Education Funding Crisis in the Suburbs: The Impact of the 2007-09 Recession Recovery Policies and the New York State Tax Levy Cap on School District Financial Planning Practices

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Abstract

This article examines the impact of the fiscal recovery policies stemming from the 2007-09 economic recession and the implementation of the 2011 New York State Property Tax Levy Cap on the budgets of school districts located within a Long Island, New York suburban township. The research basis of this paper is based on two studies conducted by the New York State Council of School Superintendents and the New York State Council of School Business Officials and data collected from the Office of the New York State Comptroller and the New York State Education Department.

The quantitative budget data utilized for this study was collected from the Office of the New York State Comptroller and the New York State Department of Education and categorized three years prior to the enactment of the Property Tax Levy Cap (2008-09 to 2010-11) and three years after its enactment (2011-12 to 2013-14). This data encompasses the timeframe of the 2007-09 Great Recession government recovery policies and, the Gap Elimination Adjustment and the 2011 Enactment of the N.Y.S. Property Tax Levy Cap.

The recommendations of this study are separated into three parts, including the (1) the use of financial forecasting, strategic planning and fiscal tolerance assessment, (2) the recommendation for an adjustment to the New York State Tax Levy Cap modeled after other states, to provide districts with the ability to address mandated cost drivers in fiscally difficult times and (3) recommendations for further research.

Introduction

Traditionally school districts have shouldered the burden of funding programs relying on local property tax revenues and the willingness of local voters to approve capital bond issues for additional funding. Considering monetary demands of state and federal mandates, increasing healthcare contributions as a result of the Affordable Healthcare Act, and increased mandated Teacher Retirement System (TRS) pension contribution costs coupled with a 2% Tax Levy Cap, school districts are hard pressed to continue maintaining current educational services with increasingly limited revenue sources. Particular challenges that threaten the fiscal health of school districts include (1) the recovery efforts resulting from the 2008 global economic collapse, followed by short-term federal stimulus funds; (2) policymakers' responses to balance the budget and contain the growth of school revenues including the passing of a property Tax Levy Cap, (3) the Gap Elimination Adjustment; and (4) a limit on the growth of state school aid. Each of these events has impacted the actual and projected sources of funding for schools (New York State Association of School Business Officials, 2014).

Purpose of the Study

The purpose of this study was to determine the impact of 2007-09 economic recession and the New York State Property Tax Levy Cap on the budgets of suburban school districts on Long Island regarding changes in total expenditures, state aid, district employee benefit (healthcare) contribution expenditures, per pupil expenditures, fund balances, instructional expenditures, TRS contributions, tax increases, and pupil population. A quantitative analysis of school district budgets between 2008-2009 to 2013-2014 was categorized. Data regarding school district budgets was collected from the Office of the New York State Comptroller and New York State Education Department.

Literature Review

Prior to industrialization, property taxes were considered an accurate assessment of the wealth of people living in the United States. This method of taxation was generally perceived as desirable due to its operation as a direct tax, ease of collectability, local control, impossibility to avoid, and ability to provide direct linkage between wealth and property value. Based on the ability-to-pay principle, the property tax at the local level was utilized to fund schools and operate other services of city, town, and local governments (Brimley, Verstegen, & Garfield, 2012).

In the post-industrial era, a majority of states have attempted to address disparities between personal income and property tax burden by providing property tax relief for certain groups of taxpayers as the tax is based on the value of the property and not on the ability of the taxpayers' individual economic welfare. Consequently, if the tax burden falls in greater percentage on the middle and lower class, then the tax is considered regressive and perceived as unfair. Since the 1970's, states such as California, Massachusetts, Illinois, Colorado, and New Jersey, have implemented Tax Expenditure Limitations (Property Tax Levy Caps) to ease the regressive burden of property taxes so people with low incomes do not exceed a stated percentage of their income, regardless of the value of their property. As of 2007, thirty four states utilize variations of circuit breaker programs and over forty states utilize the homestead exemption (Brimley, et al. 2012).

