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THE LEAGUE OF WOMEN VOTERS *of New York State*

Testimony Submitted to the "New" New York State Education Reform Commission
October 16, 2012

Good morning. My name is Marian Bott. Since 2004 I have been the education finance specialist for the League of Women Voters of New York State. The League is a grassroots, volunteer advocacy organization under Section 501(c)(4) of the Internal Revenue Code, and as such holds positions on a wide variety of issues, including state taxation and education finance policies. Many of our members have held leadership and teaching positions in New York State's education system, and bring that perspective to their advocacy. Since the mid-1990s, the League has supported the aims of the Campaign for Fiscal Equity (CFE) school finance lawsuit, and has advocated for implementing a statewide remedy addressing the inadequate and inequitable provision of quality education for students in public schools in New York State. The League submitted an amicus brief, organized public engagement, and sponsored forums statewide in connection with CFE. On an ongoing basis, we testify before the Legislature in budget hearings.

We are testifying today to express serious concerns about the current status and likely future direction of fiscal policies pertaining to PreK-12 public education in our State. We have conducted three extensive organization studies since the 1980s, wherein we analyzed budget and policy documents, interviewed experts, and engaged the public in lively discussions of the merits of state education finance policies. STAR, in particular, was seriously deliberated within our organization for two years before we established a position in opposition to it in 2006. I co-chaired the study, and can attest that we observed throughout the study that there is no fiscal policy more popular than one like STAR. Unfortunately, this type of education fiscal policy is at tension with the inherent purpose of state education aid. State school aid should equalize fiscal capacity of school districts, directing aid where it is most needed, judged by the best measures available, while encouraging efficiencies and economies wherever possible. The temptation for policymakers, who in other regards claim to favor state fiscal prudence, to adopt other strategies has proven to be too great to resist.

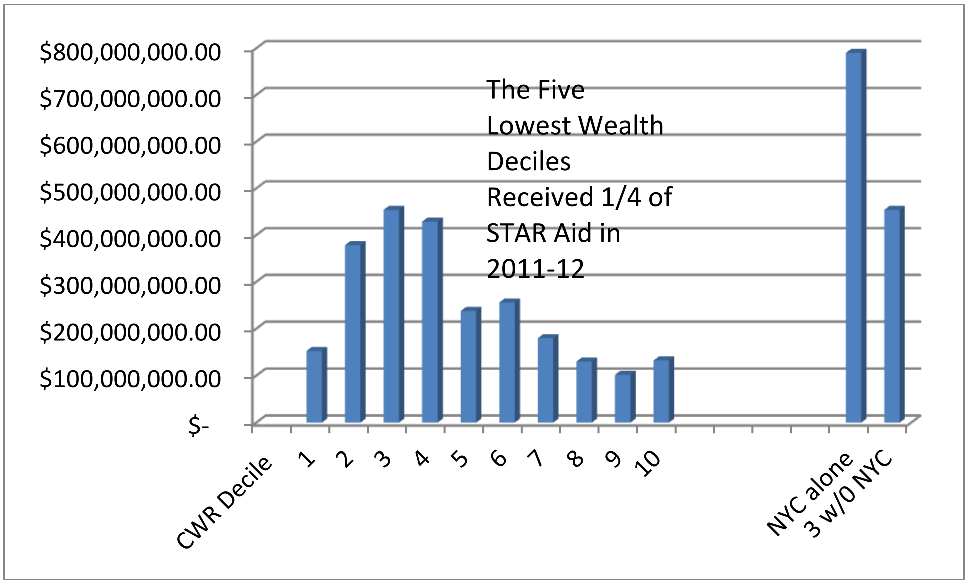
The League, based on its research on and support of the tenets in the CFE lawsuit and its longstanding support for equal educational opportunity for all students, holds to standards for state government fiscal policies. We have a standard for property taxation and another for financing Pre-K-12 education, expressed in "Position Statements." Our standard provides that state education aid should be targeted with a preference to the highest need districts. Particularly at this juncture when, in the remedy phase of CFE, the phase-in was stalled in 2009-10 and then reversed in 2010-11 and 2011-12, remedy funding should have a higher priority than other uses of state education aid.

