

The three tax levy numbers under New York state's tax levy "cap"

With all the talk of New York's "2 percent tax cap," it may come as a surprise to learn that each school district presents three separate tax levy numbers every year in order to comply with the law.

And chances are good that none of these numbers will be exactly 2 percent. In fact, in 2014 only two of the state's nearly 700 school districts had a 2 percent "cap." That's because the 2 percent you hear about is just one part of a complex formula that school districts must use to calculate two of their tax levy numbers, the **tax levy limit** and the **maximum allowable tax levy**. These two numbers—that establish more of a threshold than a cap—help districts determine their proposed tax levy.



Tax levy limit

Essentially, the tax levy limit tells a school district how much voter support it will need to pass a budget with its proposed tax levy. For school districts, the tax levy limit is the highest allowable tax levy (before exclusions) that a school district can propose as part of its annual budget and need the approval of only a simple majority of voters (50 percent plus 1) to pass the budget. If a district proposes a budget with a tax levy amount (before exclusions) above this limit, it will need the approval of a supermajority of voters (60 percent) to pass the budget.

School districts are required to report their calculated tax levy limit to the state comptroller by March 1 each year.



Maximum allowable tax levy

The maximum allowable tax levy is the tax levy limit PLUS certain exclusions. Taxes levied to fund the following expenses are excluded from the tax levy limit:

- Voter-approved local capital expenditures.
- Increases in the state-mandated employer contribution rates for teacher and employee pension systems that exceed two percentage points.
- Court orders/judgments resulting from tort actions of any amount that exceeds 5 percent of a district's current levy.

A school district adds these exclusions to its tax levy limit without triggering the need for 60 percent voter approval.



Proposed tax levy

The third tax levy number is arguably the most important. It's the tax levy called for by a school district's proposed budget. By definition, the tax levy is the total amount of money to be raised locally by a municipality (i.e., school district) after factoring in all other available revenues.

If a school district's proposed tax levy minus exclusions is less than or equal to the district's calculated tax levy limit, the district will need the approval of a simple majority of voters to pass its budget. If the proposed tax levy minus exclusions is greater than the district's calculated tax levy limit, 60 percent voter approval is needed.

Comparing the numbers

Each May, New Yorkers vote on their school districts' proposed budgets. The level of voter support needed to pass each budget will depend on how much the tax levy would be in the proposed budget. Here is a hypothetical school district to illustrate:

- **PRIOR YEAR TAX LEVY (2014-15):**
\$15,000,000
- **CALCULATED TAX LEVY LIMIT (2015-16):**
\$15,207,000
- **EXCLUSIONS FROM THE LIMIT (2015-16):**
\$216,500
- **MAXIMUM ALLOWABLE TAX LEVY (2015-16):**
\$15,423,500

Scenario A

- **PROPOSED TAX LEVY (2015-2016):**
\$15,373,500 (2.49% increase over 2014-15)
How does this compare with the tax levy limit?
 $\$15,373,500 - \$216,500 = \$15,157,000$

The proposed tax levy minus exclusions (\$15,157,000) is below the district's calculated tax levy limit (\$15,207,000). Therefore, the proposed budget, with a tax levy increase of 2.49%, requires approval by a simple majority of voters to pass.

Scenario B

- **PROPOSED TAX LEVY (2015-16):**
\$15,423,500 (2.82% increase over 2014-15)
How does this compare with the tax levy limit?
 $\$15,423,500 - \$216,500 = \$15,207,000$

The proposed tax levy minus exclusions (\$15,207,000) is at the district's calculated tax levy limit (\$15,207,000). Therefore, the proposed budget, with a tax levy increase of 2.82%, requires approval by a simple majority of voters to pass.

Scenario C

- **PROPOSED TAX LEVY (2015-16):**
\$15,472,500 (3.15% increase over 2014-15)
How does this compare with the tax levy limit?
 $\$15,472,500 - \$216,500 = \$15,256,000$

