

Terminology of School Budgets

Rev. April 2017

New York State's tax levy law places restrictions on how school districts and municipalities may increase their tax levies. Accompanying this law are terms and language that voters need to understand in order to make informed decisions at the polls. Provided here are various definitions of terms used in regards to the tax levy law and school budgets.

Tax Levy

The total amount of property taxes a school district must collect to balance its budget, after accounting for all other revenue sources, including state aid. The tax levy is the basis for determining the tax rate for each of the cities, towns or villages that make up a school district.

Tax Cap or Tax Levy Limit

The NYS tax levy limit is now calculated using an eight-step formula that each school district must use to calculate its individual tax levy limit (not the tax rate of individual tax bills). In particular, the calculation adjusts a district's tax levy to reflect growth in the local tax base (if any) and the rate of inflation or 2 percent (whichever is lower).

Despite its name, the "Tax Cap" doesn't set a limit on the tax levy that a school district (or municipality) can propose. The law has also been referred to as a "2 percent tax cap." However, the "Tax Cap" law does not restrict any proposed tax levy increase to 2 percent. The 2 percent is a misnomer referring to one step in the eight-step formula.

Tax Cap Override or Super Majority

If a school district proposes a tax levy that fits within the tax levy limit formula, then the approval of a simple majority of voters (50 percent plus one) is required. A school district may choose to go beyond what is allowed in the tax levy limit formula at which time voters must obtain approval with a 60 percent majority. This is commonly referred to as a "Super Majority."

If a Super Majority vote fails to gain a 60 percent majority approval, the Board of Education has the option going out to vote one more time on the same, or amended budget, or, exercising the terms under a contingency budget (see below). If the budget is defeated twice, the Board must adopt a contingency budget.

Contingent Budget

Under state law, school boards can submit a budget to voters a maximum of two times. If the proposed budget is defeated twice, the board of education must adopt a contingency budget. The board also has the option of going directly to a contingent budget immediately after the first budget defeat.

Under a contingent budget, the district must adopt a budget with the same tax levy as the prior year – essentially a zero percent cap – likely resulting in millions of dollars in budget and program cuts.

Tax Rate

The amount of tax paid for each \$1,000 of assessed value of property. In districts that cover just one municipality, the tax rate is figured simply by dividing the total assessed property value by 1,000 and then dividing that again into the tax levy (the amount of money to be raised locally).

In districts that encompass more than one municipality, the formula for figuring the tax rate is more complicated. It involves assigning a share of the total tax levy to each municipality and applying equalization rates to take into account different assessment practices. Equalization rates are established annually by the NYS Office of Real Property Taxes (ORPS) to make assessments and tax rates comparable throughout the state (often called full or true value).

STAR Exemption

The New York State School Tax Relief Program (STAR) provides New York State homeowners with partial exemptions from school property taxes. If you earn less than \$500,000 and own and live in your home, you are probably eligible for the STAR exemption.

Foundation Aid (General Operating Aid)

The 2007-2008 State Budget changed the way aid was distributed to schools for General Operating Aid to a New Foundation Aid Formula. This change was the result of NYS losing the Campaign for Fiscal Equity lawsuit where the Supreme Court ruled the State's current funding level and distribution to schools was unconstitutional and did not provide for a "sound basic education." As a result, a new law was adopted that included the new Foundation Aid Formula was to provide significantly more base aids to schools to cover various unfunded mandates, provide enhanced equity among low wealth/high needs schools and provide all schools with the ability to stabilize property taxes and allow better projections by providing schools with their state aid projections four years in advance. In response to the 2008 economic crisis the State could not make good on its new Foundation Aid Formula and the aid was frozen at the 2008-2009 level.

Gap Elimination Adjustment (GEA)

The 2010-2011 State Budget further reduced Foundation Aid by implementing a reduction formula called the Gap Elimination Adjustment (GEA) to help reduce the State's budget deficit. The intent of the GEA was to be temporary and have a four year phase out of a roughly 25% reduction to a school's aid. The GEA was phased out in 2016/17, but the impact of both the Foundation Aid Formula freeze and the GEA is that the average NYS school district is funded at about 40-50% of what the law requires.