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Inflation Challenges New York School Districts

Introduction

Inflation has touched most aspects of daily personal and professional lives, no less so for school districts. Inflation for the 2021 calendar year was 4.69%; for the first two months of 2022, it has grown to a staggering 7.68%. While New York has had a tax cap in place for a decade, this is the first year where inflation has far exceeded the maximum allowable growth factor that school districts use in calculating their district specific tax caps. School district operations face the same challenges present within the larger economy, from escalating costs, labor shortages, and supply chain disruptions.

Across New York, local property tax levies make up 58% of school district revenue. As this note will show, school districts in Long Island the Hudson Valley are particularly affected as they are generally the most reliant on local funding.

One-time federal stimulus money is incredibly important in helping districts address the severe disruption of the last two years but should not obscure the fact that local support is vital for long-term school district operation.

2022-23 School Year Property Tax Rates as of March 1

On March 1, all fiscally independent school districts submit their preliminary tax cap calculations to the Office of the State Comptroller. A school district's specific tax cap is the outcome of a calculation that begins with a statewide growth factor, set in law to the lesser of 2% or the previous calendar change in the Consumer Price Index (CPI-U). School district budget proposals with levies at or below their levy limit require simple majority approval for passage. To enact a budget that exceeds the levy limit, school districts need to reach a 60% supermajority approval rate. This research note looks at the 653 school districts that have submitted their initial 2022-23 data in comparison to current trends in inflation.

Across school districts, the overall tax cap for 2022-23 levies is 2.83%, which is substantially lower than 4.69%, the 2021 calendar year change in CPI-U. With such a stark overall division, it is not a surprise that the overwhelming majority of school districts have tax caps that are less than the rate of inflation. As the following graph shows, in recent years 70-85% of school districts had district-specific tax caps that exceeded the rate of inflation. For 2022-23, nearly the reverse has occurred, with 92% of school districts having tax caps that are less than the rate of inflation.

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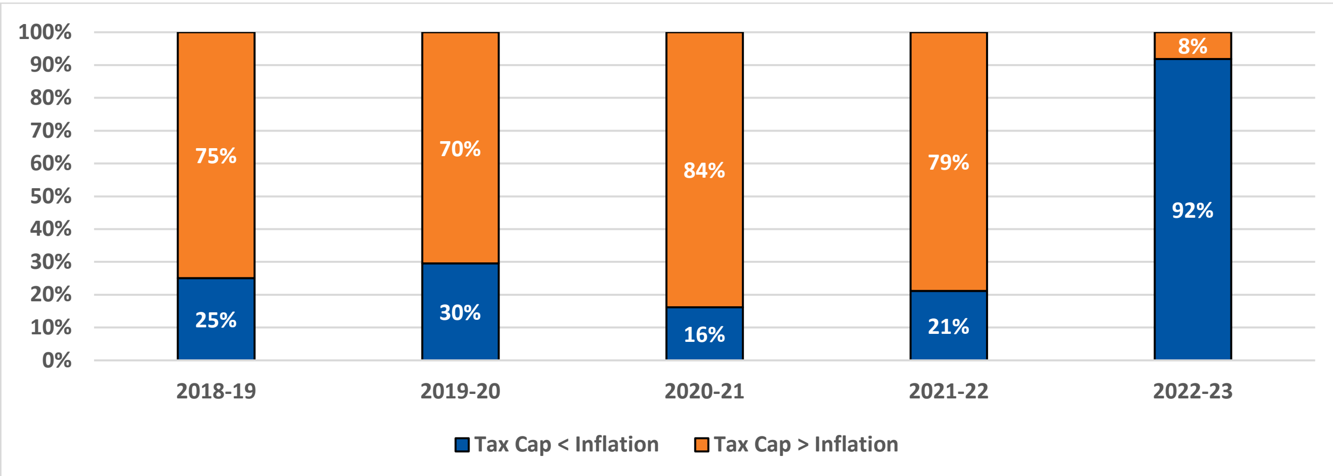
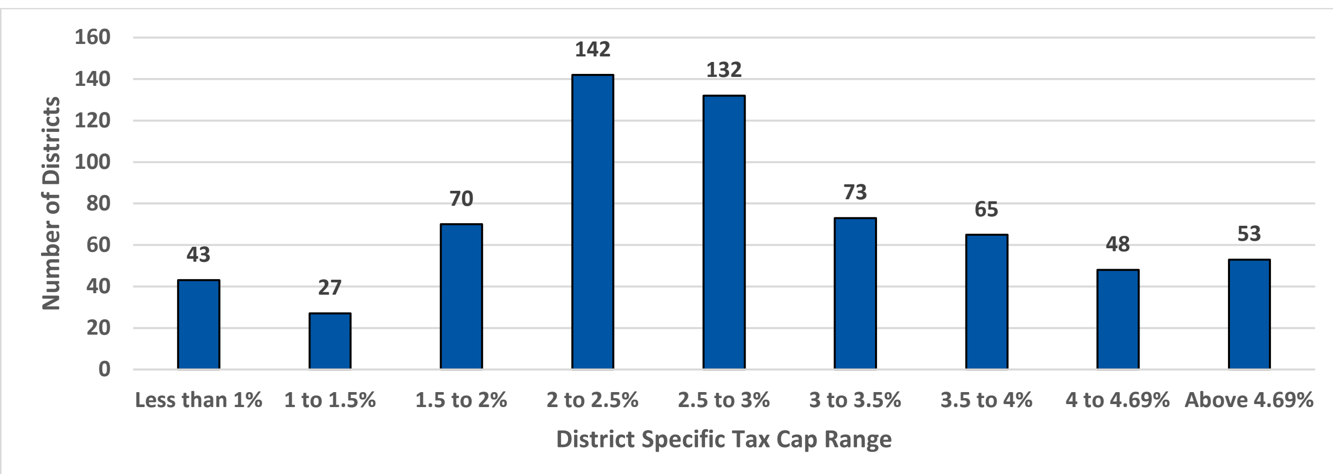
Figure 1. Share of school district specific tax caps that are above and below the inflation rate, 2018-19 to 2022-23



