LONG ISLAND

DOWLING COLLEGE

ECONOMIC & SOCIAL POLICY INSTITUTE

STRUCTURAL REFORM IN FUNDING EDUCATION IN NEW YORK STATE:

A PARADIGM SHIFT PROVIDING LASTING PROPERTY TAX RELIEF

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INTRODUCTION

The Long Island Economic and Social Policy Institute at Dowling College applauds and appreciates Governor Eliot Spitzer for recognizing in his budget proposal how strangulating the school property tax has become for Long Islanders. However, if you hear the voices of Long Islanders in the Rauch Foundation's 2007 Long Island Index (Index), more needs to be done.

The Index shows that Long Islanders have become frustrated over the challenges facing the region and believe that these problems, led by the property tax, have become so significant, pervasive, and complex to resolve, that they have become ingrained in the social and economic fabric of Long Island.

Long Islanders are getting fed up. Especially when 39% think they're heading in the wrong direction; 84% plead for tax relief; and 60% fault the cost of living for making their mortgage and rent payments difficult to keep up with. The concern is so real that 84% are willing to consider an income tax to replace the residential property tax.

Yet despite New York State's continued financial assistance, Long Island residents are feeling no better than as reported in last year's Index. So deleterious is the property tax that, as recently reported in Newsday, delinquencies in 2006 property tax payments are more than twice the 2005 levels. Unfortunately, efforts at resolving the continuing property tax drain remains elusive.

. So said the Index, citing taxes/property taxes as the top financial concern and most serious problem confronting the region. And who can blame Long Islanders? Originally, the property tax was considered progressive, so it made sense. If you could afford to buy an expensive house, then presumably you could afford the taxes. That theory held true as wages increased in step with housing costs. But the last decade changed that relationship.

While regional wages stagnated, barely growing over the last six years, we saw exponential growth in the selling prices of Long Island's housing stock. As the values increased so did the taxes, at a rate significantly greater than wages. Thus, property taxes have become a larger part of each family's budget, with the school tax portion becoming the most onerous.

While excellence in education must remain a regional and state priority, a more progressive system must be found for school financing where the taxes match one's ability to pay. For Long Island, the residential property tax system is broken, has outlived its fairness, and must go.

To achieve any meaningful reform reflecting the magnitude of results desired by the Index, a paradigm shifting change in thinking among Long Islanders and their leaders will be required, with a coordinated multi-level governmental effort let by New York State.

THE PARADIGM SHIFT IN FUNDING NEW YORK STATE SCHOOLS

Overview:

The paradigm shift that must occur is to find a more progressive tax system for school financing in New York State. That school financing reform must be approached from two directions, expenses and revenues. On the revenue side, there has to be a bifurcated system where the commercial property tax remains in place while the balance of school budgets are funded by an income tax or other suitable financial structure that replaces the residential property tax. An impediment to seriously discussing this issue is that Long Islanders are rightfully skeptical that the property tax, once eliminated, will find its way back. However, that is not a good enough reason to not consider alternative solutions.

Any meaningful expense reform must include the largest school budget items of teaching personnel and fringe benefit costs. To accomplish this will take state financial support, legislative involvement of the Governor, State Assembly and State Senate, and local regional cooperation. The Long Island Economic and Social Policy Institute at Dowling College (LIESP) believes that the aggregate of the income taxes paid to New York State, state education lottery receipts, the educational assistance that the legislature provides, and what Governor Spitzer is now proposing to invest in education, can form a solid financial pool from which to fund teachers' salaries and fringe benefits statewide. LIESP believes that it can. To put the state system and LIESP concept in perspective, a review of the most current New York State budgetary information available is presented below, followed by an overview of Governor Spitzer's proposal.

Table 1 illustrates that 20.3% of the New York State budget is spent on funding Elementary and Secondary Education, which is nearly as much as the rest of the nation. The difference is where New York's residents are among the highest taxed in the nation, the funds spent on education is not.

TABLE 1: NEW YORK STATE –VS- THE NATION BUDGET COMPARISON 2003

	NEW YORK STATE	NATION
State Spending	2003	2003
Elementary and Secondary Education	20.3	21.7
Medicaid	28.4	21.4
Higher Education	7.0	10.8
Public Assistance	3.5	2.2
Corrections	3.0	3.5
Transportation	5.5	8.2
Other	32.2	32.2

Source: Standard and Poor's. School Matters New York Public School Districts: Spending, Revenue and Taxes: Spending Distributions 2003.

