
May 28, 2008

SUOZZI'S STATEMENT IGNORES TRUTH ABOUT MASSACHUSETTS' PROPERTY TAX CAP

By Iris J. Lav

On May 21, the Center on Budget and Policy Priorities released a report, "Hidden Consequences: Lessons from Massachusetts for States Considering a Property Tax Cap." The same day, Thomas Suozzi, the Chairman of New York's Property Tax Relief Commission, issued a statement disputing aspects of the report and its relevance to New York. The chairman's statement missed some of the key points of the report.

New York's Property Tax Relief Commission is expected to propose a cap on property taxes for education, and is expected to point to the Massachusetts Proposition 2 ½ property tax cap as evidence that a cap would be good for New York. In his statement, Mr. Suozzi cites per pupil spending in Massachusetts as well as educational attainment in Massachusetts as evidence that Proposition 2 ½ has not hurt education. But in his own statement, he also identifies the massive infusions of state aid as a major reason the cap has not hurt education — a circumstance unlikely to be duplicated in New York.

State aid and non-school cuts have buffered Massachusetts' schools from its tax cap.

Proposition 2 ½ is a cap on *all* municipal spending — which in Massachusetts *includes* school district spending. The Massachusetts cap is not, however, limited to school funding — while in New York the proposal reportedly will be for a cap on school property taxes alone. School funding in Massachusetts has been buffered by cuts in non-school funding that is under the same cap and, most importantly, by very large infusions of state aid. The Center's report was clear on that point.

- Mr. Suozzi's own statement notes that "Following the 1993 State Supreme Court's decision regarding school funding, Massachusetts state aid to education has increased at a compound annual average growth (on a per capita basis, adjusted for inflation) of 8.6%."
- Since 1985 per pupil spending in Massachusetts has grown faster than per pupil spending in New York. That did not occur because of Proposition 2 ½; it occurred in spite of it.
- Unless New York is willing to provide an after-inflation annual increase in state aid to schools of 8.6 percent or close to that on a consistent basis to compensate for constrained property taxes, it makes no sense to tout Massachusetts' growth in per pupil spending as a favorable feature of Proposition 2 ½ that might be relevant for a New York cap.

- If New York’s cap is only on property taxes for education, education funding will have to take the entire “hit” from the cap squeezing down expenditures. Unlike the broader cap in Massachusetts, it will not be possible to significantly protect education by cutting some other municipal service such as road maintenance, parks, and public libraries.
- The Center’s report also noted that as state aid for Massachusetts’ schools has flattened out in recent years, cuts ranging from sports programs to foreign language instruction are being seen.

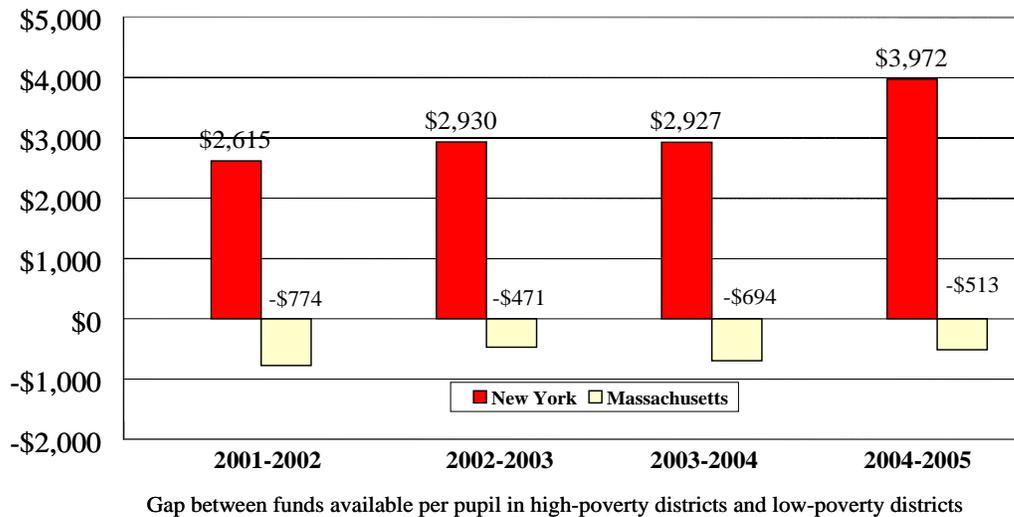
A property tax cap won’t make New York’s student performance mirror Massachusetts.

The Suozzi statement says, “The bottom line in education is student performance” and goes on to cite Massachusetts’ top ranking on 4th and 8th grade reading and math test scores. It is important to look at the probable causes of that achievement, however, which are affected by different characteristics of the school population in Massachusetts and New York, and — above all — by Massachusetts’ dedication to concentrating funding and effort to bringing up the achievement of low-income students.

