School District Tax Levy Limits
Preliminary Findings Point to an Average of 3 Percent Allowable Levy Growth Statewide

Summary

- A preliminary analysis of school districts’ tax levy limit calculations indicates that the average allowable property tax levy growth is 3 percent statewide. This is higher than what many voters may be expecting when they go to the polls in May.¹

- There is wide variation. Calculated limits ranged from a reduction in levy growth of 43 percent in one district to an increase in levy growth of 32 percent in another.

- This variation is the result of a statutory formula that has nine different elements.

Background

- In May, school districts’ governing boards will present 2012-13 school year budgets to voters for approval – the first year that school budget votes will be linked to the new property tax cap enacted in 2011.

- Under the new law, school districts may present a budget that is based on a tax levy that remains within the recently enacted tax levy limit (often referred to as the 2 percent property tax cap), or present a budget that is based on a levy that exceeds the limit, referred to as an override.

- A budget that is based on a tax levy that is within the allowable levy limit must be approved by a simple majority of voters (over 50 percent) but an override budget must be approved by a 60 percent supermajority of voters. Districts that fail to pass a budget under either scenario could ultimately be required to adopt a contingency budget that would allow no growth in the tax levy from what was levied for the 2011-12 school year.

¹ This analysis is based on data reported by school districts to the Office of the State Comptroller as of April 5, 2012.
The property tax cap is actually a limit on the annual growth in tax *levy*, and the law provides for a number of adjustments and exclusions that can drive growth above 2 percent, or cause an actual reduction in the allowable levy from the prior year.

These nuances can make it difficult to explain to voters why a proposed levy increase of more than 2 percent does not, necessarily, require an override vote. In addition, it may not be understood that the property tax cap is a restriction on the total amount a school district can raise through property taxes in any given year and does not necessarily translate into a limit on property tax rates or the assessed value of property – meaning that there is no direct limit on the annual growth in individual property tax *bills*.

Under the law, most school districts\(^2\) are required to report how their levy limits were calculated to the Office of the State Comptroller (OSC) by March 1st each year.

For the 2012-13 school year, all school districts subject to the new levy limit have complied with this reporting requirement and OSC has made each district’s information available on *Open Book New York*.

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\(^2\) The law does not apply to the New York City School District, and the big 4 dependent city school districts of Buffalo, Syracuse, Rochester and Yonkers are covered under the cities tax levy limit. Certain school districts that do not levy a tax are also exempt.
A preliminary analysis based on this self-reported data indicates that the average allowable levy growth is 3 percent, rather than the 2 percent voters may be expecting. The calculation of the levy limit, including allowable adjustments and additional levy for certain excludable expenses, drives a wide variation in the allowable levy growth. One school district is faced with a property tax levy limit that is 43 percent less than what was levied for the 2011-12 school year while another reported an increase of 32 percent. Some of the factors that generate this range are described in the section below.

On average, school districts considered “high need” (due to their student profiles and relative wealth) reported levy limits that reflect higher rates of allowable growth than school districts categorized as average or low need districts.

Factors Affecting the Tax Levy Limit Calculation

The key reason for the wide variations noted above is that the formula by which a district must compute its allowable levy limit is complex. Indeed, the 2 percent growth factor is only one of nine different elements in the calculation. Other important elements include:

- **Pension Exclusion.** The additional levy permitted for pension costs is very narrowly defined. This element accounted for only 0.13 percent of the 3.0 percent allowable growth statewide, on average. In only seven districts did the effect of the pension exclusion increase the allowable levy limit by more than 0.50 percentage points, and 21 school districts did not factor this exclusion into their calculation at all.
• **Capital Expenditure Exclusion.** Unlike other types of local governments, school districts are permitted to include the tax levy necessary to support the local (property-tax funded) share of capital expenditures that have been approved by the voters. If a school district is planning major new projects, this element can result in big increases in allowable levy growth. However, schools must also subtract the levy necessary to support local capital expenditures in the previous year, so districts that completed major projects in 2011-12 may experience a reduction in the property taxes that can be levied in 2012-13 under the limit. The impact of this element ranged from decreasing the levy limit by 5.5 percent to increasing it by 13.1 percent, with an average effect statewide of 0.45 percent.

• **Payments in Lieu of Taxation (PILOTs).** The formula also considers payments made by businesses that have been granted tax-exempt status as property tax levy. The levy limit is a restriction on the growth in property tax levy plus PILOT payments. When there are large variations in the amount of PILOTs receivable from year-to-year, this can have a significant impact on the allowable levy under the limit. Although the net effect of all PILOT changes was small (-0.06 percent), the effect of PILOTs ranged from decreasing the allowable levy growth by 45.4 percent to increasing it by 24.2 percent. However, if PILOTs are considered property tax levy, then the year-to-year comparisons of levy growth show less variation, with increases ranging from a negative 2.9 percent to a growth of 15.6 percent.

• **Tax Base Growth Factor.** The formula for determining the tax levy limit also includes an adjustment for growth in the tax base of the school district which adjusts for new “brick and mortar” development in a district. Although its effect is generally small, this factor can substantially increase the allowable levy in a district with significant development. The impact of the tax base growth factor ranged from no impact in 74 districts to a 5.22 percent increase in one district, with the average effect on the allowable levy being an increase of 0.46 percent.