Answers to common questions on tax cap, tax levies and tax rates

By Paul Heiser
SENIOR RESEARCH ANALYST

Although New York State now has what is commonly called the "2 percent tax cap," taxpayers in school districts that follow the law may see proposed increases in their personal taxes that exceed 2 percent. And voters may see proposed district tax levy increases that exceed 2 percent but meet all requirements of the new tax cap law.

Below are answers to questions that the New York State School Boards Association anticipates will be asked in many districts. A PDF of this page is available at www.nyssba.org. Click on Advocacy/Legislation and Key Issues.

1. Does the tax cap mean my annual property tax can't increase more than 2 percent?

No, it means something different. New York's property tax cap law limits the annual growth of total property taxes levied by independent school districts (those with independent taxing authority) and other local governments to 2 percent or the rate of inflation, whichever is less. This amount is called the "tax levy limit." A budget containing a tax levy increase at or below the tax levy limit is put before the voters in May and requires "yes" votes from a simple majority of voters for passage. However, there are instances where the tax levy limit may exceed 2 percent.

2. When may the annual tax levy increase exceed 2 percent?

Under the tax cap law, school districts are allowed certain exemptions that may boost their tax levy limits to more than 2 percent while still requiring only a simple majority for budget passage (see question 4 below).

In addition, the tax levy may exceed the tax levy limit if 60 percent of voters in each school district approve such an increase.

3. If the tax levy goes up by X percent, does that mean everyone's taxes go up by X percent, also?

Not necessarily. The cap does not directly affect property tax rates or changes in individual taxes due in a given year. Tax rates paid by individual taxpayers may differ greatly from one household to another, based on things such as equalization rates, and may exceed 2 percent. The amount of taxes an individual pays can also be affected by changes in assessed property values.

4. What are the exemptions to the tax cap that school districts may take?

There are a limited number of specific exemptions to the tax cap that school districts may take. They are:

- Growth in "brick and mortar" development that increases a municipality's full taxable property.
- Pension contribution costs that arise from increases in the statewide contribution rate in excess of 2 percentage points.
- Expenditures resulting from court orders or judgments arising out of tort actions that exceed 5 percent of the total tax levied in the prior fiscal year.
- The local portion of capital expenditures.

Because school leaders realize their communities are acutely aware of the 2 percent tax cap, they may opt to stay within 2 percent even if it means adopting a budget with a property tax levy increase that is actually below what the law would allow after exemptions.

5. What if voters reject the proposed tax levy?

If voters in the district reject the proposed budget, the school board may adopt a budget with a tax levy no greater than what was levied the previous year or put up the same or a revised budget for a second vote. If voters reject the spending plan twice, schools must adopt a budget with the same tax levy as the prior year – essentially a zero percent cap.

6. Couldn't school districts save money by becoming more efficient rather than raising my taxes every year?

Yes. That is why NYSSBA is a strong and vocal advocate for mandate relief. State lawmakers can provide mandate relief by doing the following:

- Reform New York State's Triborough Amendment so that school districts are not required to pay wage increases under an expired contract.
- Allow school districts to consider factors other than seniority when making decisions regarding teacher layoffs.
- Streamline the tenured teacher disciplinary process to make it less time-consuming and less expensive.
- Establish statewide maximum health care contributions for school districts and Boards of Cooperative Educational Services.
- Provide new public school employees with the choice of a defined contribution retirement plan or a hybrid defined benefit/defined contribution plan.
- Reduce the costs of special education by eliminating state mandates that exceed federal requirements.
- Allow schools to leverage the aggregate purchasing power of large, national procurement cooperatives and contracts entered into by other states and local governments.

7. What can I do to lower my school taxes?

Call your state Senator and Assembly member to say you support meaningful mandate relief outlined by the New York State School Boards Association (www.nyssba.org) as well as an affiliated group, LetNYWork.org. To identify and contact your elected representatives, use http://capwiz.com/nyssba/home/.

Formula for Determining the Tax Cap

$$\underbrace{\left[\left(\text{Prior Year Tax Levy} \times \text{Tax Base Growth}\right) + \text{Prior Year PILOTS} - \text{Tort Exemption} - \text{Capital Expense Exemption}\right]}_{\text{Adjusted prior year tax levy}} \times \text{Levy Growth Factor} - \text{Coming Year PILOTS} + \left(\text{Tort} + \text{Capital} + \text{Pension Exemptions}\right) + \text{Carryover}$$

To determine the tax levy cap for any school year, the following steps are necessary based on the above formula:

Step 1. Determine the school district's tax levy for the prior school year.

Step 2. Multiply the prior school year tax levy by the district's tax base growth factor, which is supplied annually by the state taxation and finance department. This numerical value adjusts the tax levy limit to reflect an increase in the full value of taxable real property in a district due to new growth or significant additions to existing properties.

Step 3. Add any payments in lieu of taxes (PILOTs) that were receivable in the prior school year to the amount in Step 2. PILOTs are agreements between municipalities and entities not subject to taxation – such as the federal government – in which the payer agrees to make a voluntary payment to the municipality in exchange for not paying property taxes.

Step 4. Subtract tax levy attributable to expenditures from court orders/judgments arising from tort actions for any amount in excess of 5 percent of the total tax levied in the prior school year.

Step 5. Subtract tax levy attributable to prior year capital expenditures. Steps 1-5 comprise the adjusted prior-year tax levy.

Step 6. Multiply the adjusted prior year tax levy by the allowable levy growth factor. The allowable levy growth factor is the lesser of 2 percent or the inflation rate. If the inflation rate is less than 2 percent, then the allowable levy growth factor is the sum of one plus the inflation rate, which is calculated by determining the average of the national Consumer Price Index for the prior two calendar years. If the inflation rate is more than 2 percent, then the allowable growth levy factor is 1.02. The levy growth factor can never be less than 1.0.

Step 7. Subtract any payments in lieu of taxes (PILOTs) that are receivable in the coming school year.

Step 8. Add any additional tax levy needed for expenditures from court orders/judgments arising from tort actions for any amount in excess of 5 percent of total tax levied in the coming school year and from capital expenditures in the coming school year. In addition, if the annual growth in pension contribution rates is greater than 2 percentage points, the amount above 2 percentage points is multiplied by the total payroll of employees in the corresponding pension system, then added.

Step 9. Finally, any available carryover may be added. Available carryover is the amount of tax levy for the prior school year that was below the applicable tax levy limit for such school year up to 1.5 percent of the tax limit.