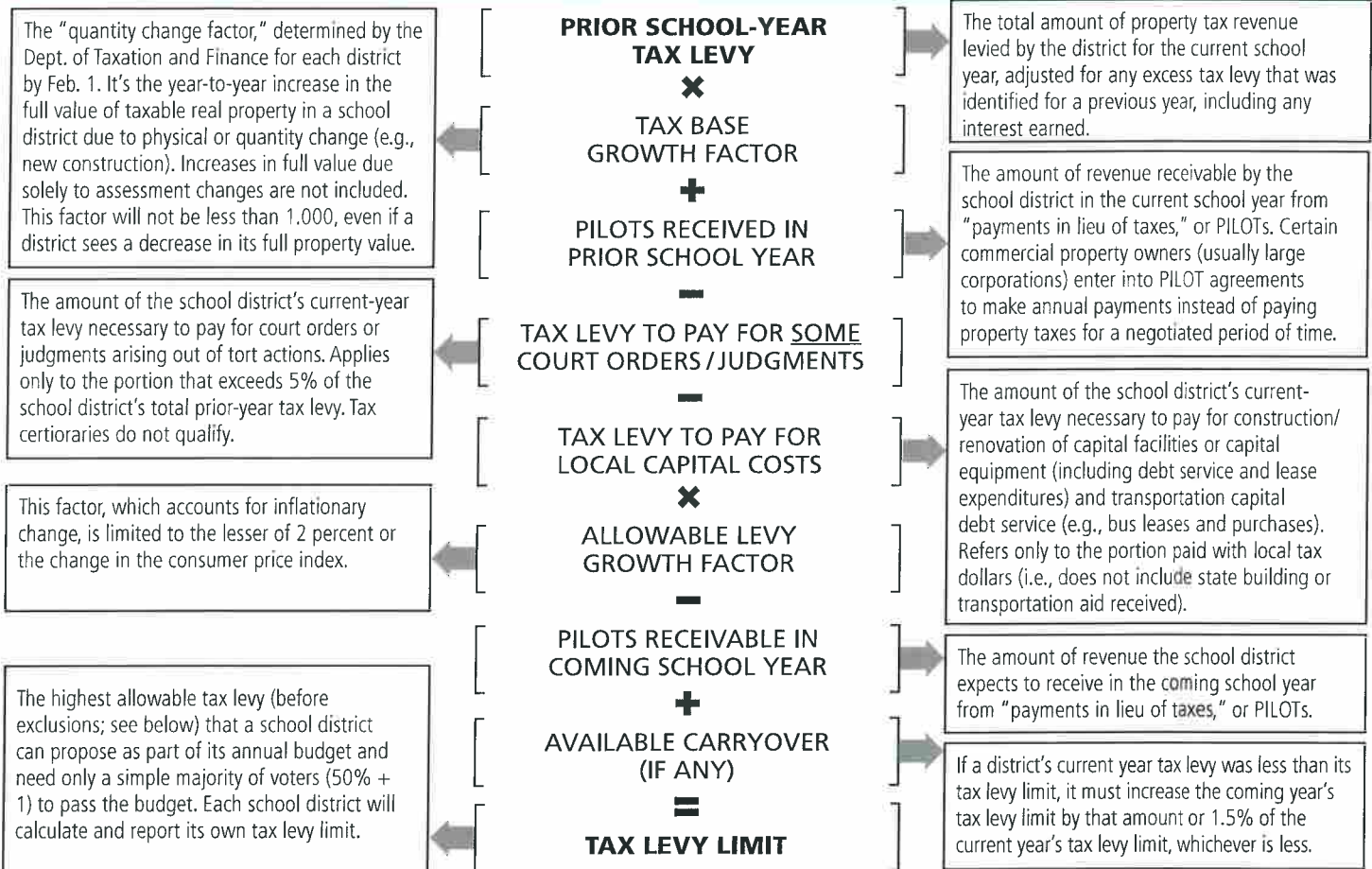
The proposed tax levy minus exclusions (\$15,256,000) is above the district's calculated tax levy limit (\$15,207,000). Therefore, the proposed budget, with a tax levy increase of 3.15%, requires approval by a supermajority of voters (60% or more) to pass.

New York's Tax Levy "Cap" Formula:

How does it add up?

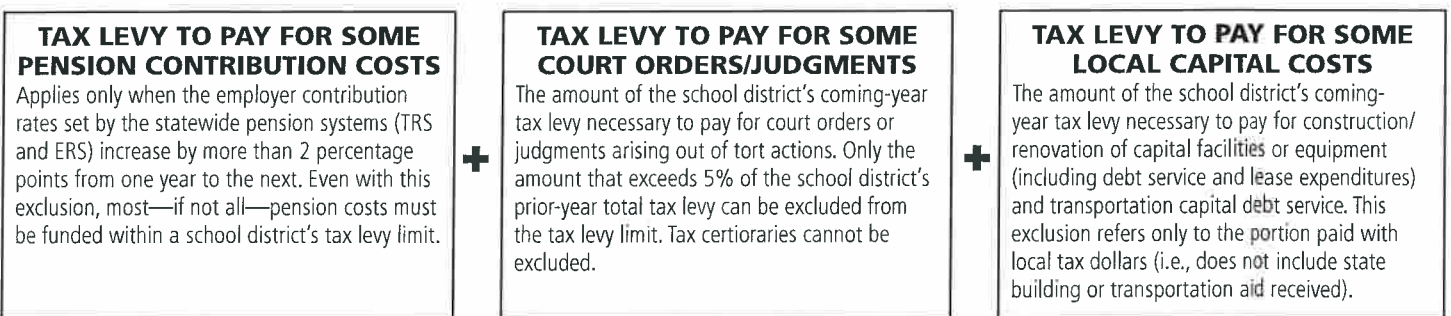
Although often referred to as a "2 percent tax cap," New York's tax levy "cap" law does not restrict any proposed tax levy increase to 2 percent. Pursuant to the law, each school district must follow an 8-step calculation, outlined below, to calculate its individual "tax levy limit." That limit then determines what level of voter support is required for budget approval.