Many districts face tax caps well below the rate of inflation. As the Figure 2 shows, 414 school districts (63%) have tax caps under 3%. There are 234 school districts with tax caps that are less than half of the inflation rate.

Figure 2. Distribution of district specific tax caps for 2022-23 levies



On average, school districts get 58% of their revenue from local sources and are now facing a double hit from inflation as the costs of operations become more challenging while their ability to raise revenues is not able to keep pace.

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Revenue and Inflation

This is the first year under the tax cap where the statewide and median tax caps are substantially under the rate of inflation. The following table compares the overall and median district specific tax caps in recent years. This is the first time in the past six year that either the overall or median tax caps are greater than inflation.

Figure 3. Growth in Inflation and Tax Caps, 2017-18 to 2022-23

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Inflation (CPI-U)	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%
Overall Tax Cap	2.0%	2.9%	3.0%	2.7%	2.1%	**2.8%**
Median Tax Cap	2.0%	2.8%	3.0%	2.6%	2.0%	**2.7%**

Although local tax levies provides the majority of school district revenue, Foundation Aid and other state supports are an essential funding source. In spite of the significant Foundation Aid increase proposed by Governor Hochul as year two of a three-year, final Foundation Aid phase-in, the median 2022-23 Foundation Aid increase is less than the inflation rate. This is not an isolated event. While the Foundation Aid phase-in has increased support for significantly underfunded school districts, in three out of the last four years, the median school district Foundation Aid increase was less than the rate of inflation.

This note focuses on overall trends, but it is important to recognize that school districts vary tremendously in their local fiscal capacity, which affects the relative importance of state aid and local levies in their finances. Statewide, school districts with tax caps under the rate of inflation are more reliant on local levies than those with tax caps above inflation, and are thus more directly impacted by inflation without offsetting state aid. The following table shows the share of local and state aid sources in school districts with tax caps above and below inflation.

Figure 4. State/Local Revenue Share by Tax Cap/Inflation Ratios

	State Aid share of overall revenue	Local share of overall revenue
2022-23 tax cap UNDER inflation rate	35%	58%
2022-23 tax cap OVER inflation rate	46%	47%

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Regional Impact

Large gaps between inflation and tax caps are present across the state, however there are significant regional variations in the significance of local levies in school district resources. In Long Island and the Hudson Valley, local levies fund roughly two-thirds of school district budgets. These areas are particularly affected by the constraint of the tax cap.

Figure 5. Regional Comparison of Local Revenues and Tax Caps

Region	Local share of overall revenue	Percent of school districts with a Tax Cap under inflation	Overall regional levy limit
Long Island	68%	96%	2.6%
Hudson Valley	65%	86%	3.1%
Capital District	53%	89%	3.2%
Finger Lakes	40%	93%	3.0%
Central New York	39%	93%	2.8%
Southern Tier	38%	99%	2.2%
Western Region	35%	92%	2.6%
Mohawk Valley	32%	89%	2.8%
North Country	31%	90%	3.3%

Conclusion

After a decade of existence, our research has shown that the tax cap largely drives school district budget behavior—both by districts keeping their levies at or under the limit, and by voters basing their decisions on whether their district is asking to override the limit or not. Over the past five years, 98% of school district budget proposals complied with the tax cap. Voters passed over 97% of these proposals. In the same time period, of the 78 proposed budgets with tax cap overrides, only 52 succeeded (67%), a drop in the success rate of 30 percentage points. There is enormous pressure on districts to comply with the tax cap. Based on the tax cap filings this year, this dynamic does not appear to be impacted by the high rate of inflation, which compounds the pressure districts feel.

Each year's tax cap decision has long-term consequences, because the previous year's levy is the starting point in calculating the tax cap. There is no functional way for a school district to include previously allowed unlevied amounts in future budgets.

The prospect of multiple years of inflation rates well above 2% is ominous for school districts, especially as one-time federal pandemic funds obscure this fiscal challenge.

In view of current inflationary pressures, the investments in Foundation Aid are a welcome feature of the 2022-23 state budget discussions, but the impact of inflation cannot be ignored nor will it likely be solved by Foundation Aid alone.

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