



# The Property Tax Cap

## Jericho Schools

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October 13, 2011

# The Tax Cap

Chapter 97 of the Laws of 2011

- Enacted June 24, 2011
- Establishes a Tax Levy Limit on all local governments and most school districts (excl. Big 5)
- Begins with 12-13 school year budget
- Expires June 15, 2016 unless rent control extended



# The Tax Cap

Chapter 97 of the Laws of 2011

- Tax cap limits **total levy** set by local governments and schools, **not** assessed value or tax rate.



# Which Local Governments are Covered by the Cap?

- **Counties, Cities (except NYC), Towns, Villages, Fire Districts and School Districts (except Big 5)**
- **Covers all special districts, such as:**
  - ❑ **Town or county water, sewage, drainage, refuse districts**
  - ❑ **Library districts**
  - ❑ **Special districts with separately elected boards of commissioners**





# Tax Levy Limit

$$\begin{aligned} & \text{Prior year tax levy} \\ & \quad \times \\ & \quad \text{Tax base growth factor, if any} \\ & \quad + \\ & \quad \text{Payments in lieu of taxes receivable during prior year} \\ & \quad - \\ & \quad \text{Taxes levied for exemptions during prior year (not ERS \& TRS)} \\ & \quad = \\ & \quad \textit{adjusted Prior Year Tax Levy} \\ & \quad \times \\ & \quad \text{Allowable levy growth factor (lesser of 2\% or CPI)} \\ & \quad - \\ & \quad \text{Payments in lieu of taxes receivable in the coming year} \\ & \quad + \\ & \quad \text{Available carryover, if any (none for 12-13)} \\ & \quad = \\ & \quad \text{"Tax Levy Limit"} \end{aligned}$$



## **Total Levy to support proposed budget**

$$\begin{array}{r} \text{Tax Levy Limit} \\ + \\ \text{Coming school year exemptions} \\ = \\ \text{Maximum Allowable Tax Levy} \\ \text{(requiring simple majority)} \end{array}$$



# Sample Tax Levy Limit Calculation

Prior year tax levy	100,000,000
Tax base growth factor	<u>x 1.00</u>
	100,000,000
Prior year Payment in Lieu of Taxes - PILOT	<u>+200,000</u>
	100,200,000
Prior year exemptions (capital levy, court orders)	<u>- 3,000,000</u>
<b>Adjusted Prior Year Levy</b>	97,200,000
Allowable Growth Factor (lesser of CPI or 2%)	<u>x 1.02</u>
	99,144,000
PILOTs for coming year	-200,000
Available Carryover (none for 12-13)	<u>+0</u>
<b>TAX LEVY LIMIT</b>	<b>= 98,944,000</b>
<b>Coming School Year Exemptions</b>	<b><u>+ 3,390,000</u></b>
<b>Maximum Levy for Simple Majority</b>	<b>= 102,334,000</b>



# Prior Year Tax Levy

- Taxes levied in the prior year including exemptions
- For the 12-13 school year it is the 11-12 tax levy





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# Tax Base Growth Factor

- Quantity Change Factor = The percentage by which the full value of the taxable real property in the school district **increases due to physical or quantity change**, compared with the prior year tax roll (growth in full value due to new construction, additions and improvements to real property, etc.).
- Tax Base Growth Factor =  $1 + \text{Quantity Change Factor}$ ; only calculated if quantity change factor is a positive number.
- Source: New York State Tax and Finance Department (ORPS)
- Factor will be made available by February 15th



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# Prior Year PILOT

(Payments In Lieu Of Taxes)

- PILOT owed to the district in the prior school year
- For 2012-13 school year it would be the 2011-12 PILOT payments



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# Prior Year Exemptions

- Capital Tax Levy = Tax levy necessary to support capital local expenditures
- Capital Local Expenditures = The tax levy associated with budgeted expenditures resulting from the construction, acquisition, reconstruction, rehabilitation or improvement of school district capital facilities or capital equipment, including debt service and lease expenditures, and transportation capital debt service.
- Court Orders/Judgments = Tax levy necessary for expenditures resulting from court orders or judgments arising out of tort actions for any amount that exceeds 5% of total tax levied in prior school year. (excludes tax certioraris)
- Excludes prior year pension exemption



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# Adjusted Prior Year Tax Levy



- Prior year levy adjusted for:
- Tax base growth factor (+)
- Prior year PILOT (+)
- Prior year exemptions (-)



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# Allowable Growth Factor

- Allowable Levy Growth Factor = Lesser of: 1.02 OR  $(1 + \text{Inflation Factor})$ ; Minimum of 1.0.
- Inflation Factor = CPI change, carried out four decimal places.
- Source: US Department of Labor





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# PILOTs for coming year



- PILOT to be collected in the coming school year
- For 2012-13 school year it would be 2012-13 PILOT payments
- Not all districts will have PILOT payments

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# Available Carryover

- Districts may use taxing authority from the prior school year to increase the subsequent year's tax levy if taxes were increased in the prior school year by less than the amount allowed by the cap.
- Available Carryover = (Prior year tax levy limit – prior year tax levy), but no greater than:  $(1.5\% \times \text{prior year tax levy limit})$
- No Available Carryover (from 2011-12) for 2012-13







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# Tax Levy Limit



- Amount to be calculated and submitted to Comptroller's Office prior to March 1st of each year
- Prior to addition of allowable exemptions



