of educational finance are done using "approved operating expenses" (AOE). These expenses are used in the current basic operating aid formula. The significant advantage of AOE is its immediate availability. However, AOE has limitations in conducting analyses of educational finance. Approved operating expenses are based on the total expenditures from the General Fund and the Capital Fund, except for school districts of over 125,000 population where the Special Aid Fund expenditures for improving pupil performance and special reading programs are also included. From these expenditures, a series of exclusions are made to arrive at AOE. In terms of expenditures for a sound basic education, many of the exclusions are appropriate in defining a sound basic education, but some are not. The exclusions for balances and transfers, transportation, capital outlay and debt service, school lunches, short term borrowing, and tuition payments to other school districts are appropriate. On the other hand, omission of the Special Aid Fund and exclusions relating to BOCES, various state aid programs, computers, federal aid programs are not appropriate.

While requiring extensive work, the most logical approach to determine the costs associated with a sound basic education is therefore the use of the ST-3 General Fund and Special Aid Fund data because categories not directly related to provision of a SBE can be fairly easily excluded from the analysis.

Expenditure Exclusions

Categories of expenditure which do not directly contribute towards a sound basic education which can be excluded from the 1996-97 ST-3 expenditure data. Exclusions are made in six areas.

1. Pupil Transportation

Perhaps the most significant exclusion is pupil transportation the costs of which vary dramatically by district. Employee benefits related to transportation are also excluded, although they presented a problem in calculation. In the Special Aid Fund, employee benefits are specifically identified for individual accounts. However, in the General Fund employee benefits are all contained in an omnibus, undistributed account. Based on overall employee benefit relationship and trends to salaries and wages, it is assumed that employee benefits are 27.5 percent of salaries. Thus, 27.5% of salaries and wages are assumed to be related to transportation and are therefore excluded.

2. Community services

A second exclusion is for community services, which includes recreation, youth programs, civic activities, and school census. While important, they are not directly related to the provision of a SBE. As with transportation, employee benefits equaling 27.5 percent of the salaries in the General Fund for community services are also excluded. This is not a significant item of expenditure for school districts, amounting to less than $ 60 million statewide.

3. Tuition payments for pupils attending other school districts

Pupils do not necessarily reside in the school district where they attend school which results in double counting in the school district revenue and expenditure data: a pupil receiving education in a district other than the one he/she lives in will have expenditures for tuition paid in the district where the pupil resides and for instructional and other costs in the district where education is received. In order to remove this double counting, tuition payments for pupils attending other school districts are excluded.

4. Payments for debt service

All payments for debt service are accounted for within the General Fund including principal and interest for serial, term, and statutory bonds; bond anticipation and capital notes; installment purchase debt; and tax anticipation and revenue notes. Building and capital costs are important costs and directly relevant to the functioning of a school district. However, for the purposes of arriving at the operating costs associated with a sound basic education they are excluded.

5. Federal aid

Federal aid presents a particularly difficult problem. Federal aid comes in many forms, from on-going aid to one-time project grants. It may serve to provide a core educational program or enrichment that supplements an existing program. Loss of federal aid can result in increasing the local tax effort, a reduction in expenditures, or some combination of the two.

For the purposes of this paper federal aid has been broken into three components. The first component includes the Individuals with Disabilities Act (IDEA) and the Schools in Federally Affected Areas (Impact Aid) federal aid programs. These programs contribute directly to basic operations and, without this federal aid, school districts would be forced to raise additional local revenues. The second component provides the special needs component and includes most other federal funds. By far the most significant and dominant federal aid for enrichment are the Title I funds. The third component are federal funds not considered in this analysis[23]

6. Interfund transfers

The last item excluded from SBE expenditures are interfund transfers out of the General Fund and Special Aid Fund. These transfers can result in double counting and are not directly related to the costs of a SBE.

Revenues to Fund a Sound Basic Education

Revenues to fund a SBE come from three sources; local, state, and federal. In considering and developing the funding options for a SBE, the federal component is viewed as fixed, with the state and local components being variable. In order to carry out an analysis of the options to fund a SBE, it is first necessary to determine the revenues, federal, state, and local, that currently are available to fund a SBE. Given the definition of a SBE, adjustments must be made in the total revenues reported in each of the federal, state, and local sources in the ST-3 reports.

Local effort is normally thought of as the real property tax. Clearly, the property tax is the most important component of local effort. However, for purposes of this study, local effort is defined to include all revenues raised at the local level. Other locally raised revenues, particularly nonproperty taxes, have the effect of mitigating and reducing property taxes. The primary nonproperty taxes are county-shared sales taxes and consumer utility taxes. School districts may also collect revenues from charges for services, use of money and property, sales of property and compensation for loss, payments in lieu of taxes, and other miscellaneous sources.

To accurately determine the revenues raised at the local level that contribute to a sound basic education it is necessary to make adjustments in the data for locally raised revenues. These adjustments, while sometimes somewhat arbitrary, help to more precisely determine the amount

[23] Federal funds for adult basic education, the Job Partnership Training Act (JPTA) and Medicaid assistance for health-related support services are excluded because they do not contribute directly to the education of pupils in the public school districts.

raised at the local level to support a SBE. The deductions made from total locally raised revenues are: (1) expenditures for community services, including an estimate of employee benefit costs, (2) tuition paid to other public school districts, (3) the total pupil transportation costs, including an estimate of employee benefit costs; less the state aid received for transportation, and (4) debt service.