- New York has a greater challenge than Massachusetts, because it has more poor students. One measure of student poverty is eligibility for free or reduced price school lunch. Some 44 percent of the students in New York are eligible for free or reduced price lunch, as compared to just 28 percent in Massachusetts; that is, the proportion of the student body that is poor is more than one- and one-half times as great in New York as in Massachusetts. Similarly, the percent of students in schools that receive Federal Title I funding is 25 percent greater in New York than in Massachusetts. The research is clear that poor students require a greater investment of funds to reach any given level of achievement.
- Despite New York’s greater demographic challenge, it invests less than other states in bringing up the achievement of poor students. New York has the largest gap between the resources available in high-poverty and low-poverty school districts of any state in the nation, and that gap is growing. In other words, New York has not invested in raising the educational attainment or test scores of children living in high-poverty areas. By contrast, Massachusetts has one of the lowest gaps in the country; in Massachusetts, high-poverty districts have *more* funding per pupil than wealthier districts. (See Figure 1.)
- The test score success has not come from constraining property taxes under Proposition 2 ½. It has come in major part from large infusions of highly targeted state aid to schools and a commitment to improving the attainment of poor children.
- If New York envies test scores in Massachusetts and wants to improve in that regard — as Mr. Suozzi says, “the goal of making New York as successful [as Massachusetts]” — it should target school aid to where it is most needed as successfully as Massachusetts has and make the type of commitment to educating poorer students that Massachusetts has made.

FIGURE 1

New York Has the Largest Gap Between the Resources Available in High-Poverty and Low-Poverty School Districts Of Any State; Massachusetts Provides More Resources to High-Poverty Than to Low-Poverty Districts



Source: The Education Trust, "The Funding Gap 2007," January 17, 2008

Efficiency gains do not tell the story in Massachusetts. The Suozzi statement incorrectly says that the Center’s report claimed there were no efficiency gains in Massachusetts under Proposition 2 ½.

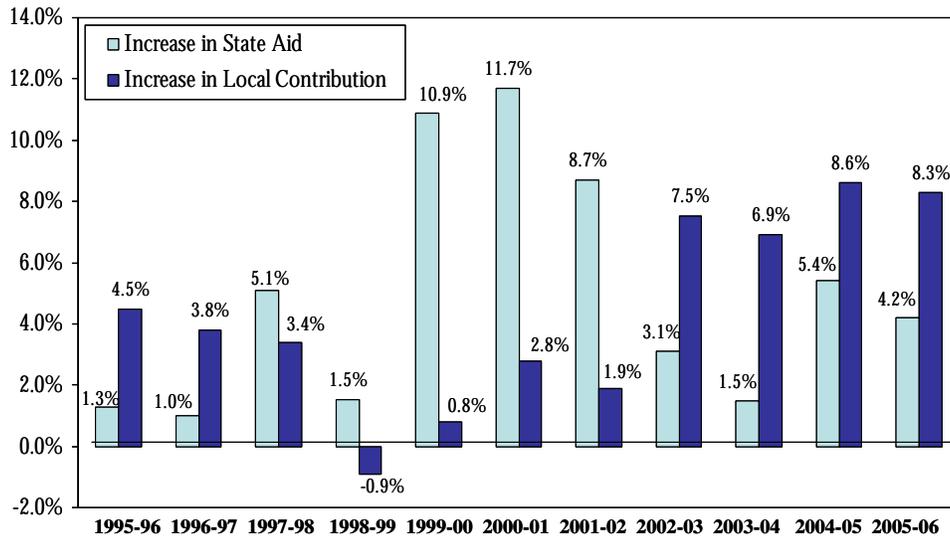
- The Center’s report did not claim there were no efficiencies; it said that Proposition 2 ½ did not simply call forth efficiencies but also resulted in cuts in valued services. It noted that efficiencies alone cannot hold the growth of the cost of services within the growth allowed by the cap, because some rapidly rising costs are largely beyond the control of local governments.
- The Suozzi statement said “Massachusetts seems to have found efficiencies, given the state’s highest student performance while only being 7th in per pupil spending.” Again, Massachusetts is one of the best states in the country in targeting its state aid to communities where it is most needed — so arguably they use their funding well. But that has little or nothing to do with Proposition 2 ½. It came about because of a court case and the commitment referenced above.

The statement distorts the reality of property taxes in New York. The Suozzi statement says that the current system is unfair to poorer communities and that property taxes are growing faster than people can afford.

- The statement’s claim that the property tax burden is growing at twice the rate of salary growth is only true if the portions of school districts’ property tax levies that are reimbursed by the state government through the STAR program are counted as part of the property taxes paid by property owners. Since people do not pay the STAR portions, the comparison is not meaningful.

