

NY's school-funding

New federal tax code makes financing via the property tax unworkable

BY JOHN BROOKS

While the title sounds great — The Federal Tax Cuts and Jobs Act of 2017 — the impact of this federal legislation is an arrow aimed at the economic heart of New York and many states because of the limitations placed on their primary sources to fund government and education.

Since the enactment of the 16th Amendment, which allows the federal government to levy income taxes, there has been an unofficial understanding that all state and local taxes have been deductible for purposes of calculating taxable income for federal taxes. In December, the Republican-controlled Congress approved legislation establishing an unrealistic cap of \$10,000 for deducting all state and local taxes (SALT). This action was taken with knowledge that New York provides Washington with \$48 billion more than it receives in benefits and services (more than any other state in the country) and that we use SALT as the primary funding source for all levels of government and education. For Long Island, one of the most highly taxed areas in the country, this law will have a significant and punitive impact.

In many ways, the federal tax law invalidates the way New York funds government and education. The state funds education primarily through taxes on real property, which are paid solely by those who own principally land and buildings. The state has established programs to help economically challenged areas with greater state aid for education; as a result, local funding in areas like Long Island covers upward of 75 percent of the cost of education through property taxes. With the \$10,000 cap on SALT deduc-

tions, the federal government penalizes those districts that have provided the most funding for education. Some have argued about the use of property taxes and the fact that the value of a home doesn't always reflect the financial ability of the homeowners. Seniors and others on fixed incomes or with significant medical costs struggle to pay property taxes. Long Island's high property taxes make it difficult, if not impossible, for many to own a home.

New York is correct to challenge the new tax law, and the voters will be correct to seek changes in Congress to ensure the act is reformed, but we must also recognize that we are now at a crossroads in governmental and educational funding. The tax burden being placed on homeowners is excessive, and we can no longer consider real property taxes as a primary funding source. Taxes on more than 300,000 homes on Long Island exceed \$10,000 each. To ensure the sustainability of the region, we must find ways to provide property tax relief for those districts with excessive residential tax obligations while preserving the quality of life and of education Long Islanders expect.

Now is the time to re-examine how we fund government. We have to be more efficient in the operation of government, and fund government and education with methods



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that are fair and reflective of the financial ability of the funding source. That includes funding education based on regional costs, and core educational costs that adjust based on regional factors. In the dark of night and at the close of a fiscal year, Congress enacted a federal tax law with little vetting, knowing its negative fiscal impact on many states, and knowing that the changes benefit corporate America more than Americans.

Thanks to this Republican-controlled Congress, we will now pay taxes on our taxes. That is the definition of double taxation.



John Brooks, a Seafood resident, represents the 8th District in the State Senate.

Shift chief burden

BY DAVID C. BLOOMFIELD

Our school district budgets depend on property taxes, often accounting for more than half their revenue. Limited deductibility under the new federal tax law will cause property owners to seek savings on local spending to offset this lost income.

Other impacts are still unknown because the interplay of federal, state and local tax provisions is complex, compounded by individual circumstances. The uncertainty is giving rise to greater taxpayer skittishness over local school spending, as voters have the most direct control through voting on school boards and budgets.

The wheels are turning in Al-

bany to revise state taxation to better align with the new federal code. School finance should be on the list for overhaul, leading to a fairer system of education for all students.

The antiquated system of dependence on property taxes strains localities in two ways. First, the tax falls on nonliquid assets — homes — so that we struggle to come up with money that is sunk in the ground. Second, the system produces tremendous inequities in school quality, with property-rich districts outdistancing their neighbors in competition for teachers, facilities and instructional resources. This system is broken, and it's time to change. Schools are a state responsibility and reforming our school finance system to better

system can't go on

Progress from property tax cap will be reduced

BY GARY BIXHORN

The federal limit on the deductibility of state and local taxes will effectively increase the tax burden of nearly every homeowner in downstate suburbs. These are the taxpayers the state depends on to fund services in other regions. The state returns only 65 cents of every tax dollar paid by downstate suburbs to their region; the balance goes to other parts of the state.

The federal \$10,000 limit on SALT deductibility is important to Long Island because it's a high-tax region in a high-tax state. This is why Gov. Andrew M. Cuomo is proposing ways to mitigate the loss of deductibility, including charitable contributions in lieu of property taxes.