There are two sources of data on state aid: the ST-3 form and the State Aid Unit in the Department of Education. While many of the state aid amounts from the two sources were reasonably close, significant differences existed in some cases. Various reasons may account for the differences, including differences in the accounting for and receipt of (accrual vs. cash) state aid payments. In the interest of achieving the maximum degree of comparability in the data being used, the state aid totals from the ST-3 files were used in this analysis.

Consistent with the exclusions from the ST-3 expenditures for transportation and buildings, total state aid had to be reduced by the amounts of transportation and building aid received. Since the ST-3 form does not contain sufficient detail to identify transportation and building aid, the total state aid on the ST-3 is reduced by the amount of transportation and building aid reported by the State Aid Unit in the Department of Education.

The only other category of state aid that might be excluded is library and software aid for non-public school students. However, no readily available means exists to break out accurately this information. The state aid data on textbook aid combines public and nonpublic pupils. Textbook aid in 1996-97 approximated $ 125 million and it is estimated that 89% of textbook aid goes for public school pupils, thus indicating that roughly $14 million in textbook aid goes to nonpublic school pupils. Failure to exclude this aid creates only a small distortion in the data.

For the purposes of the revenue analysis federal aid has been broken down into the same three components described previously.

Revenues vs. Expenditures

Thus far the discussion has involved various aspects of both revenues and expenditures as they relate to a SBE. However, in any given year for a school district, revenues and expenditures are not exactly the same. In the aggregate this should not affect the analysis substantially.

For purposes of the SBE analysis, the focus will be on the revenues available to fund SBE. This allows the analysis to use the three component sources of educational funding: local, state, and federal.

Appendix B

Pupil Counts

There are many ways to determine pupil counts and even within existing state aid formulas there are many variations. The most common ways of counting pupils are:

Enrollment The total number of students entered on the roll as of the date in the fall on which data for the Basic Educational Data System are collected for the current year, including equivalent attendance and pupils attending full-time programs for the disabled in BOCES or nonpublic schools. Prekindergarten and half-day kindergarten enrollments are weighted at 0.5. Excluded are students attending private and State operated (Rome and Batavia) schools for pupils with disabilities.

CAADM (Combined Adjusted Average Daily Membership) Pupil count is the average number of students receiving their educational program at district expense. Half-day kindergarten and pre-kindergarten pupils weighted at 0.5. Includes pupils with disabilities educated in district, BOCES or approved private school programs, including State schools at Rome and Batavia.

Duplicated CAADM In addition to the sum in CAADM, it includes resident students attending other districts.

ADA (Average Daily Attendance) Average number of pupils present on each regular school day, including pupils with disabilities full-time in BOCES programs. Excludes attendance of pupils attending private and State operated (Rome and Batavia) schools for students with disabilities.

Adjusted ADA ADA is adjusted by applying a .50 weight to half-day kindergarten.

WADA (Weighted Average Daily Attendance) ADA is adjusted by .50 for half-day kindergarten and by an additional weight of .25 for pupils in grades 7 through 12.

RWADA (Resident WADA) To WADA are added pupils resident in the district, but attending a full-time school operated by a BOCES or a county vocational education and extension board, or another public school district. Subtracted are non-resident pupils attending public school in district.

TAPU (Total Aidable Pupil Units) Adjusted ADA with half-day kindergarten weighted at .50, secondary pupils an additional weight of .25, persons with special educational needs (PSEN) an additional weight of .25, and summer school pupils weighted at .12. Pupils in dual enrollment with a non-public school have an appropriate fractional adjustment.

TAPU for Expense (Total Aidable Pupil Units for Expense) ADA of the district with half-day kindergarten weighted at .50, summer school students weighted at .12, secondary students an additional weight of .25, and PSEN an additional weight of .25. Resident students

with disabilities in special services or programs 60 % or more of the school day in either public school or BOCES programs an additional weight of 1.70; resident students with disabilities in special services or programs 20 % or more of the school week or requiring direct or indirect consultant teacher services an additional weight of .90.

TWPU (Total Wealth Pupil Units) Adjusted ADA of resident pupils in a district, plus additional weightings for secondary school students and PSEN of .25 and additional weightings for disabled students as provided in TAPU for expense.

Arguments have historically been made for and against enrollment and attendance as a way of counting pupils. Table I, Descriptive Characteristics, contains the CAADM enrollment and average daily attendance pupil counts for each of the different school district groups. The relationships between enrollment and attendance can be compared for the different school district groups.

This analysis uses a pupil count which averages enrollment and attendance numbers. No extra weightings are uses, except for the .50 weighting for half-day kindergarten. Generally pupil counts are based on the school district providing the education and any double counting has been eliminated. Finally, the pupil count was adjusted to include summer school students with a .12 weighting.

With these parameters, CAADM provides the best pupil counts for enrollment while adjusted ADA provides the most appropriate attendance count of pupils when further adjusted to take into account the attendance of pupils with disabilities at private and State (Rome and Batavia) operated schools.

Using this definition for enrollment and attendance results in a 2,779,571 pupil count for enrollment and a 2,497,160 pupil count for attendance. The averaging of enrollment and attendance results in a pupil count of 2,638,365. There are a total of 103,076 summer students, so taking them into account brings the pupil count to 2,650,735.