The Financial Challenges Facing New York State School Districts

In June of 2011 the New York State Property Tax Levy Cap was signed into law by Governor Andrew Cuomo. According to the New York Department of Taxation, the law was established to limit local governments to overall growth in the property tax levy to the lesser of 2 percent or the rate of inflation. Local town and county governments are permitted to exceed their tax levy cap by overriding the law locally with a 60% supermajority of elected representatives, and school districts can only override or "pierce the cap" with a supermajority of voters. The tax levy cap applies to all independent school districts and all local governments outside of the cities of New York, Buffalo, Rochester, Syracuse, and Yonkers. This law applies broadly to property taxes that support all local governments, including special districts that are independently governed, as well as special districts that are established, governed and administered by another municipality (NYS Department of Taxation and Finance, 2012).

In the wake of the 2007-09 recession and recovery, both the New York State Council of School Superintendents (NYSCOSS) and the New York State Association of School Business Officials (NYSASBO) conducted studies of the impending impact of the tax levy cap. The superintendents and business officials surveyed predicted a fiscally grim outcome with regard to the impact of the tax levy cap on the ability to generate revenue sufficient to maintain school district solvency and address impending cost drivers such as rising mandated pension and healthcare contributions.

A report by the New York State Council of School Superintendents in November of 2012, *Can't get there from here: A survey on school fiscal matters*, provided candid responses of superintendents who took part in the survey regarding the impact of the restraints of the tax levy cap and the effects on school district finances. The respondents indicated that between 2011-2012 and 2012-13 districts would have to eliminate an average of 9 percent of their total work force; second, 9 percent of superintendents reported that within two years their districts would not be able to ensure that their financial obligations would ever be paid; and third, superintendents reported that pension costs and health care alone rose 2.5 percent for the 2011 and 2012 school year necessitating the reliance on reserves to cover the costs (NYSCOSS, 2012).

In January of 2014, The New York State Association of Business Officials released a follow up study to their 2012 analysis titled, *The Road Ahead: School District Insolvency*, which examined the professional staffing losses and fund balances maintained by 671 New York State school districts. The original study concluded that high need school districts in rural, urban, and suburban communities were exhausting their fund balance at an alarming rate, representing the cumulative impact of the 2007-09 Recession and state efforts to contain school expenditures (NYSASBO, 2014). The findings of this study concluded, first, that 261 school districts exhibited signs of fiscal insolvency through a reduction in Unassigned Fund Balance (savings) from school year 2010-11 to 2012-13, 544 school districts showed signs of educational insolvency as a result of reduced professional staff, and 206 school districts showed signs of both fiscal and educational insolvency; second, districts were balancing their budgets at the cost of educational programs, as evidenced by cuts in professional staff. School districts had reduced staff 10 percent over the previous five years as pupil enrollment had declined only 3 percent; and third, approximately 40 percent of school districts depleted their fund balance (NYSABO, 2014).

In 2014, The New York State Association of School Business Officials released results of a survey of its members regarding the status of their fund balances titled, *School districts exhausting their fund balances*. This new survey was prompted by a previous report issued jointly with the New York State School Boards Association that reported 99 percent of school districts tapped their fund balances to plug holes in their budgets, due to limitations in state aid and the property tax levy cap. Officials from 250 out of 697 school districts in New York State responded and revealed the following; (1) 81% of respondents replied that they would exhaust or spend down their fund balances within five years if limitations on state aid and the tax levy cap remained in place; (2) 31% of respondents replied they would exhaust their fund balances within the next 18 months, and; (3) 56% of districts reported that at least 10% of their 2012-2013 operating budget consisted of monies from their fund balance (NYSASBO, 2014).

Research Methodology

A quantitative study was chosen to investigate the impact of the of the fiscal recovery policies stemming from the 2007-09 recession and the implementation of the 2011 New York State Property Tax Levy Cap on the budgets of school districts located with-in a Long Island, New York suburban township.