FIGURE 2

Local Contributions for Education Grew Modestly Through 2002, But Growth Accelerated When State Aid Growth Weakened



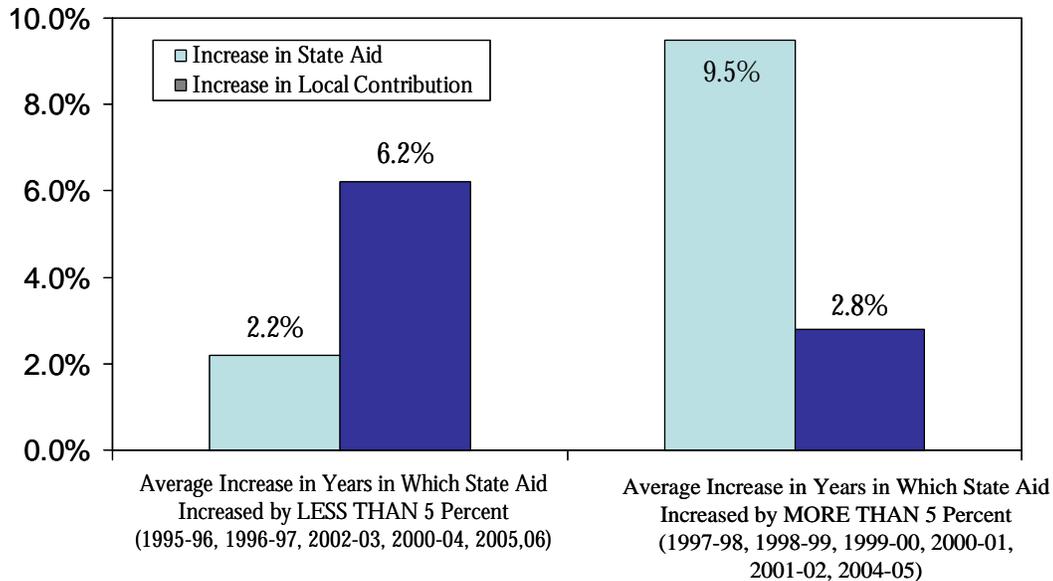
Percentage increase from prior year for all New York State school districts, excluding New York City.

Source: New York State Education Department, Fiscal Profiles. State Aid includes STAR reimbursements.

- One major reason for the higher recent growth in property tax is that the growth of state aid has weakened. There is a very strong *inverse* relationship between the growth in state aid and the growth in property taxes. (See Figure 2.)
- Between 1995 and 2000, property tax levies (net of the portion of those levies covered by the STAR program) grew at an average annual rate of 1.2 percent. Between 2000 and 2005, they grew at an average annual rate of 6.5 percent.
- Between 1995 and 2000, property taxes per \$1000 of personal income dropped from \$47.38 to \$38.09. But, over the next five years, that figure increased from \$38.09 to \$44.86.
- The difference in the trends during these two five year periods is explained in large part by the trends in state aid during these periods. In years when state aid has grown adequately, property tax growth has been quite low. When state aid has not grown, property taxes have risen to fill the gap. (See Figures 2 and 3.) In the years between 1995 and 2006 in which state aid — including STAR reimbursements — grew by less than 5 percent, local contributions grew by 6.2 percent. In the years in that period in which state aid grew by more than 5 percent, local contributions grew by only 2.8 percent. (This is a common pattern seen in many states.)
- These trends are evident throughout the state despite the implication in the Suozzi statement that property taxes are growing faster relative to income in many upstate communities than in more prosperous downstate areas. Between 1995 and 2000, property taxes as a percent of personal income declined in all 57 of the counties outside New York City. While property taxes

FIGURE 3

When State Aid Increase is Low, Local Contribution Growth Is High. When State Aid Increase is High, Local Contribution Growth is Low.



Average increase for New York State school districts, excluding New York City.

Source: New York State Education Department, Fiscal Profiles. State Aid includes STAR reimbursements.

grew faster than personal income in most counties from 2000 to 2005, for the entire 10-year period (1995 to 2005) property taxes declined as a share of personal income in 41 of the 57 counties outside New York City including all of the upstate counties with large numbers of low-income households. (Relative to personal income, property taxes in Erie County were down by 23.4 percent over this 10-year period; in Monroe down by 7.3 percent, in Onondaga down by 18.7 percent, in Oneida down by 20.5 percent, and in Broome down by 16.7 percent.

- If New York had a commitment to target aid to lower-income communities as Massachusetts does, then property tax growth could be lower in those communities.

There are better ways to relieve property taxes. There are a number of steps New York could take to relieve property taxes that do not call forth the adverse consequence of a cap that are detailed in the Center’s report. These include two types of targeting — targeting school aid effectively to lower-income communities as Massachusetts has, and enacting a strong circuit breaker that protects low- and middle-income households when property taxes exceed a given percentage of their income.

In addition, New York could consider state actions that would help curb some of the reasons education expenditures tend to grow rapidly. Health insurance expenditures are a major driver of cost growth; the state could create larger region-wide or state-wide insurance pools and use the bargaining power that comes from a larger insured group to hold down costs. Consolidation of small school districts in urban and suburban areas could also create longer-term cost savings.

Caps cannot change the rapid rise of health insurance or fuel costs; they only cause inequities. It is far better to address the reasons for cost increases and remedy those causes.