Reflected in Table 2, 68.4% of the State's spending on education is devoted to paying teachers' salaries (instruction) and an additional 6.1 % to funding Instructional/Pupil staff support[1]. When administrative costs and salaries (6.6%) are included, a total of 81.1% is spent on paying personnel.

TABLE 2: NEW YORK SCHOOL DISTRICT SPENDING DISTRIBUTIONS

	NEW YORK STATE	**NATION**
Total Spending	2004	2004
Operating Expenditures	89.4%	87.6%
Total Capital Expenditures	6.9%	10.9%
OPERATING EXPENDITURES BY CATEGORY	**NEW YORK STATE %**	**NATION %**
Instruction	68.4	61.4
Instructional/Pupil Staff Support	6.1	9.9
School/General Administration	6.6	7.6
Operations and Maintenance	8.9	9.6
Student Transportation	4.9	4.0
Other (Enterprise, food)	5.0	10.4

Source: Standard and Poor's. School Matters New York Public School Districts: Spending, Revenue and Taxes: Spending Distributions 2003.

Governor Spitzer's Approach

The Governor's proposal, while providing $7 billion increases in spending between 2007 and 2011[2], is only feeding a broken system, not correcting the system. His proposal maintains the existing structure and system by transferring state financial assistance within regions to underfunded school districts by reducing dollars invested in others. The proposal does not alter the systemic weakness in the property tax system that burdens New York taxpayers, and especially Long Islanders. What Governor Spitzer does propose is to ease the impact of these intra-regional transfers, and the anticipated increases in the property tax burden by providing additional money above the existing STAR Program, while also holding harmless regional school budgets with additional state financial assistance limited to 3% annually.

What this means is that for 2007-2008, the STAR Program's funding will increase significantly from 1.5 billion dollars and then increase over a three-year period to a cumulative increase of 6 billion[3]. The weakness of the program is that the enhanced Star Program will benefit the middle class, despite the debate over what constitutes a middle class household; will benefit upstate t axpayers more than Long Islanders due the economic disparities between the regions; and, that unless school expenses are dramatically reduced during that three-year period, more money will be needed to prevent any rise in new local taxes. What will solve the problem is restructuring the way New York's Public School system is financed.

Within the context of Tables 1 and 2, Governor Spitzer proposes to increase the STAR Program, including directing educational funding to targeted upstate cities of Buffalo, Syracuse and Rochester. However, the dollars seem too small to have significant and lasting impact to the targets of spending. Furthermore, adding money to the upstate regions will not reduce their tax burdens or those of Long Islanders. What it will do is maintain a constant tax rate for Long Island and upstate school districts. By looking at Table 3 of total School District expenditures, it can be noted that since the inception of the STAR Program in the1998-1999 budget, state funds increased by 58% or an average of 7% annually while total expenditures increased annually by an average of 6%[4].

TABLE 3: SCHOOL DISTRICT TOTAL EXPENDITURES

SCHOOL YEAR	**TOTAL EXPENDITURES** (*See Note 1*)	**STATE FUNDS** (*See Note 2*)	**STATE FUNDS AS PERCENT OF EXPENDITURES**
2005-2006	$44,000,000,000	$19,722,000,000	44.8
2004-2005	$42,000,000,000	$18,660,000,000	44.4
2003-2004	$39,809,145,006	$17,520,588,779	44.0
2002-2003	$37,741,721,437	$17,179,094,277	45.5
2001-2002	$35,488,090,183	$17,093,223,887	48.2
2000-2001	$34,215,829,764	$15,728,255,454	46.0
1999-2000	$29,590,606,985	$13,691,137,564	43.2
1998-1999	$29,590,606,985	$12,538,457,733	42.4
1997-1998	$27,717,505,209	$10,964,334,068	39.6

Note 1: Expenditures: Total General, Debt Service and Special Aid Fund Expenditures.
Note 2: State Funds: Estimated including both General Support for Public Schools and Line item appropriations.

Source: New York State Budget and New York State Department of Education.

[1] Standard and Poor's: School Matters.
[2] Governor Spitzer Press Release.
[3] Ibid.
[4] New York State Department of Education.