While progressively distributed state aid to education aligns with our organization's views, regressively distributed state aid does not. Therefore, there are two state education finance policies currently riding a wave of popularity that greatly concern us:

1) The STAR (School Property Tax Relief) program, currently funded at $3.2 billion, was instituted in 1997-98. At its highest funding level, it allocated as much as $5.5 billion per annum prior to the elimination of Middle Class Star, an income tax rebate that was eliminated in 2009. It is ill-targeted, even as reformed. Under no circumstances should it be expanded again for the purpose of "keeping seniors in their homes," or for any other reason. It is not the proper way to provide targeted tax relief to New York State residents, be they seniors or non-seniors, homeowners or renters. The League instead favors the use of a fairly structured and carefully targeted property tax circuit breaker that does not unduly encourage school districts to increase their budgets. As most of you know, our existing property tax circuit breaker is flawed by a lack of inflation adjustment for its income limit, as well as for its maximum home value. There are several proposals that have been promulgated by legislators in the recent past, and they should be re-examined.
2) Our 2011 property tax cap already shows a deleterious impact, and disproportionately so, on the poorer school districts (as measured by their State Education Department's Combined Wealth Ratio). As many fiscal experts predicted, the levy cap, as designed, takes the greatest toll on educational programming in the least wealthy districts. We have already heard testimony about this, and I have recently prepared a chapter for a forthcoming book profiling the differential impact of the property tax cap on Rye and Port Chester, two adjacent districts in Westchester County. Anecdotally, we know that parents with the means to do so have formed and donated to school-related foundations, making it even more difficult to gauge new disparities in programs provided to current students.

Basis of Our Opposition to STAR

The chart below represents data organized by Combined Wealth Ratio deciles, using 2011-12 STAR reimbursement data obtained from the State Education Department.



The Regional Price Adjustment feature of STAR is problematic because it drives aid, not coincidentally, to high-cost regions which tend to be, yet not exclusively, regions where high Combined Wealth Ratio districts are also located. Those districts receiving the largest per pupil STAR payments have long remained cushioned from some of the pain of local property tax increases that those with smaller per pupil STAR payments have encountered. This has exacerbated spending disparities between low Combined Wealth Ratio and high Combined Wealth Ratio districts. Although data are not up to date for 2011-12 at this point, State Education Department data for 2010-11 show that this differential in per pupil STAR reimbursements is between $400 and $800.[1]

I would note that in prior hearings of this Commission, very little has been said about STAR. Perhaps some believe that the prior lack of a $500,000 limitation on federal Adjusted Gross Income was the only problem with the program (which was addressed in this past legislative session, together with an annual 2% cap on its percentage growth). If you are not persuaded that the program still has distributional flaws, you might consider the testimony of John Yinger, already submitted to this Commission.[2] As a senior faculty member at Syracuse University's Maxwell School, Yinger and his colleagues maintain a long tradition of careful examination of school finance best practices. He is an authority on New York school finance, and as you may recall his written testimony points out several design flaws of the regressive

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[1] See New York State Education Department, Primer, pp. 4 and 6. Retrieved from http://www.oms.nysed.gov/faru/PDFDocuments/Primer12-13A.pdf

[2] John A. Yinger, May 2012 monthly blog, "It's Elementary." Four Flaws in New York State's Property Taxes and How to Fix Them: STAR. Yinger states that 1) STAR gives school districts an incentive to raise their tax rates, leading to increases in school spending between 1 and 7 percent and increases in property tax rates between 2 and 18 percent. It also results in increases in taxes to businesses, while giving no tax relief to most renters (those living outside New York City). It contains a Sales Price Differential factor which subsidizes those living in high-cost locations. While progressive within any given district, it is inequitable on an inter-district basis. Retrieved October 12, 2012 from http://cpr.maxwell.syr.edu/efap/about_efap/Its_elementary.html

STAR program. Other experts who have spoken out against STAR in the past include such disparate, but informed, observers as E.J. McMahon and Frank Mauro, of the Empire Center and the Fiscal Policy Institute, respectively. I know of no academic or respected research organization that believes that STAR, as currently structured, represents sound state education aid policy. It was never intended as such; it was a political trade made by the Assembly Majority in 1997 for a program called LADDER, which was to provide funding to New York City and other high needs districts for universal pre-kindergarten, class size reduction, and minor maintenance expenses. LADDER was analogous to the Campaign for Fiscal Equity remedy monies in 2007: promised, but only partially delivered. At the same time the legislature has probably appropriated an average $2.5 to $3 billion a year to STAR since 1997. It was George Pataki's means of addressing taxpayer complaints. It might be appropriate for this administration to structure its own, more equitable and streamlined brand of property tax relief.