Instrumentation and Procedure

To accumulate the quantitative data for this study, school budget data from the Office of the New York State Comptroller and the New York State Education Department were analyzed and organized into tables comprising the quantitative changes in key categories related to student population, school district expenditures, reserves and revenue with regard to school district budgets between the 2008-09 and 2013-14 school years. Utilizing the Open Data link on the Open Book New York Local Government page on the Office of the New York State Comptrollers website, the researcher retrieved and analyzed revenues and expenditure reports as well as balance sheets from all school districts located within this Long Island township between 2008 and 2014. The expenditure categories examined were: total expenditures, district employee benefit (healthcare) contribution expenditures, per pupil expenditures, instructional expenditures, and Teacher Retirement System (TRS) contributions. The district reserve categories analyzed for this study were total fund balance and unassigned fund balances. The revenue categories examined were total state aid and property tax revenue. The student populations of these districts were also analyzed, as pupil population is a factor in the amount of state aid received by each district.

Research Question Used to Guide this Study:

To what extent have school district total expenditures, school district employee benefit contribution expenditures, per pupil expenditures, instructional expenditures, TRS contributions, district reserves, property tax revenue, New York State aid revenue, federal aid revenue, and pupil population changed from 2008-2009 to 2013-2014?

The data from the twelve school districts located within this Long Island township was analyzed and categorized into school district expenditures, reserves and revenue representing six years, from 2008-09 to 2013-14.

Findings

The findings of this study confirmed the findings of the New York State Council of School Superintendents (NYSCOSS) and the New York State Association of School Business Officials NYSASBO studies conducted between 2010 and 2014. The superintendents and business officials

Table 1

Long Island Town - School District Key Expenditure Increases from 2008 to 2014

District	Total Expenditures 2008-2014	Per-Pupil Expenditure 2008-2013*	Benefit Contributions 2008-2014	TRS Contributions 2008-2014	Instructional Expenditures 2008-2014
District A	$13,980,478	$ 3,387	$9,922,147	$4,991,467	$ 8,899,369
District B	$14,230,349	$ 4,419	$5,851,723	$2,635,770	$ 5,933,859
District C	$51,338,282	$ 1,039	$24,539,923	$10,477,933	$ 7,589,785
District D	$38,528,246	$ 2,231	$18,893,868	$6,267,452	$ 7,689,367
District E	$23,906,872	$ 4,479	$10,773,035	$4,689,195	$ 9,832,485
District F	$9,540,490	$ 5,388	$7,223,907	$3,909,217	$ 5,971,428
District G	$619,187	$ 27,388	$422,544	$117,851	**- $211,357**
District H	$11,109,881	$ 3,847	$7,090,051	$3,354,957	$ 4,387,550
District I	$11,402,139	$ 4,977	$4,460,557	$2,613,036	$ 4,288,383
District J	$14,467,866	$ 2,213	$14,673,689	$7,264,733	$ 2,831,258
District K	$14,521,707	$ 6,182	$6,357,442	$2,421,492	$ 3,703,116
District L	$13,490,013	$ 3,914	$8,211,382	$4,158,220	$ 6,131,906
Average	18,094,626	$ 5,788	9,868,356	$4,408,444	$5,587,262

Note. This data was retrieved from the Office of the New York State Comptroller's website at ***http://www.osc.state.ny.us/*** *from Open Data link on the Open Book New York Local Government page.*
**2014 Per Pupil Expenditures were not available at the time the data were collected.*

surveyed in those reports predicted a fiscally grim outcome with regard to the impact of the tax levy cap on the ability to generate revenue sufficient to maintain school district solvency and address impending cost drivers such as rising mandated pension and healthcare contributions.