Based on Table 3, where the average growth in expenditures was 6% annually, Governor Spitzer is right in looking to increases in the STAR Program to offset taxpayer burdens. However, the benefits will be nullified by necessary increases in school property taxes required to fully finance school budgets in districts where teachers and administrative salaries increase beyond the 3% limitation of the State funding as proposed by the Governor.

Whether you are in the Basic STAR or Middle Class enhanced STAR benefit group, the reported school tax increases have risen within an average range of 6-14% each year. Within a 4-year span, property taxes for the most moderate school districts will have to be raised by a minimum range of between 24% and 30%. The fact remains that adding tax relief money to New York State homeowners overlooks the fact that as teachers and administrator salaries continue to climb so will the property taxes.

As with the original Star Program, the benefits to taxpayers will be dwarfed by the increases in school spending unless structural reform is enacted. LIESP believes that the following proposal for structural reform, a paradigm shift in financing education in New York State, is a fairer and better way to achieve the Governor's goals.

LIESP APPROACH: A PARADIGM CHANGE AND STRUCTURAL REFORM

New York Teachers Become State Employees: Preservation of Teacher's Rights

LIESP proposes that with the exception of New York City, all New York State teachers become state employees, paid by the state and accruing all the rights and privileges that state employees receive. Locally, within each educational region teachers will retain their earned tenure and retirement and health insurance benefits.

To accomplish this, New York State will create four geographic school district regions; Northern Tier (Syracuse diagonally east to Albany then south to the Hudson Region); Southern Tier (every other school district excluding Rockland County and Downstate); New York City; and Downstate (Nassau, Suffolk, Westchester and Rockland Counties). The school districts, excepting for New York City, are grouped by geography and by regional economies and wages paid to teachers. While the state median teacher salary is $55,181[5], regional salaries differ. Fairness dictates the recognition of regional economic realities, and the disparity of teachers' salaries as presented in Table 3.

TABLE 3: REGIONAL SUMMARIES 2005-2006 (TEACHERS PAY)

NYS REGION	5TH PERCENTILE	50TH PERCENTILE	95TH ERCENTILE
New York City	39,000	55,341	81,232
Nassau-Suffolk	42,480	67,835	102,227
Mid-Hudson	41,025	64,331	101,143
Upper Hudson	39,958	49,188	75,054
Lake Champlain/Lake George	32,952	46,202	67,195
Black River-ST.Lawrence	34,202	45,675	64,765
Upper Mohawk Valley	30,336	48,668	73,690
Central	36,899	47,770	70,362
Southern Tier-East	32,860	42,056	63,336
Southern Tier-Central	34,000	45,126	66,684
Southern Tier-West	32,133	44,548	69,226
Genesee-Finger Lakes	33,475	44,775	76,000
Western	33,351	49,756	77,795
State Excluding N.Y.C	35,000	55,136	97,192
Total State	36,400	55,181	93,000

Note 1 Teachers in the 50th percentile (median) typically have 8-13 years experience

Note 2: Teachers in the 5th Percentile usually have 1-3 years experience

Source: U.S. *Department of Labor. New York Newsday*, May 10th, 2005.. *Jerry More. "Commentary and Information Pages"*

Equity For All School Districts

While Governor Spitzer is correct at wanting to bring equity and educational excellence to underfunded school districts, the LIESP proposal is a better way of accomplishing his goal without reallocating regional school funding dollars. By making teachers state employees earn the same dollars within each of the three regions eliminates the need for enhanced state injection of dollars into the poorer districts, negates the need for state equalization rates for state financial support of which Long Island receives the least, and brings equity to the pay differentials between school districts. Establishing a regional salary structure for teachers eliminates regional salary differentials between poor and wealthy school districts and allows for healthy competition between school districts for the best teachers based on working conditions, programs, educational and administration philosophy. This would only force schools to become better.

[5] National Education Association and "Faced with growing budgets, and salries over $100G, districts turn attention to ways to keep pay in check" by John Hildebrand, *New York Newsday*, May 10, 2005.

Focus of Unions, School Boards, Superintendents and Administration on Education

With regional teaching salaries negotiated with New York State, presumably with the Commissioner of Education, local school superintendents and union officials no longer have to become contentious over wages and benefits but can now focus on working conditions, administration of schools and on classroom educational improvement. This will allow for achieving one of the Governor's goals of increasing the effectiveness of school superintendents and principals. While local school boards would not lose any control over education initiatives and tenure granting, by eliminating negotiating of salaries and administrating large budgets, administrators could now allocate their time to staffing needs, new educational initiatives, and managing the operational costs of the districts.