Appendix C

Local Cost Adjustment

One of the principles of CFE requires taking into account variations in local costs. Unfortunately, Federal or State agencies do not provide cost indices on a school district basis. Cost-of-living indices are typically done on a metropolitan area basis, with rural counties omitted. Some private organizations have produced cost-of-living comparisons among major cities, but nothing exists statewide. Construction-cost indices have been developed, but these are not particularly reflective of regional and/or local differences that might be expected in educational operating costs.

The National Center for Educational Statistics (NCES) has studied the effect of geographic cost differences in making educational comparisons among the states. The NCES has undertaken development of meaningful and reliable measures for educational cost differences across geographic regions of the United States. Jay G. Chambers, Director and Senior Research Fellow at the John C. Flanagan Research Center at the American Institutes for Research has conducted research and published a report for NCES entitled, *Geographic Variations in Public Schools' Costs*, October, 1997.

Chambers adjusted the "actual" values of expenditures that are reported by school systems and computed "real" (cost-adjusted) differences in educational services. The geographic cost-of-education index measures how much, more or less, it costs to provide the same quantities and qualities of school resources in different locations. This index is intended to reflect only that portion of educational spending that is due to factors beyond the control of local decision makers. The index focuses on the prices of the *inputs* (personnel and nonpersonnel items) purchased by schools. It does not recognize differences in students (e.g. poverty, English language proficiency, population sparsity) among school districts, and is not output oriented.

A NCES index of school costs was developed for most school districts in New York using 1993 data. Since it is the only available index on the variations in school district input costs, it has been used in the analysis to recognize the cost variations among New York's school districts. The NCES index is a blend of both regional, county, and school district level data. It is likely that an index of school costs can not, and probably should not, be based exclusively on regional or school district specific costs. Some costs will be reasonably uniform within a region or county, while other costs may vary substantially within a region or county.

The 1993 NCES indices are based on a national index of 1.000 with an index for New York of 1.122. In the NCES report, the individual school district indices in New York relate to the national index but for this study the individual school district cost indices have been recalculated using a New York State base index of 1.000. The cost of school indices for New York's school district range from a high of 1.127 for the Freeport School District in Nassau County to a low of .778 for the Lake Pleasant School District in Hamilton County. New York City has an index of school costs of 1.040. As expected, nearly all of the school districts in the four suburban counties surrounding New York City have indices above 1.000.

Significant variations, as one might expect, do occur within counties. Some of the variations of school districts within the larger counties are as follows:

COST INDICES FOR SELECTED NEW YORK SCHOOL DISTRICTS		
COUNTY	SCHOOL DISTRICT	INDEX
Albany	Albany	.972
	Maplewood	.877
Erie	Buffalo	.980
	North Collins	.935
Monroe	Rochester	.993
	Wheatland-Chili	.957
Nassau	Freeport	1.127
	Island Park	1.080
Onandaga	Syracuse	.939
	Fabius-Pompey	.898
Suffolk	Brentwood	1.094
	Fishers Island	.956
Westchester	Mount Vernon	1.121
	Pocantico Hills	1.043

The three major categories of school inputs used in the NCES index are (1) certified school personnel inputs, (2) non-certified school personnel inputs, and (3) nonpersonnel school inputs. The index of school costs is a composite index made up of a weighted average of these three categories of school inputs.

The first category, certified school personnel inputs, is computed at the school district level, thus variations occur within a region or county. A personnel cost index is calculated using a hedonic wage equation to derive simulated teacher and school administrator salaries using variables such as educational preparation and experience, total years of teaching or administrative experience, the labor market for school personnel, crime rate and bargaining effects. For the second category, noncertified school personnel inputs, cost factors are aggregated to the level of the specific metropolitan area or the nonmetropolitan area of the state. Adjustments are then made at the county level. In the third category, nonpersonnel inputs, no information about geographic differences in prices exists for many of the school inputs. Many of

the items are sold on national rather than local markets, with the primary difference being the cost of transporting the goods to the point of purchase. Regional adjustments, however, are made for natural gas and electricity based on the Consumer Price Index regional price data.

While Chambers calls his index a useful starting point for analysis in the variations in school costs and in considering methods for adjusting state aid to school districts, he acknowledges several shortcomings in the database and the need for additional research. First, employee benefits are excluded and therefore the index is based entirely upon salary and wage data. Second, the data for noncertified school personnel is too heavily dependent on individuals employed in the public and private sector who have similar occupational categories as those commonly found in schools. The database is relies too heavily on metropolitan area level analysis and therefore may not allow sufficient assessment of cost variations at the county level. Third, too little information is available on nonpersonnel costs, with an inability to factor in proximity of a district to the sources of nonpersonnel goods and services and the effects of differences in climatic conditions. Variations are accounted for in the price of energy, but not in the level of energy consumption. Fourth, more attention needs to be given to home-to-school transportation costs, and the effects of population sparsity, severe climates, and district size.

A quite different and more comprehensive approach to development of geographic cost adjustments in education has been done by Professors William Duncombe and John Yinger at the Center for Policy Research, the Maxwell School, Syracuse University. They attempt to create an educational cost index that is output-focused, rather than input-driven. Their index tries to capture all of the factors affecting educational cost differences, including pupil needs and school size. Outcome measures include pupil evaluation program (PEP) scores, percent of pupils receiving Regents diplomas, and drop out rate. Among the measures used to create their performance-based index are teacher salary index, poverty rate, percent female-headed households, percent of pupils with limited English proficiency, percent of students with disabilities, percent of students with severe disabilities, percent of students in high school, and enrollment.