THE BASE FORMULA



EXCLUSIONS TO BE ADDED

The law excludes certain portions of a school district's tax levy from the calculation above. A district can add these exclusions (described below) to its tax levy limit, increasing the amount of taxes the district is allowed to levy while still needing only a simple majority of voters for budget approval.



MAXIMUM ALLOWABLE TAX LEVY

= The tax levy limit plus exclusions. This is the highest total tax levy that a school district can propose as part of its annual budget for which only the approval of a simple majority of voters (50% + 1) is required.

Raising the stakes for schools...

Today's contingent budgets



WHAT IS A TAX LEVY?

The tax levy is the total amount of taxes a school district raises to help fund its budget, after accounting for all other revenue sources. The tax levy is the basis for determining the tax rates for each municipality within a school district. Tax rates are also affected by changes in town assessments and state equalization rates.

BUDGET APPROVALS, BY THE NUMBERS

Statewide since 2007, voters have approved an average of **94.6 percent** of school budgets on the annual school budget vote day in May of each year. As illustrated in the chart below, in each of those years, the percentage of budgets approved by a supermajority of voters (60% or more) was significantly lower.

Since New York's tax levy "cap" law went into effect, public schools have been facing a new reality when it comes to contingent budgets. No longer is there a spending cap on contingent budgets. Instead, there is now a **0 percent cap on the tax levy increase**. In other words, a district that adopts a contingent budget would have to levy the same amount of taxes as in the current year or less—without any adjustments for state pension rate increases, contractual obligations or any other costs, mandated or not.

However, other aspects of the contingent budget rules have stayed the same. If voters defeat their school district budget on May 20, a district has two options: resubmit the same proposal or a revised one for a revote on June 17, or adopt a contingent budget. If residents vote down the budget a second time, the district **MUST** adopt a contingent budget.

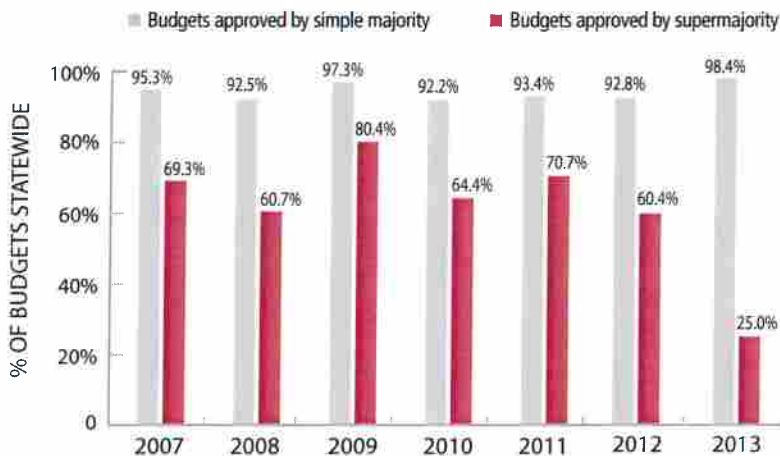
Adopting a contingent budget prohibits a district from spending any money in certain areas, including community use of school facilities (unless all costs are reimbursed to the district); new equipment purchases; non-essential maintenance; capital expenditures (except in emergencies); salary increases for non-instructional, non-unionized employees; and certain field trips and student supplies. Contingency rules also cap the growth of the administrative component of the budget. These requirements existed prior to the tax levy cap and remain in effect.

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Proposal above "tax levy limit" requires supermajority approval

The state's tax levy cap places restrictions on how school districts may increase their tax levies. It requires each district to calculate its own "tax levy limit," which determines the maximum allowable tax levy (including permissible exclusions) that a school district can propose and need the approval of only a simple majority of voters (more than 50 percent).

A district may, however, present voters with a budget proposal that carries a tax levy that exceeds its tax levy limit (plus exclusions). In such a case, budget passage requires approval by a supermajority of voters (60 percent or more). If a district fails to obtain a supermajority for a proposal that exceeds the tax levy limit, the same rules for a budget defeat, described above, apply.



Zero percent increase in contingency is the real "cap"

While districts still have a chance at a revote if a proposed budget fails on the first try, the "zero percent cap" on contingent budget tax levies raises the stakes for school leaders as they work to craft budget proposals that their communities will support.

And with politicians and the media often erroneously referring to the law as a "2 percent tax cap," the reality is that any proposed school tax levy increase will likely be compared to this perceived levy limit, adding to the pressures schools face to keep tax increases in check despite escalating costs, stagnant state aid and rising expectations to build and sustain world-class schools.

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