This is not to say that some features of STAR are not worthy of adoption: it at least partially addresses renters, but only those living in New York City. Based on 2011-12 data on STAR distributions, roughly ¼ of the $3.2 billion was distributed to taxpayers in New York City, and $550 million of that went to renters. Another ¼ of the $3.2 billion was distributed to the five lowest deciles in terms of the state's 680 school districts. However, the other half, roughly $1.6 billion, was distributed to the highest five deciles in terms of their Combined Wealth Ratios as computed by the State Education Department. A better way to graph the relationship would be to assort the districts, weighting them by student count, which we will provide at a later date, but the graph used above confirms the trend that STAR is still regressive, driving a great deal of state aid to wealthier districts.

However, these distributional issues have not discouraged legislators from recently proposing $1.2 billion in additional STAR benefits for their constituents. S7447, once again containing provisions for sending constituents a rebate check, passed the Senate this past June. A summary of the bill's regional cost adjustments is footnoted below.[3]

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[3] Under the provisions of the bill, beginning in the 2012-13 school year, senior citizens would receive a rebate check in an amount that equals 25 percent of the current STAR exemption benefit. The benefit would increase to 35 percent of the STAR exemption starting in the 2013-14 school year. Total property tax relief for seniors next school year would be $202 million. Basic STAR rebate checks for middle class families would be restored beginning in the 2013-14 school year. The amount of the rebate checks would be determined by income and the local school district tax rate. Total property tax relief would be $1.2 billion. The income brackets would be as follows:

For Nassau, Suffolk, Rockland, Westchester, Putnam, Orange, Dutchess counties and New York City:
$0 to $120,000 – 60 percent of the STAR exemption
$120,001 to $175,000 – 45 percent
$175,001 to $250,000 – 30 percent

For Upstate New York counties:

$0 to $90,000 – 60 percent of the STAR exemption
$90,001 to $150,000 – 45 percent
$150,001 to $250,000 – 30 percent

http://www.nysenate.gov/press-release/senate-passes-bill-restore-star-property-tax-rebate-checks-1
For full bill text, see http://open.nysenate.gov/legislation/bill/S7447-2011.

Why a Circuit Breaker is Superior and Should be Implemented, phasing out STAR

The League believes that the implementation of a properly structured tax circuit breaker, used in full substitution for the STAR tax relief program, is a far superior policy choice and one that we urge the legislature and this committee to recommend to our Governor. Ironically, we already have it in law, but it needs an inflation adjustment and other structural features such as the multiple-threshold.

The Lincoln Institute of Land Policy has written extensively on property tax circuit breakers, analyzing best practices. The practices are:

1) Provide adequate tax relief and reliable funding
2) Cover owners and renters of all ages
3) Use a broad definition of income, including Social Security Benefits
4) Use a multiple-threshold formula; Apply brackets incrementally[4]
5) For generous threshold circuit breakers, include a copayment requirement
6) Set a limit on the maximum property value considered in the circuit breaker formula[5]
7) Consider placing no other limits on income, benefits, or net worth
8) Provide funding by the state
9) Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters
10) Set up a simple, streamlined application system
11) Establish and fund an outreach program.

For further authority on property tax relief nationwide and how it might best be structured, see the full report. [6]

In examining the report, it is clear that our STAR income limit of $500,000 is, to put it mildly, far more generous than any other state, but at the same time, our Circuit Breaker income limit is $18,000. If our median income[7] for 2012 for a family of four is $82,222, it is also clear that for STAR, the income limit should be substantially lowered, while for our Circuit Breaker, it ought to be substantially increased. For a new property tax circuit breaker, there should be some phase-out based on market value of the home, tapering down the tax relief as the home's market value approaches a certain threshold, which should be adjusted for inflation (or deflation) annually.

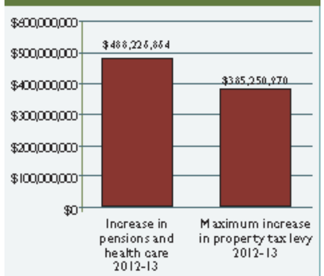
[4] Bowman, p. 50. New York's property tax circuit breaker is described as having 7 brackets and thresholds.
[5] Bowman, p. 50. New York's maximum property value for eligibility is $85,000 (including all owned property).
[6] John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany P. Paquin. Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers. Lincoln Institute of Land Policy, 2009), p. 58. Retrieved from http://www.lincolninst.edu/pubs/dl/1569_838_Property Tax Circuit Breakers Final.pdf
[7] Federal Register, Estimated State Median Income for a Four-Person Family, by State, for Federal Fiscal Year (FFY) 2013, for Use in the Low Income Home Energy Assistance Program (LIHEAP). Retrieved from https://www.federalregister.gov/articles/2012/03/15/2012-6220/state-median-income-estimates-for-a-four-person-household-notice-of-the-federal-fiscal-year-ffy-2013

Basis of our Opposition to the Property Tax Cap

Deleterious effects of the cap were predictable. As this graph from the New York State School Boards Association shows, costs for increases in pensions and health care alone exceeded the maximum increase in property tax levy.

| Figure A |

Revenue Shortfall*



Under the tax cap, projected expenditures for pensions and healthcare would exceed the projected maximum allowable property tax levy increase by about $103 million.