For the CFE goal of taking variations in local costs into account, an index based on school cost inputs is preferable to an index focusing on outputs and the NCES index of school costs provides the best means currently available. The SBE baseline number of $8,000 per pupil is modified for each school district by the New York State adjusted NCES index of school costs.

Appendix D

District Type Groupings

The school districts are commonly aggregated by type for purposes of analysis. This report uses the same groupings used by the Department of Education and a number of others in their studies of school finance. The major groupings used in this study are: Downstate Small Cities, Downstate Suburbs, New York City, Big Four Cities, Rural Counties, Upstate Suburbs, Upstate Small Cities.

Downstate Small Cities (7)

Glen Cove	Long Beach	Mount Vernon	New Rochelle
Peekskill	Rye	White Plains	

Downstate Suburbs (168 districts in the following counties)

Nassau	Putnam	Rockland	Suffolk
Westchester			

New York City

Big Four Upstate Cities (4)

Buffalo	Rochester	Syracuse	Yonkers

Rural Counties (181 districts in the following counties)

Allegany	Cattaraugus	Chenango	Clinton
Columbia	Cortland	Delaware	Essex
Franklin	Fulton	Greene	Hamilton
Jefferson	Lewis	Otsego	St. Lawrence
Schuyler	Seneca	Steuben	Sullivan
Tompkins	Ulster	Wyoming	Yates

Upstate Suburbs (271 districts in the following counties)

Albany	Broome	Cayuga	Chautauqua
Chemung	Dutchess	Erie	Genesee
Herkimer	Livingston	Madison	Monroe
Montgomery	Niagara	Oneida	Onondaga
Ontario	Orange	Orleans	Oswego
Rensselaer	Saratoga	Schenectady	Schoharie
Tioga	Warren	Washington	Wayne

Upstate Small Cities (50)

Albany	Amsterdam	Auburn	Batavia
Beacon	Binghamton	Canandaigua	Cohoes
Corning	Cortland	Dunkirk	Elmira
Fulton	Geneva	Glens Falls	Gloversville
Hornell	Hudson	Ithaca	Jamestown

Johnstown	Kingston	Lackawanna	Little Falls
Lockport	Mechanicville	Middletown	Newburgh
Niagara Falls	North Tonawanda	Norwich	Ogdensburg
Olean	Oneida	Oneonta	Oswego
Plattsburgh	Port Jervis	Poughkeepsie	Rensselaer
Rome	Salamanca	Saratoga Springs	Schenectady
Sherrill	Tonawanda	Troy	Utica
Watertown	Watervliet		

The 45 High-Need districts in 27 different counties are:

COUNTY					
Albany	Albany	Watervliet			
Allegany	Friendship	Scio			
Broome	Binghamton				
Cattaraugus	Salamanca				
Chautauqua	Dunkirk	Jamestown			
Cortland	Cincinnatus				
Dutchess	Poughkeepsie				
Erie	Buffalo	Lachawanna			
Essex	Ticonderoga				
Franklin	Salmon River	Malone	Brushton-Moira		
Herkimer	Van Hornsville				
Jefferson	Belleville-Henderson				
Monroe	Rochester				
Nassau	Hempstead	Roosevelt	Westbury		
New York City					
Niagara	Niagara Falls				
Oneida	Utica				
Onondaga	Syracuse				
Orange	Middleton	Newburgh			
Renssalear	Renssalear	Troy			
St. Lawrence	Clifton Fine				
Schenectady	Schenectady				
Steuben	Addison	Jasper-Troupsburg			
Suffolk	Copiague	Wyandich	Brentwood	Central Islip	
Sullivan	Fallsburgh				
Ulster	Ellenville				
Westchester	Tarrytown	Mount Vernon	Port Chester	Yonkers	

Appendix E

Hold Harmless Aid

Table VIII provides a breakdown of basic operating aid by school district group with and without hold harmless. As the minimum required local effort used in the state aid calculation increases, the number of districts and the amount of hold harmless aid increase. However, the amount of additional state aid needed to provide hold harmless protection is relatively small. For the $9 alternative, less than 1% increase in basic aid ($121 million) is needed to achieve hold harmless; for the $13 alternative a 4.4% aid increase is needed ($467 million).

The number of districts that would receive hold harmless aid is substantial despite the relatively small amount of aid that would be needed for hold harmless. Without enrichment aid factored in, the following number of districts would be eligible for hold harmless aid:

Districts Eligible for Hold Harmless Aid

Minimum Required Local Effort	Number (Percent of Total Districts)
$ 9.00	146 (21.4%)
$11.00	216 (31.7%)
$13.00	298 (43.7%)

The districts that would receive hold harmless are highly concentrated in two school district groups: Upstate Rural and Downstate Suburbs. Approximately three-fourths of the school districts eligible for hold harmless aid would be from these two groups. The following table provides a breakdown of districts eligible for hold harmless aid by school district group:

