

Checkerboard II:

**An Analysis of Tax Effort, Equalization and Extraordinary
Needs Aids**

Educational Priorities Panel

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Introduction

Two tax aids, Tax Equalization Aid and Tax Effort Aid, represent the Legislature's response to an important political constituency. Following the *Levittown* decision in 1982, the school districts in Long Island that had spearheaded the original constitutional complaint continued to press their case in the Legislature. Located in a high-wealth, high-cost region, these districts had limited property resources to call on and had to levy relatively high taxes in order to support their schools. Home values and, therefore, property taxes had escalated during the 1980s and 1990s.

In response to pressure from the *Levittown* districts, the Legislature introduced a program called High Tax Aid, awarding aid to districts in which tax rates were high in relation to average tax rates throughout the state. High Tax Aid evolved into Tax Equalization Aid. To strengthen aid to school districts in which resident taxpayers had limited income as well as limited property resources, the Legislature later introduced a second program to supplement the first tax aid. It is known as Tax Effort Aid.

The Educational Priorities Panel (EPP) has studied the way state aid affects high-minority school districts in high-cost regions such as Westchester and Long Island. In its October 1999 publication, *Checkerboard Schooling*, EPP found that certain

high-needs, high-minority districts were receiving a major portion of their state formula aid in the form of tax aid. For example, in 1999-00, Hempstead received 45 percent of its formula aid and Mount Vernon 41 percent in the form of tax aids. EPP found that the tax aid program, from its beginning, has had some inconsistent effects, but the recent experience has been disastrous. Both Tax Equalization and Tax Effort aids were specifically included within the overall cutbacks imposed in the form of "Transition Adjustment." As a result, the overriding impact of the Transition Adjustment prevented some of the state's most needy districts from receiving their formula entitlements.

In the last Legislative session, there was an attempt to eliminate the cutbacks known as Transition Adjustment. This move was welcomed by groups lobbying for its elimination until it became clear that the proposal also included elimination of all Tax Equalization Aid. Neither proposal survived, and a Transition Adjustment was continued in the 1999-2000 aid legislation. But the issue remains. Should tax aids be part of a restructuring of state school aid? For this reason, EPP has attempted to unravel some of the effects of the Tax Aid program by exploring the interaction among its components.

-Joan Scheuer, Education Finance Consultant

The Purpose of This Analysis

A proposal in the New York State Assembly last year considered eliminating Tax Equalization Aid to school districts in order to fund the elimination of aid caps, called Transition Adjustment. In response to that proposal, this report examines the equalizing or disequalizing effects of three types of New York state aid to school districts—Extraordinary Needs Aid, Equalization Aid, and Tax Effort Aid. **Extraordinary Needs Aid** (ENA) provides additional funds for school districts with high needs students such as a large number of students living in poverty or a large number of students with limited English proficiency. Tax Equalization Aid, or **Equalization Aid** for short (EA), provides additional funds to school districts in which a given tax rate on local property is unusually high. **Tax Effort Aid** (TA) provides additional funds to school districts in which revenue raised from property taxes exceeds 3 percent of adjust gross income. These aids are not intended to be specifically equalizing or disequalizing, but their effects on the inequality between districts is important, and in many cases Tax Effort and Equalization Aid have disequalizing effects.

This report finds that Equalization Aid and Tax Effort Aid act as poorly functioning regional cost aids. They are regional cost aids in the sense that most of the benefit of the two programs goes to districts in the two Long Island counties of Nassau and Suffolk. But they are poorly functioning because of the aid caps, which prevent poorer districts (those that are heavily dependent on state aid) from receiving the full amount of aid to which they are entitled. All of the figures below reflect the amount that districts are eligible for in terms of the aid formula, but keep in mind that many districts actually receive less because of the caps. Because Tax Effort and Equalization Aid are poorly functioning regional cost initiatives, this

report recommends replacing them with an outright regional cost factor.

The Fiscal Analysis Unit of the New York State Education Department provided data for this study. All data pertains to the 1999-2000 school year. To examine the effects of aid on inequality, this study ranks school districts from the wealthiest to the poorest in terms of their combined wealth ratio (CWR), and then groups the districts into quintiles each with approximately the same number of students. The first quintile is the wealthiest and the fifth quintile is the least wealthy. Most of the quintile figures in this study are simple averages.*

The five big cities with dependant school districts (Buffalo, New York, Rochester, Syracuse, and Yonkers) are treated separately in this report because of their size and because they are often treated separately by state law. Tax Effort and Equalization Aid tend to work to the disadvantage of the five big cities, while Extraordinary Needs Aid (ENA) tends to work to their advantage. But, in most cases, ENA allocations are not enough to make up for the shortfall in the other two types of aid. All five of the big cities receive above-average levels of ENA, but none of them receive any Tax Effort Aid, and only Buffalo and Rochester receive Equalization Aid. New York City is ineligible to receive both Tax Effort and Equalization Aid by law. The average district receives \$467 per enrolled pupil in these three aids combined. New York, Yonkers, and Syracuse all receive between \$300 and \$400 total between

* A simple average is an unweighted average. That is it is an average in which all the districts in the quintile are equally weighted regardless of the number of pupils in each district.

these three aids (all of it ENA), while Rochester and Buffalo both receive more than \$800 total between the three types of aid (all of it ENA and Equalization).