The findings of this research indicate that with regard to total expenditures, district employee benefit (healthcare) contribution expenditures, per pupil expenditures, district reserves, instructional expenditures, TRS contributions, and changes in tax revenue, school districts were faced with a variety of fiscal challenges still resonating from the 2007- 2009 Recession. According to both **Table 1** and **Table 2,** between 2008 and 2014, cost drivers such as district employee benefit contributions rose an average of $9,868,356 and TRS contributions rose an average of $4,408,444. From 2009-2011, three years prior to the implementation of the New York State Tax Levy Cap, the GEA was implemented causing a reduction in State Aid.

According to **Figure 1**, school districts began reserving less of an increased percentage and reducing their expenditure percentage prior to the implementation of the tax levy cap. Due to the enactment of the GEA resulting from New York State's budget deficit, the 2010-2011 school year saw the greatest reduction of average school district revenue. The enactment of the State Fiscal Stabilization Fund of the American Recovery and Reinvestment Act and the 2010 Education Jobs Act offset the State Aid revenue shortfall between 2010 and 2012.

To offset the cost drivers of the school districts, lost state aid revenue from the implementation of the GEA, and in keeping property tax rates palatable to ensure the passing of budgets, school districts within this Long Island, New York township followed these strategies, (1) supplemented the lack of increased revenue by utilizing district reserves, (2) reduced the rate of instructional spending increases and, (3) reduced the rate of per pupil expenditure increases.

Conclusions

The research from this study indicates that the implementation of the property tax levy cap, coupled with the effects of the 2007-08 Recession has had and will

Table 2

Long Island Town - 2008-2014 District Key Revenue, Population, and Reserves Changes

District	Property Taxes 2008-2014	State Aid 2008-2014	Pupil Population 2008-2014	District Reserves
District A *	55% to 60%	32% to 26%	Declined by 152 students	**Decreased by $ 17,195,021**
District B	59% to 61%	29% to 23%	Declined by 108 students	Increased by $2,035,504
District C	19% to 24%	60% to 62%	Increased by 1,581students	Increased by $6,609,037
District D	38% to 39%	50% to 48%	Increased by 335 students	Increased by $26,005,178
District E	50% to 60%	27% to 26%	Declined by 611 students	Increased $5,615,476
District F *	48% to 55%	37% to 32%	Declined by 784 students	**Decreased by $1,088,106**
District G	89% to 92%	7% to 6%	Increased by 5 students	Increased by $1,602,809
District H	72% to 74%	16% to 13%	Declined by 164 students	Increased by $6,937,606
District I	52% to 61%	29% to 24%	Declined by 395 students	Increased by $1,839,581
District J*	45% to 49%	42% to 38%	Declined by 994 students	**Decreased by $22,120,127**
District K	53% to 59%	32% to 28%	Declined by 312 students	Increased by $6,554,448
District L *	53% to 58%	32% to 27%	Declined by 708 students	**Decreased by $2,278,938**

Note. This data was retrieved from the Office of the New York State Comptroller's website at **http://www.osc.state.ny.us/** from Open Data link on the Open Book New York Local Government page.
* Districts mentioned in the 2014 NYSASBO Report.