Benefits to Local Taxpayers: Reducing School Taxes by 68% / Total Taxes by 46%

Local taxpayers would benefit from the LIESP proposal in that the state would be responsible for paying all teachers salaries. By removing teachers' salaries from local school district's budgets would ease the burden on Long Island and state property taxpayers. Currently, teachers' salaries vary according to the region they are teaching in. However, in analyses provided by the Long Island Association, New York State budget data, and the Eastern Suffolk BOCES, Long Island taxpayers, by not receiving their fair share of financial support based upon the amount of students educated in the region, unfairly subsidize the education of others throughout the state.

With teachers becoming state employees, the Long Island school tax burden, as well as districts throughout the state, could be lessened by as much as 68%, the amount of each school budget spent on Instruction as noted in Table 2. Based upon school taxes approximating 70% of the average property tax bill, Long Island homeowners could see an estimated permanent 47% reduction in their tax bill. Depending where each New Yorker lived, and in particular Long Islanders, the minimum savings would be in the thousands of dollars. The tax reduction would not be based on one-shot revenues, or reallocating revenues based on changing priorities by good people following their ideals, but would be as permanent as they can be because they are based on structural changes in financing education in New York State. But this can only happen with a paradigm shift in thinking amongst us, and action by our leaders.

To begin, New York State must create the four geographic education regions. This will allow for the fair and effective administration of professional educators. With teachers guaranteed the same salary and benefits within each educational region, and with school districts now having equal funds to attract the better teachers, the LIESP proposal would lead to a new progressive era in New York State and Long Island education. On a level playing field, poorer schools could recruit the brightest and best teachers. Through this new competition for teaching excellence, New York's school districts would produce not only better-educated students, but students with skills that will allow success in the global economy.

Making Housing More Affordable

While Governor Spitzer's proposal provides new revenues, they don't have a permanent impact on property taxes because the proposal does not impact the structure of the financing. Thus, any impact will be short lived, not having a lasting impact on the financial burdens of taxpayers, and potential homebuyers. The LIESP proposal would reduce property taxes, making it more affordable to live on Long Island as well as bringing down the monthly carrying costs of home ownership to those who wish to live here. This is of critical importance considering that Long Island cannot build enough workforce housing within an accelerated period of time necessary to effectively meet Long Island's workforce development needs.

Economic Impact to the Long Island Economy

The economic benefits of LIESP's proposal would come at the very time that the Long Island economy is beginning to weaken from the recent losses of manufacturing jobs. On the horizon is the impact of global market place on the regional economy, specifically from the Pacific Rim and the European Community. What is certain is that Long Island has not seen the last of its most tenured corporations either close due to continuing losses or move away. The loss of higher paying jobs has not ended either.

The economic benefit to Long Island is conservatively estimated to be $5.0 billion. This is based on information provided by the Eastern Suffolk BOCES[6]. Based on 2004 data, total Long Island School District expenditures, less central administration, were $7.3 billion. Primary economic benefit would be $5 billion, 68%, the portion of the school budget that would now be borne by the state (See Table 2). Assuming that Long Islanders would save some of the savings and spend the rest, conservatively that $5 billion would provide an economic impact of between $4 and $5 billion. Long Island would have total economic benefit of nearly $10 billion, nearly 8% of its current economy. The positive economic impact to upstate New York would be just as dramatic. The important part is that redirecting the spending of existing state funds generates this economic activity.

[6] Nassau-Suffolk School Boards Association "Working Together for Long Island Schools"

FINANCING PARADIGM CHANGE:

Revenues and Expenses:

LIESP proposes a paradigm shift in thinking about how to finance education in New York State, except for higher education. LIESP proposes that funds currently in the New York State budget targeted for education, specifically the Lottery, STAR Program, and state aid, as presented in Table 4, be kept at the State level for the purposes of paying the salary and benefits for every teacher in New York State.

It makes no sense to have New Yorkers pay an income tax to the State, which once collected is transferred back to region in the form of education subsidies. In the case of Long Island, the education assistance from New York State is less than what Long Island should receive. While Table 4 is based upon New York State 2006/2007 activity, it provides a good perspective on how the LIESP proposal can be funded since the total financial support from New York State has continued to increase, and that trend will continue based upon the comments of Governor Spitzer during his budget presentation. The revenues are conservatively stated, including those proposed by Governor Spitzer.