School Districts Receiving Hold Harmless Aid

Minimum Required Local Threshold	$9.00	$11.00	$13.00
	Number (%)	Number (%)	Number (%)
Statewide	146 (21.4%)	216 (31.7%)	298 (43.7%)
45 High-Need Districts	13 (28.9%)	17 (37.8%)	21 (46.%)
Downstate Small Cities	0	2 (28.6%))	5 (71.4%)
Upstate Suburbs	23 (8.5%)	36 (13.3%)	61 (22.5%)
Upstate Rural	69 (38.1%)	91 (50.3%)	115 (63.5)

Downstate Suburbs	49 (29/2%)	80 (47.6%)	103 (61.3%)
Upstate Small Cities	5 (10.0%)	6 (12.0%)	12 (24.0%)
Big Four Cities	0	1 (20.0%)	2 (40.0%)
New York City	0	0	0

The Big Four Cities would receive relatively little hold harmless funding. Only Buffalo and Syracuse would receive any hold harmless aid even at the $13.00 minimum required local effort.

School districts in the Downstate Suburbs group would receive more than half of all hold harmless funds while those in the Upstate Rural districts would receive about one fourth. The share of hold harmless funds received by districts in the Downstate Suburbs, Upstate Rural, Upstate Suburbs and Upstate Small Cities would increase as basic operating aid increase. Conversely, the share of hold harmless would decrease for the Big Four Cities and New York and Downstate Small Cities as state basic operating aid increased. The percentage share of hold harmless aid for each of the school district groups for each minimum required local effort is as follows:

School District Shares of Total Hold Harmless Aid

	$9.00	$11.00	$13.00
Statewide	100%	100%	100%
45 High-need Districts	11.6	9.4	11.4
Downstate Small Cities	0	0.9	3.6
Upstate suburbs	11.5	9.1	9.6
Upstate rural	27.6	23.4	22.6
Downstate suburbs	52.8	59.7	54.2
Upstate small cities	8.2	6.6	6.5
Big 5 cities	0	0.3	3.5

The full effect of hold harmless aid is shown in the following table which compares the percentage increases in basic operating aid with and without hold harmless.

Percentage Increase in Basic Operating Aid with and without Hold Harmless

Minimum Required Local Effort	$9.00		$11.00		$13.00	
	With	Without	With	Without	With	Without
Statewide	61.2	59.8	45.0	41.8	30.6	25.1
45 High-need Districts	67.8	67.5	52.4	51.8	37.3	36.1
Downstate Small Cities	62.6	62.6	34.1	31.7	19.8	3.2
Upstate suburbs	64.7	63.9	49.1	47.8	34.2	31.7
Upstate rural	17.9	13.7	11.2	3.3	6.4	-6.7
Downstate suburbs	64.4	59.6	39.3	27.2	21.2	2.2
Upstate small cities	34.8	33.6	25.1	29.6	16.0	12.2
Big 5 cities	73.6	73.6	57.1	57.1	41.0	40.5

The wide variations in the effect of hold harmless among the various school district groups is again evident. The biggest increases in state aid as a result of hold harmless occurs for the Downstate Suburbs and the Upstate Rural School Districts.

Hold harmless provisions have the effect of almost completely avoiding increases in local contributions towards the cost of a sound basic education. Without hold harmless, under all three alternatives a significant number of school districts would have to increase their local effort to achieve a SBE funding level. With hold harmless, the necessity for local increases in tax effort virtually disappears.

Local Tax Effort Per $1,000 of Full Value With and Without Hold Harmless Number of Districts

	$9.00		$11.00		$13.00	
	With	Without	With	Without	With	Without
Rate Increase	1	144	10	222	22	310
Rate Decrease	536	536	460	460	370	370
No Change	145	2	212	0	290	2

Appendix F

Issues Related to the Implementation of a Statewide Property Tax

Some of the areas that must be considered in contemplating a statewide property tax include:

(1) current level of property taxes in New York
(2) the unique property tax policy in New York City and Nassau County
(3) the number and variances in the local option exemptions
(4) the assessment treatment of condominiums
(5) the number of assessing jurisdictions
(6) the enforcement of delinquent taxes
(7) the lack of a prescribed assessment level
(8) the lack of any required period of reassessment

(1) Current Level of Property Taxes in New York

New York's level of property taxation has long been one of the highest in the nation. Frequently, property taxes are measured on either a per capita or an income basis. Both methods have serious limitations. States with small populations and high mineral wealth, such as Alaska and Wyoming, can have very high per capita property taxes, which, while accurate, is misleading. Income measures ability to pay, but ignores property wealth, which is the basis of property taxes.

The former Advisory Commission on Intergovernmental Relations (ACIR) developed a better measure for comparing New York to other states by integrating the concepts of tax capacity (the wealth base) with tax effort (the use of the tax). The result of their approach is a property tax effort index. Based on the 1991 ACIR study[24], New York's property tax effort was 76 percent above the national average. This placed New York second in the nation in the use of the property tax. Only New Hampshire, without an income or sales tax, ranked ahead of New York in property tax effort. Thus, when homeowners, businesses, utilities, railroads, farmers, and others say their property taxes are high compared with their counterparts in other states, they are in fact correct. The blame is often placed on an unfair assessment, when in truth it may be the high level of property taxation.

Since 1991, the base year of the ACIR study, property taxes in New York have grown as follows:

Property Taxes in New York: 1991 - 1997

Year	Total Property	% Change	School Property	% Change	Non-school Property Taxes	% Change

[24] The latest ACIR study was published in September 1993 using 1991 data. Unfortunately, the ACIR has since been abolished, so that the property tax and other tax comparisons among the states will no longer be done.