* *Based on a 2 percent increase in 2011-12 tax levy for all districts and 6 percent compounded increase in health insurance costs from 2009-10 through 2012-13 school years. Tax levy calculation includes pension exemption for increases above 2 percent*

It was also clearly deduced, *a priori*, that school districts with lower Combined Wealth Ratios would have limited ability to obtain incremental revenue under a percentage cap. In the coming year, assuming the Consumer Price Index remains in the range it was in the latest month available, August, as compared to August of 2011, that index, not 2%, will control the allowable increase in the tax levy—it is under 1.7%.

Keeping Tax Levies at 2 Percent Means Less Revenue In Poorer Districts

CWR Range*	Additional revenue from a 2 percent increase in the tax levy:
0.00 to 0.499	$ 172,356
0.50 to 0.999	$ 512,994
1.00 to 1.499	$ 996,141
1.50 and greater	$ 1,386,753

The average dollar amounts per a 2 percentage point increase in the tax levy for the 121 districts in our sample, organized by combined wealth ratio, shows that a maximum tax levy of 2 percent brings in less revenue in poorer districts compared to wealthier ones.

* *Combined wealth ratio (CWR) is a measure of school district fiscal capacity based equally on the income of school district residents and the value of property in the school district. The average school district in New York has a combined wealth ratio of 1.0; ratios of less than 1.0 are below the statewide average. Data is from the 121 districts in our sample.*

For those who missed *Newsday*'s October 5, 2012 reporting on the impact of the property tax cap in Nassau County, I provide on the following pages the impact on the school districts. (More complete Combined Wealth Ratio information, which we added in the right hand column, will be posted on our website when available.) The most shocking example of inequitable impact is that Roosevelt School District, with a Combined Wealth Ratio of .586, experienced a 29%

increase in school tax rates. Others with very high percentage increases included Uniondale (.983), and Hempstead (.493). Throughout Nassau County, taxpayers succeeded in lowering individual valuations on their homes after assessment protests, which exacerbated the impact of lower overall property valuations in most communities. Accordingly, the tax bills sent out in September demanded much more in terms of percentage increases of all residents than they expected under the new levy cap. A properly structured and targeted circuit breaker, coupled with a phase-in of the CFE remedy funding, would have been a more equitable solution to these school districts' dilemma. Under current policies, local authorities can grant tax relief based on assessment data, but only state fiscal authorities have a data base (state income tax returns) that allows for a proper matching of a taxpayer's capacity to pay with that taxpayer's tax burden.

Much of the testimony that concerns school finance reform leads to the general conclusion that taxpayers' ability to pay for schools needs to be redefined. Approaches that consider tax burden and ability to pay, more broadly, should be brought into the discussion moving forward. A comprehensive property tax circuit breaker along the lines suggested by the Lincoln Institute guidelines would be a step in the right direction, and such a policy should be phased in while STAR is phased out.

Celeste Hadrick and Randi F. Marshall, "School Tax Rates Skyrocket in Nassau." October 5, 2012, Newsday. http://www.newsday.com/long-island/nassau/school-tax-rates-skyrocket-in-nassau-1.4080765 Retrieved from
http://data.newsday.com/long-island/data/nassau/tax-rate/?currentRecord=1
Falling house values in Nassau County and successful assessment protests have pushed up school tax rates to more than double the increases projected when voters approved their school budgets this spring. In some districts, rates have jumped 10 times higher than projected. records show the average school tax rate in Nassau increased 11.7 percent compared to the average 2.6 percent projected.

School District	Class 1 2012	Class 1 2013	Difference	Percent change	Combined Wealth Ratio
Roosevelt UFSD	$699.08	$902.07	$202.99	29.00%	.586
Uniondale UFSD	$542.76	$681.88	$139.12	25.60%	.983
Cold Spring Harbor CSD	$503.36	$619.50	$116.14	23.10%	
Hempstead SD	$858.94	$1,052.57	$193.63	22.50%	.493
Westbury UFSD	$956.20	$1,139.68	$183.49	19.20%	.913
Bayville	$498.37	$591.09	$92.72	18.60%	
Brookville	$498.37	$591.09	$92.72	18.60%	
Locust Valley	$521.11	$617.09	$95.98	18.40%	3.985
East Williston UFSD	$661.64	$769.98	$108.35	16.40%	2.249
East Norwich	$435.27	$503.65	$68.39	15.70%	
Oyster Bay	$435.27	$503.65	$68.39	15.70%	4.137
Lawrence UFSD	$427.80	$492.45	$64.64	15.10%	3.384