Downstate suburban taxpayers, who have benefited from the state property tax cap over the past few years, will see its impact diminished. Since the cap was enacted in 2012, the growth of property taxes has slowed. The state has worked to make the tax cap succeed by increasing school aid, the only source of revenue other than property taxes avail-

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able to schools. This has been challenging because our school aid formulas do not work. One in particular, the foundation aid formula, is so dysfunctional the state has worked around it to allocate aid increases that have helped districts maintain, and in some cases expand, programs.

Unfortunately, the new federal tax law will undermine that progress and put the spotlight on the property tax issue that appeared to be fading because of the tax cap. This, coupled with looming cuts in federal education aid, will lead to a call for re-examining our school funding system: state aid and property

taxes. Radical change is not likely to occur because the system is entrenched. To replace state education funding from the property tax, about \$33 billion, we would need to increase all state income, sales and business taxes by nearly 40 percent. It is unrealistic to abandon the property tax for school funding, but decreasing dependence on it is an attainable goal.

Studies have found that the property tax is too big to replace. In 2006, the Suffolk County Legislature set up a commission to study alternatives to the property tax. After deliberations, no alternative was recommended. But the commission suggested that the state share of school funding be raised to 50 percent to reduce property tax overdependence and that a working state aid formula be put in place. As a former commission member, I can say the group would agree that school district dependence on property taxes makes no sense and that there are better ways to finance schools.

If we could start from scratch, schools would be adequately and equitably funded so stu-

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dents would receive more than a "sound basic education." To do that, education would have to be largely state-funded, supported primarily by state aid raised through income and sales taxes. The aid would be distributed to address the needs of all students in the state, factoring in regional cost differences. Given that we haven't been able to develop a formula to equitably distribute aid that funds just 36 percent of school costs, designing a formula that fully funds education statewide would be a challenge.

A new formula has to be sensitive to our region's tax situation. Long Island cannot continue to fund services in other regions at the same rate as in the past. According to the Rockefeller Institute, the downstate

suburbs contribute 274 percent of state revenues and get back 177 percent of disbursements.

New York should assure that state support recognizes the region from which the funding is raised as well as regional cost differences. If the state raised its share of education funding to 66 percent, and the downstate suburbs received a 274 share of disbursements, our regressive property taxes would be cut in half, while progressive income taxes rise by less than one third. Downstate suburban taxpayers would pay less overall, and property taxes would be reduced.

There are many variations on this theme, but the bottom line is that more state tax receipts from our region should be used to fund services in our region.

The new federal law demands that we respond creatively. We should take this opportunity to innovate and change.



Gary Bixhorn is a former Long Island school district and BOCES administrator.

for school financing to New York State

reflect that duty is key to preserving, even enhancing, statewide educational quality.

The state can respond to the new tax law through redesigned funding provisions, unburdening taxpayers and promoting more equitable distribution of resources. The state is considering various tax-avoidance devices, including a payroll tax to preserve income deductibility and unlinking the state's system from conformity with federal returns. This augurs well for breaking the legislative logjam when it comes to school finance.

Property tax relief adapted to new deductibility limits should accompany other tax reform strategies, shifting the bulk of school finance from localities to the state. This would provide cash relief for homeowners and

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place school funding where it belongs, as a statewide duty.

Under our constitution, the State Legislature must "provide for the maintenance and support of a system of free common schools wherein all the children of this state may be educated." That requires, says our Court of Appeals, a provision for "a meaningful high school education."

This legislative obligation has remained unfulfilled by of-

flooding state responsibility to local taxpayers, now on the hook more than ever because of the new tax law. The Board of Regents recently called for an increase in state school aid by \$1.5 billion, mostly to meet obligations arising from constitutionally based lawsuits by high poverty districts. While Gov. Andrew M. Cuomo proposed spending increases of less than half that amount, he acknowl-

edged that poorer districts require increased assistance.

It will take imagination and political courage to fix the dual problems of tax-stressed Long Island voters and inequitable school funding. The Educational Conference Board, a statewide coalition of district administrators and parents, recommends reweighting categories of "foundation aid," the state's major school-funding formula. This would use state aid more efficiently, basing assistance on student poverty, disability, enrollment growth, English proficiency and population density. The current 12 percent of state aid from the state's special revenue fund that supplements district revenues through lottery receipts, video lottery terminals, and commer-

cial gaming should be increased. Expanding revenues beyond these limited sources and increasing the state's share would limit the need for other revenue subject to the federal \$10,000 limit on deductibility of state and local taxes.

Wealthy districts, those most affected by the deduction cap, would find relief in this plan and could come up with new ideas, such as charitable contributions in lieu of taxes, to maintain levels of achievement. And, property-poor districts would find increased revenue through a system that justly transfers school finance burdens statewide.



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