	Taxes (millions)		Taxes (millions)		(millions)	
1991	$20,786		$10,553		$10,233	
1992	22,432	7.92	11,009	4.32	11,423	11.64
1993	23,059	2.80	11,526	4.69	11,534	0.96
1994	23,329	1.17	12,228	6.09	11,101	-3.75
1995	23,618	1.24	12,530	2.48	11,087	-0.13
1996	24,307	2.92	12,878	2.78	11,429	3.08
1997	24,641	1.38	13,677	6.20	10,964	-4.06

The ACIR property tax index is based on property wealth, population, and property taxes. It is not likely that the rate of growth in property wealth from 1991 to 1997 in New York has kept pace with the nation as a whole. The rate of population growth has been slower than the national average. While it is not known whether property taxes at an annual growth rate of 2.9 percent have been faster or slower than the national average, it is likely that New York's property tax effort is now more than 76 percent above the national average.

A significant contrast occurs within New York between school property taxes and nonschool property taxes. Property taxes for non-school purposes in 1997 were lower than in any year since 1991. In three of the last five years, nonschool property taxes decreased. On the other hand, school property taxes have grown every year, at an average annual rate of 4.43%. School taxes as a percent of total property taxes increased from 49.1% in 1992 to 55.5% in 1997.

A state-levied property tax to fund a sound basic education would not diminish the level of property taxation, but would both increase the overall property taxes levied and shift an even larger portion of the property tax use to school purposes. As school district reliance on the property tax has grown, the political pressure to diminish school property taxes has also grown. If the STAR program had been fully implemented in 1997, it would have reduced the 1997 school property tax levy by 15% to 16%.

Given the recent growth in property taxes for school purposes, the high level of property taxes generally, and the enactment of the STAR program, a statewide property tax for education could be expected to be met with significant resistance. Wealthier local governments might oppose the concept of imposing property taxes in their municipalities with the proceeds to be shared with other poorer local governments. The property tax is almost always ranked as the most disliked tax. Significant further expansion of the property tax for educational purposes is not recommended.

(2) <u>Classified Property Taxation in New York City and Nassau County</u>

From a tax policy perspective New York does not have one property tax system, but at least two, and perhaps three or four systems. New York City effectively has its own property tax system with laws which differ significantly from those in the rest of the State. Another property tax system is established by Article 18 of the Real Property Tax Law with its unique classification system pertaining only to Nassau County and New York City. A third system is created in some parts of the state where local jurisdictions have opted for the two-class tax system under Article 19 of the Real Property Tax Law.

In 1981, classified tax rate systems were imposed on New York City and Nassau County. New York City now has both classified tax rates and assessments, while Nassau County ostensibly has only classified tax rates. The classification system establishes four classes of property: (1) homes, (2) apartments, condominiums, and cooperatives, (3) utilities, and (4) commercial and all other. The four-class system becomes very complex in Nassau County with its 57 school districts, some of which overlap into Suffolk County.

A statewide property tax, under the principle of treating similar property owners within a taxing district the same, would require the use of a single tax rate statewide. New York City homeowners currently receive a very significant benefit from the classified property tax system. Elimination of the classified property tax system and uniform assessment practices could result in a 348% increase in homeowner property taxes in New York City. Data obtained from the Office of Real Property Services shows the difference between each class's tax share and its actual market share.

Market Share Compared to Tax Share by Property Tax Class

	1996 Market Value Share	1996-97 Actual Tax Share	% Difference
Class			
Residential	42.96 %	12.47 %	348.44%
Apartment	21.59	33.64	- 55.81
Utility	4.89	6.37	- 36.26
Commercial	30.55	47.51	- 55.52

Use of a classified assessment and tax rate system results in a massive shift in taxes from the residential class to all other classes. Ironically, the apartment class, with renters, has the greatest increase in property taxes (55.8 %) as a result of the classification system. A similar shift away from homeowners occurs within the Nassau County classified system but because such a large part of the property value base in Nassau County is residential, it is much smaller.

A two class tax system, of homestead and non-homestead, is authorized, but not widely used in the rest of the state. It is estimated that between 30 and 50 school districts have

differential tax rates for homestead and non-homestead properties. In some cases the differentials may be very slight, while in other cases they may be quite significant.

A statewide property tax of necessity would supersede the existing classified property tax systems. The incidence of a statewide property tax would thus be very different in those situations where classification exists.

(3) Home Rule and Local Option Exemptions

New York has always been a strong home rule state and the concept of home rule certainly applies when it comes to property tax exemptions. New York generously authorizes exemptions from the property tax, with nearly one-third of all property tax exempt. No other state provides the wide range and significant reductions through exemptions that New York does. In addition, unlike some other states, New York does not tax personal property. The result is high effective tax rates on the remaining taxable property.

New York's generosity with exemptions is demonstrated in the more than 215 different exemption codes that apply to the various exemptions. Exemptions may apply to all property taxes or be limited to specific types of property tax levies. For example, veterans may be fully or partially exempt from county, city, town, and village property taxes, but are fully taxable for school purposes. The local option exemptions may be opt-in or opt-out exemptions. In an opt in exemption the property remains taxable unless the local government takes a specific action to create the exemption (e.g. the aged and the business investment). In the opt-out exemption the property is exempt unless the local government adopts local laws making the property taxable (e.g. non-profit organizations).