TABLE 4: 2003 NEW YORK STATE EDUCATIONAL FINANCIAL SUPPORT

General Support For Public Schools	$ 13.7 Billion
(less 33% to New York City)	(4.5) Billion
Star Tax Relief Fund	4.3 Billion
Lottery-Education (excl. Sound Basic Ed)	2.0 Billion
Revenues to Support LIESP Proposal	$ 15.5 Billion
Gov. Spitzer Proposed Star Increases	1.5 Billion
Gov. Spitzer Proposed School Aid	1.4 Billion
Total Revenues for LIESP Proposal	$ 18.4 Billion

Source: New York State Division of the Budget: Education Unit. Table 11-B, Pages 25,26.

As noted in Table 4, $22.9 billion of revenues collected by New York State had been appropriated for subsidizing local school district costs and property tax burdens. As Table 5 indicates, these funds are also sufficient to finance the creation of education districts, since the money is already in the New York State budget and remains temporarily under state custodial care until returned to taxpayers, as has been done in past years.

TABLE 5: 2003 ESTIMATED TEACHERS SALARIES FOR NEW YORK STATE (EXLUDING NYC)

Education Expenditures	$ 20.2 Billion
Employee Benefits	6.9 Billion
Total Education Expense	$ 27.1 Billion
Instructional Costs (*see Table* 2)	x 68.4 %
Estimate Costs of LIESP Proposal	$ 18.5 Billion

Source: State University of New York. 2005 New York State Statistical Yearbook. Table F-5.

What is apparent is that the $18.4 billion of New York State revenues available to support local school districts outside of New York City as detailed in Table 4, are sufficient to fund the expenses of the LIESP proposal of having all teachers in New York State outside of New York City become state employees as reflected in Table 5.

CONCLUSION

LIESP's proposal offers a true paradigm shift in financing education in New York State. It also is the best and only strategy that will bring real and lasting property tax relief to Long Island's beleaguered taxpayers since it offers true changes to the institutional structure of how Long Island and New York State residents tax themselves to pay for a superior educational system.

For true educational finance reform, New Yorkers have to reject the continued strategy of reshuffling priorities of how funds are used. A paradigm shift calls for restructuring how funds are collected and spent. LIESP's proposal offers that alternative.

However, shifting to LIESP's model will require political will, courage and leadership, because it challenges how we think about our schools and runs counter to Long Island's strong tradition of local school autonomy and an entrenched system for hiring teachers. But with continuing school budget increases on the horizon, and given the failure of previous attempts at controlling education spending and restructuring the system, LIESP's approach seems reasonable.

By supporting the continued excellence of New York State's education infrastructure, and by enacting real changes to financing education, such as what LIESP proposes, New York State can continue in its nationwide leadership in education while providing lasting property tax relief.

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Martin R. Cantor has a Bachelor of Science Degree in Accounting from Brooklyn College of the City University of New York, and a Master of Arts Degree in Interdisciplinary Studies from Hofstra University. He has served as Suffolk County (New York State's largest suburban county) Economic Development Commissioner ; Chief Economist, New York State Assembly Subcommittee for the Long Island Economy; Senior Fellow at the White Plains, New York based Institute for Socioeconomic Studies; a Suffolk County building trades labor/management arbitrator; a faculty member in the Brooklyn College Department of Economics; Executive Director of the Patchogue Village Business Improvement District; Revitalization Citizen Advisory Panel; and Director of Economic Development and Chief Economist for Sustainable Long Island and the Long Island Fund for Sustainable Development, providing financial, and technical assistance to Long Island's underserved communities, businesses and not-for-profit organizations; His work is included in the National Tax Rebate-A New America With Less Government, and has prepared downtown revitalization plans for Long Island and New York City neighborhoods featuring arts districts, economic restructuring, waterfront projects and community organizing. He was the architect of the Nassau County Comptroller's debt restructuring plan for resolving Nassau County's fiscal crisis; has been a Long Island Business Journal columnist; and has authored: federal, state and local legislation; economic impact analyses; socio-economic profiles of the New York City and Long Island economic, employment and educational bases; annual reports on the State of the Long Island Economy; and a convention center feasibility study.

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