Garden City UFSD	$486.64	$556.35	$69.71	14.30%	2.574
Hewlett-Woodmere UFSD	$998.93	$1,141.66	$142.73	14.30%	1.974
Freeport	$855.61	$975.22	$119.60	14.00%	.742
Great Neck UFSD	$430.18	$489.56	$59.38	13.80%	3.275
Port Washington UFSD	$554.19	$628.79	$74.60	13.50%	2.503
Island Park UFSD	$495.20	$561.42	$66.21	13.40%	2.148
Roslyn UFSD	$728.02	$821.05	$93.03	12.80%	2.216
Locust Grove	$775.92	$874.23	$98.31	12.70%	
Syosset	$775.92	$874.23	$98.31	12.70%	1.995
Woodbury	$775.92	$874.23	$98.31	12.70%	
Glen Head	$528.17	$592.58	$64.40	12.20%	
Glenwood Landing	$528.17	$592.58	$64.40	12.20%	
Sea Cliff	$528.17	$592.58	$64.40	12.20%	
Oceanside UFSD	$703.26	$788.34	$85.08	12.10%	1.310
Jericho UFSD	$651.93	$728.84	$76.90	11.80%	3.002
Herricks UFSD	$656.00	$730.85	$74.85	11.40%	1.608
Amityville UFSD	$785.17	$873.71	$88.54	11.30%	
Baldwin UFSD	$904.33	$1,006.06	$101.73	11.20%	1.027
Long Beach SD	$461.10	$512.46	$51.35	11.10%	2.225
Malverne UFSD	$849.12	$940.67	$91.55	10.80%	1.265
Rockville Centre UFSD	$757.13	$837.77	$80.64	10.70%	1.852
Manhasset UFSD	$419.56	$463.81	$44.25	10.50%	3.581
Lynbrook UFSD	$800.27	$881.46	$81.18	10.10%	1.328
Mineola UFSD	$605.89	$665.73	$59.83	9.90%	1.977
Seaford UFSD	$820.36	$900.27	$79.92	9.70%	1.204
West Hempstead UFSD	$773.51	$848.29	$74.78	9.70%	1.401
Merrick UFSD	$841.34	$921.23	$79.90	9.50%	1.446
Bellmore UFSD	$810.03	$886.91	$76.88	9.50%	1.380
Elmont UFSD	$752.38	$823.07	$70.70	9.40%	.876
Massapequa UFSD	$714.93	$781.34	$66.41	9.30%	1.343
Bethpage UFSD	$709.33	$772.60	$63.27	8.90%	1.329
North Merrick UFSD	$827.96	$899.62	$71.66	8.70%	1.043
North Bellmore UFSD	$826.63	$897.51	$70.88	8.60%	1.041
New Hyde Park-Garden	$627.79	$681.36	$53.58	8.50%	1.359

City Park UFSD					
East Meadow UFSD	$772.71	$837.03	$64.33	8.30%	1.128
Plainedge UFSD	$968.67	$1,048.85	$80.18	8.30%	1.005
Valley Stream UFSD-24	$664.60	$719.22	$54.62	8.20%	.978
Island Trees UFSD	$734.29	$794.62	$60.34	8.20%	.903
Wantagh UFSD	$827.11	$894.88	$67.77	8.20%	1.070
Levittown UFSD	$1,009.74	$1,091.87	$82.13	8.10%	.892
Old Bethpage	$831.45	$897.89	$66.43	8.00%	
Plainview	$831.45	$897.89	$66.43	8.00%	1.456
Carle Place UFSD	$657.49	$709.14	$51.65	7.90%	1.623
East Rockaway UFSD	$814.05	$876.35	$62.30	7.70%	1.217
Hicksville UFSD	$568.09	$611.40	$43.31	7.60%	1.517
Farmingdale UFSD	$847.02	$910.04	$63.03	7.40%	1.197
Valley Stream UFSD	$743.63	$798.13	$54.50	7.30%	1.021
Floral Park-Bellerose UFSD	$626.86	$669.04	$42.18	6.70%	1.394
Franklin Square UFSD	$656.62	$700.73	$44.11	6.70%	1.061
Valley Stream UFSD-30	$685.70	$731.26	$45.56	6.60%	1.130