New York City has numerous exemptions that pertain only to the City. Among some of the local option exemptions throughout New York are:

- aged
- alternative veterans
- veterans who are reassessed
- persons with disabilities
- business investment properties
- property improvements in economic development zones
- banks in certain areas
- historic property
- historic barns
- solar and wind energy
- air pollution facilities
- academies of music
- pharmaceutical societies
- dental societies
- property held by hospital, playground, or library
- municipal property outside corporate limits (sewer, water, parks, airfields, flood control, fire prevention)

- off-street parking facilities
- quarantined lands
- multiple dwellings
- urban renewal property
- limited profit housing companies
- municipally owned housing projects sold or leased
- municipal housing authorities
- rent-controlled multiple dwellings
- housing development fund companies
- redevelopment company housing projects
- limited dividend housing companies
- low income turnkey/enhanced housing
- low and moderate income housing
- residential home improvements
- non-profit organizations (animal welfare, bible tract, scientific, community service, literary, historical society, sportsmanship, playground, infirmary, bar associations, benevolent organizations)

In addition to the local option exemptions, the Industrial Development Agencies have wide discretion in granting property tax relief. The policies of the different IDAs will vary widely throughout state.

To impose a statewide property tax would require superseding and overriding the many local option exemptions, or developing a new set of exemptions that would be applicable on a statewide basis. The most logical approach under a statewide property tax would be to eliminate all exemptions except the constitutionally mandated exemptions (religious, educational, and charitable), governmental property (except municipal property outside corporate limits and property leased to the private sector for profit making purposes), and Indian reservations. Those persons and organizations that have achieved a full or partial exemption from property taxes could be expected to object to a State imposed property tax. Perhaps some of this opposition could be mitigated with a low effective rate.

(4) <u>Valuation Methodologies of Condominiums</u>

Generally relief from property taxes is obtained through an exemption. Condominiums have obtained property tax relief by being valued at less than their fair market value. Condominiums are bought and sold as individual units, but for property tax purposes they may not be valued that way.

For property tax purposes the entire condominium complex must be valued. This value is then apportioned in some way among the different units. This approach, by first valuing the whole rather than the parts, results in a reduced valuation for each of the units that may exceed half of a unit's actual value.

This approach to valuation pertains unless the homestead/non-homestead class tax provisions are adopted. A local government then has a choice: if condominiums are valued

based on the value of the entire complex they are placed in the non-homestead class with its higher tax rates; if they are valued on an individual unit basis they are placed in the homestead class and have its lower tax rate. It is possible that a condominium may be valued one way for school tax purposes and another way for town taxes. Under a statewide property tax it would be necessary to develop consistency and uniformity in the valuation and assessment of condominiums.

(5) <u>Large Number of Assessing Units</u>

New York's large number of assessing units would complicate the imposition of a statewide property tax. Normally, assessing units are larger than or at last coterminous with taxing units. In New York the reverse is true: taxing districts frequently overlap assessing units; so to do property tax levies it is frequently necessary to use many different assessment rolls prepared by many different individuals, who may or may not have used consistent approaches.

Most of the country has county-wide assessing. City and town assessing is common only in the northeast and scattered parts of the Midwest. Only one state has more practicing assessment units than New York. With the exception of Nassau and Tompkins County, which have county-wide assessing, assessments are done by each city, town, and approximately half of the villages. Village assessing is redundant of existing town assessing.

New York has 710 school districts, including many quite small ones. Seven school districts have fewer than eight teachers, 16 are special act school districts, and one is a contract district. Only 173 districts (25 %) are contained within a single assessing unit. The school districts that are wholly contained within a single assessing unit are largely in the New York City metropolitan area; with 54 in Nassau County, 54 in Suffolk County, 22 in Westchester County, and 43 scattered around the rest of the State.

Thus, 537 school districts are in more than one assessing unit. When these school districts are overlaid onto the assessing units there are 2,761 segments, an average of five cities or towns per district

These segments of school districts are often very small. A 1994 analysis by the Office of Real Property Services found that 41of these segments were composed of a single parcel, 400 segments had 20 or less parcels, and 675 segments had 50 or less parcels. Rural counties in particular tend to have many school district segments.

Having many segments would not be a problem if assessments were done uniformly, consistently, and within the same time frame. However, this is not the case. The result is a very heavy dependency on the equalization program of the Office of Real Property Services. However, their efforts in equalization presume uniformity of assessments within the assessing unit. Frequently, this is not true. The result is a very high degree of volatility in the property tax levies in the school district segments. As an example of this volatility, the school tax levy changes for one year in the six towns in the Andover School District in Allegany County were 12.2%, 6.4%, 3.0%, 4.2%, 30.8%, and 43.4%. For the same year, in the previously mentioned Amsterdam City School District, the percentage changes in property tax levy were 47.6%,

11.6%, 2.7%, 9.9%, 12.1%, 32.6%, 41.9% and 324.5%. It is surprising that there are not more taxpayer complaints about school taxes and assessment inequities.