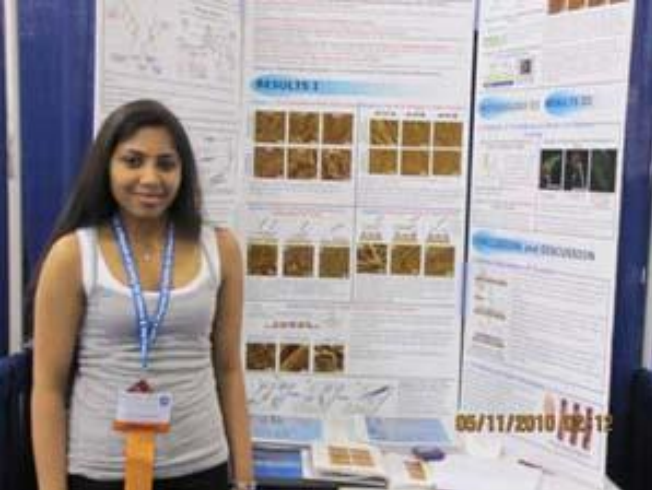
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# Coming School Year Exemptions



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# Coming School Year Exemptions (cont.)

- The pension cost exemption applies only when Employees Retirement System (ERS) and/or Teachers Retirement System (TRS) employer contribution rates increase by more than 2 percentage points over the prior year
- ERS Costs = Tax levy necessary for expenditures for coming school year for employer contributions caused by growth in the system average actuarial contribution rate, minus two percentage points
- TRS Costs = Tax levy necessary for expenditures for coming school year for employer contributions caused by growth in the normal contribution rate, minus two percentage points
- For example, if an employer contribution rate for ERS and/or TRS increased by 2.2 percentage points, only an amount equal to applicable salary expenditures times .002 would be excluded from the tax levy cap. If an employer contribution rate increased by 1.98 percentage points over the prior year, no exclusion would be allowed from the cap on the tax levy for pension cost increases

# 4 Step Pension Calculation: ERS

Step  
1

**18.9%**

(SFY 12-13)  
Sys. average

—

**16.3%**

(SFY 11-12)  
Sys. average

—

**2.6**

Percentage **points**  
difference

Step  
2

**2.6**

% point diff.

—

**2.0**

Local  
Responsibility no  
excludable

—

**0.6%**

Excludable portion



# 4 Step Pension Calculation (cont.)

Step  
3

**0.6%**  
Excludable  
portion

X

**Salary  
Base**

=

**Excludable  
Amount**

Step  
4

**Add excludable amount to the  
Base levy limit**

(Note: Exclusions increase the amount of taxes you are allowed to levy)





# System Average Actuarial/Normal Contribution Rates for 2012

- Comptroller announced August 24, 2011
- TRS determined official rates July 2011  
(State may revisit calculation as it lags by one year)

Retirement System	2011 Bill	2012 Bill	Difference	Excludable Portion
ERS (Dec)	16.3%	18.9%	2.6%	0.60%
TRS (Fall)	8.62%	11.11%	2.49%	0.49%



# Not Excluded – Mandates

- Chapter 97 of the Laws of 2011 did address some mandate issues.
- The cost of mandates, however, are NOT excluded from the tax cap, except for the pension and tort exclusions, mentioned above:
  - ❑ Health care costs
  - ❑ Environmental mandates
  - ❑ Local portion of State health/social service programs
  - ❑ APPR



# What options do Districts have?

- Option 1: Propose a budget requiring a tax levy before exemptions at or below the Tax Levy Limit prescribed by law. Requires a simple majority (50% + 1 voter approval)
- Option 2: Propose a budget requiring a tax levy before exemptions above the Tax Levy Limit. Requires a “super majority” (60% voter approval). Requires a statement on ballot indicating the required tax levy before exemptions exceeds the Tax Levy Limit

# What happens if the budget is not approved by the public?

- If the proposed budget is not approved by the required margin:
  1. The district may resubmit the original budget or submit a revised budget to the voters on the third Tuesday in June

OR

- Adopt a contingency budget that levies a tax no greater than that of the prior year (0% increase in tax levy).
  1. If the resubmitted/revised budget proposal is not approved by the required margin:
  2. the Board of Education must adopt a budget that levies a tax no greater than that of the prior year (0% increase tax levy) and the budget would be subject to contingent budget requirements.
  3. Districts will not be allowed to increase the tax levy to the extent necessary to fund items of expenditure excluded from the tax cap
  4. No growth factor
  5. No capital, court order/judgments or pension exemptions



# In Brief.....

- **NYS has a property tax cap, not a “2% cap”**
- **The property tax cap limits the school district levy NOT the individual tax bill of resident taxpayers**
- **The actual allowable tax levy increase will vary by district**
- **The formula allows for certain expenses to be exempt from the cap therefore allowing the total tax levy increase to be greater than “perceived” cap**
- **Districts can present a budget that “overrides” the cap but will need 60% voter approval**
- **The education community has many unanswered questions**





# ***THE CHALLENGE***

Significant increases in ECR for ERS & TRS:	\$1.6M
Double digit % increases in health insurance premiums:	\$1.1M
Contractual personnel increases:	<u>\$1.7M</u>
Subtotal for these three categories alone:	\$4.4M
Potential tax levy cap for simple majority vote:	<u>(\$2.3M)</u>
Potential cut in expenditures:	\$2.1M



# COLLABORATION IS ESSENTIAL





# Questions



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