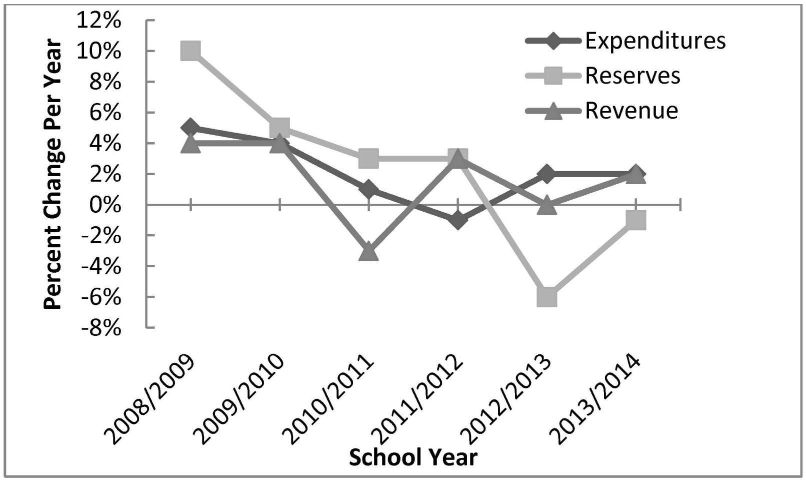

***Figure 1*: School District Budget Trends in the Long Island Town 2008-2009 to 2013-2014**

continue to have economic consequences, necessitating school districts to reduce levels of service. Employee salaries, healthcare benefits, pension costs and government educational mandates have and will continue to increase. Without aid increases, school districts will deplete their fund balances and reduce services to offset cap-piercing tax increases forcing districts to make economic decisions based on maintaining solvency in the face of rising mandated cost drivers and a limited ability to collect revenue.

This study will help guide legislators and policymakers in evaluating the efficacy of the tax levy cap as well as provide guidance to boards of education, school district superintendents, and school business officials as they address cost drivers related to planning budgets and school district fiscal plans under the tax levy cap.

Recommendations

1. Financial Forecasting, Strategic Planning and Fiscal Tolerance Assessment

Strategic planning based off of an effective adequacy analysis is essential. School district leaders have a fiduciary responsibility as part of their governance duties that includes knowledge of ongoing financial conditions, compensation and benefits, and budgeting as they relate to the mission and goals of the organization. The practice of financial forecasting, strategic planning and the use of a relevant fiscal tolerance assessment should be standard policy among school district leadership as its vital need has been demonstrated by the impact of both the New York State Property Tax Levy Cap and the economic stressors related to the 2007-2009 Recession.

2. Adjustment of the New York State Tax Levy Cap Legislation

The residual effects of the Gap Elimination Adjustment coupled with the simultaneous implementation of the New York State Tax Levy Cap have created an untenable funding scenario for school districts to both maintain current levels of service and address mandated cost drivers. If aid increases are not a feasible option from New York State or the Federal Government, then a pragmatic “pressure release mechanism” adjustment to the New York State Tax Levy Cap must be considered to ensure that school districts can sustain current levels of educational service. This would allow districts to raise revenue to cover mandated cost drivers such as pension and healthcare increases. This study indicates that with a limited ability to increase tax revenue and a reduction in state aid, school districts have been forced to utilize fund balances and reduce instructional expenditure increases to address mandated rising TRS benefit-healthcare contributions. This strategy has led to four districts being identified by the New York State Comptroller as being in some form of fiscal stress.

In 2011, New Jersey adjusted its tax expenditure limitation law to a 2% increase with a majority override to enable school districts to seek increased property tax revenue during periods of fiscal difficulty (Chang and Wen, 2014). This was intended to provide districts with the ability to address debt payments, rising health benefit and pension costs and unforeseen emergencies. This in turn made the New Jersey Tax Expenditure Limit similar to Massachusetts’s Proposition 2-½, which allows a 2.5 percent annual growth (Bradbury, Mayer, & Case, 2001).

3 . Recommendations for Further Research

The results and research conducted for this study has revealed the possibilities for a multitude of follow up studies regarding the impact of Tax Expenditure Limits on school district leadership practices, educational finance policy, and school district financial planning practices.

Additional research is recommended not only on the effects of the New York State Tax Levy Cap, but also the impact of the 2007-2009 Recession on municipal and school district planning practices. The New York State Tax Levy Cap is a relatively new policy at the time of this research. It is recommended that researchers further study the impact and effect of the New York State Tax Levy Cap on school district financial planning within the next three to five years. As the economy recovers from the 2008 recession, an analysis of future budgets with a comparison to the findings of this study would provide further and in-depth analysis of the impact of the Tax Levy Cap on school district financial planning. It is also recommended that researchers conduct a comparative school financing analysis on the effects of the implementation of the New York State Tax Levy Cap to tax expenditure limitations that have been previously implemented in other states such as California, Massachusetts and New Jersey.

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