The number of school segments coupled with the often poor quality of assessing puts excessive strain on the fairness and accuracy of school tax levies. Use of a statewide property tax without fundamental reform in the number of assessing units, the quality of assessing, and/or school district boundary lines would exacerbate the existing situation. Administratively, the Office of Real Property Services could be funded to a level sufficient to do equalization surveys by school district segment but it would be extremely expensive and would only be treating the symptom and not the problem.

Before initiating a statewide property tax there is a need to reduce the number of assessing units, modify school district boundaries to more closely parallel assessing unit boundaries (particularly where small numbers of parcels are involved), and/or quite dramatically improve and maintain the accuracy of assessments.

(6) Enforcement of Delinquent Taxes

A small percentage of school property taxes are not paid and become delinquent. Currently, school districts are made whole by the counties and suffer no loss in property taxes as a result of delinquencies. Counties then take responsibility for collecting delinquent school taxes and, where necessary, selling tax liens or taking title and holding tax sale auctions.

A question arises as to responsibility for delinquencies under a statewide property tax. Logically, the system would work as at present and the counties would make the State whole for property tax levies not received. While counties have taken responsibility for delinquent locally imposed school property taxes, they might be less willing to do so for State imposed property taxes.

While the State could assume responsibility for enforcement of delinquent statewide property taxes, it would result in redundancy and create an overlap with the counties. Utilizing local collection and enforcement mechanisms for a statewide property tax is obviously less costly and more efficient.

While the problem of delinquent property taxes levied statewide is not insurmountable, it is another feature that must be addressed in the consideration of a statewide property tax.

(7) Lack of a Standard Level of Assessment

There are three variables in the assessment process: the actual value of the property; the assessment ratio or percentage to be applied to that value; and the assessment. The percentage at which property is assessed is usually referred to as the assessment standard.

Most states, but not New York, have a statutorily specified assessment standard. At least 28 states have adopted 100% as a standard. Those states with classified assessments utilize a series of different percentages depending on the number of classes. New York and Rhode Island

have adopted as a standard "a uniform percentage of value". Each county, city, town, and village assessing unit is free to assess at any percentage. The net effect has been that taxpayers have had little or no knowledge of the assessment standard or level. Beginning in 1998 local governments are required to provide the uniform percentage on the tax bills.

In the absence of a statewide assessment standard, substitute numbers are used as proxies. The most common proxy is the state equalization rate, whose function is to establish the full value of a local government at a point in time. The most recent equalization rate has a valuation date of January 1, 1996. This is as current as equalization rates can get -- sometimes a significantly longer lag exists. Because of the gap between the assessment rolls and market values compared, equalization rates can be in excess of 100. For example, a reassessed 1998 assessment roll compared with a January 1, 1996 market value will result in an equalization rate greater than 100, unless a downturn is occurring in the real estate market.

If one uses the equalization rate as a proxy for the standard level of assessing in New York one finds a range from 1.71 in the town of Olive to 189.93 in the city of Oswego. Huge ranges in assessment levels occur within counties such as: Albany -- Westerlo at 1.72, Bethlehem at 110.33; Herkimer -- town of Little Falls at 3.22, Franklin at 106.40; Oneida -- Camden at 3.53, Sherrill at 105.87; Onondaga -- Otisco at 3.61, Geddes at 113.57; Oswego -- New Haven at 2.72, city of Oswego at 189.93; Schenectady -- Rotterdam at 5.04, Niskayuna at 113.58; Ulster -- Olive at 1.71, Hardenburgh at 107.74.

Lack of a consistent and standardized level of assessing complicates imposition of a statewide property tax. A statewide property tax would put greater stress on an already overutilized equalization rate, whose primary purpose is not establishing the level of assessment but on determining full value for school aid formulas and the apportionment of county and school taxes.

(8) <u>Infrequency of Reassessments</u>

A statewide property tax would be facilitated if all assessments were updated on a periodic cycle. Most states have either a mandatory reassessment frequency (ranging from one to 10 years) or a trigger mechanism that initiates a reassessment. Like fifteen other states, New York has no cycle for reassessment in law. Over half the states have a specific cycle of four years or less.

Between 1982 and 1997, 274 of 993 cities and towns (27.6%) reassessed within the last three years. Only 384 cites and towns (38.7%) reasess within four years. What is most disheartening is that 239 cities (24.1%) have not reassessed in any year in the last 16 years. In many cases it is not known when reassessment occurred in these cities and towns. Nassau County, for example, last reassessed in 1938, some 60 years ago. Property tax bills are higher than assessments.

A statewide property tax thus could not easily be equitably levied across the State. Many assessment rolls are extremely inequitable with property owners commonly paying twice in property taxes what another property owner with the same value property is paying. One might

argue that the stress of a statewide property tax would create the necessary assessment reforms. An equitable base needs to be in place before imposing a statewide property tax

Collectively, the factors discussed above strongly argue against consideration of a statewide property tax to fund education. The discussion has not focused on philosophical aspects of the property tax. Frequently, the property tax is questioned because of its assumed regressivity. While many agree that the property tax in any given year is a regressive tax, an argument can be made that over a lifetime the property tax becomes less regressive and perhaps even proportional. Personal and household income are not constant, but change over time.

It is also argued philosophically that the property tax should be used for programs and expenditures related to services to property such as highways, street lighting, police, fire, water, and sewer services. Education, on the other hand, is related to people and not property. A statewide property tax would move the property tax yet further away from a connection with services to property and would make school districts even more dependent on the property tax as a source of funding.