The Affects on Inequality Among Independent School Districts

Extraordinary Needs Aid clearly has equalizing effects. Chart 1, “Per Pupil Extraordinary Needs Aid by Quintile” reveals the equalizing effects of ENA. The chart shows a smooth pattern with the poorer districts receiving more aid. The wealthiest quintile (quintile 1) receives the least amount of aid and the poorest quintile (quintile 5) receives the largest amount of aid. This is not true for the other Equalization and Tax Effort Aid.

Chart 1: Average Per Pupil Extraordinary Needs Aid by Quintile

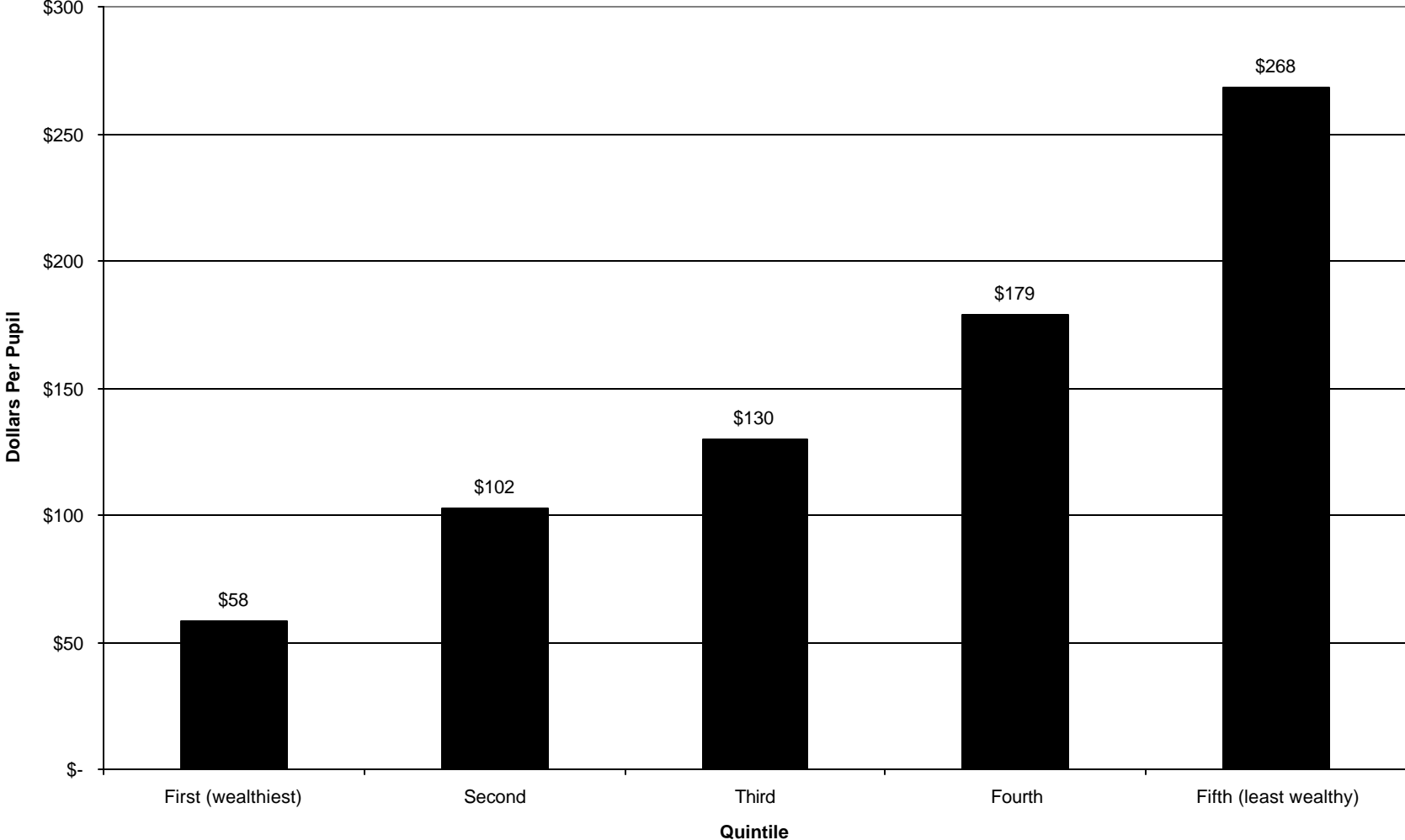


Chart 2, “Per Pupil Equalization Aid” shows that the largest share of this aid goes to districts in the middle quintile, with the second and fourth quintiles both receiving substantial amounts, and the first and fifth quintiles receiving substantially less. The fifth quintile is largely composed of rural school districts with relatively low tax rates. Most districts in the wealthiest quintile opt for the flat grant of \$400 per pupil in Operating Aid or are on “save harmless” funding and, thus, are not eligible to receive Equalization Aid. Among the districts that actually receive Equalization aid, it tends to be disequalizing.

Chart 2: Average Per Pupil Equallization Aid

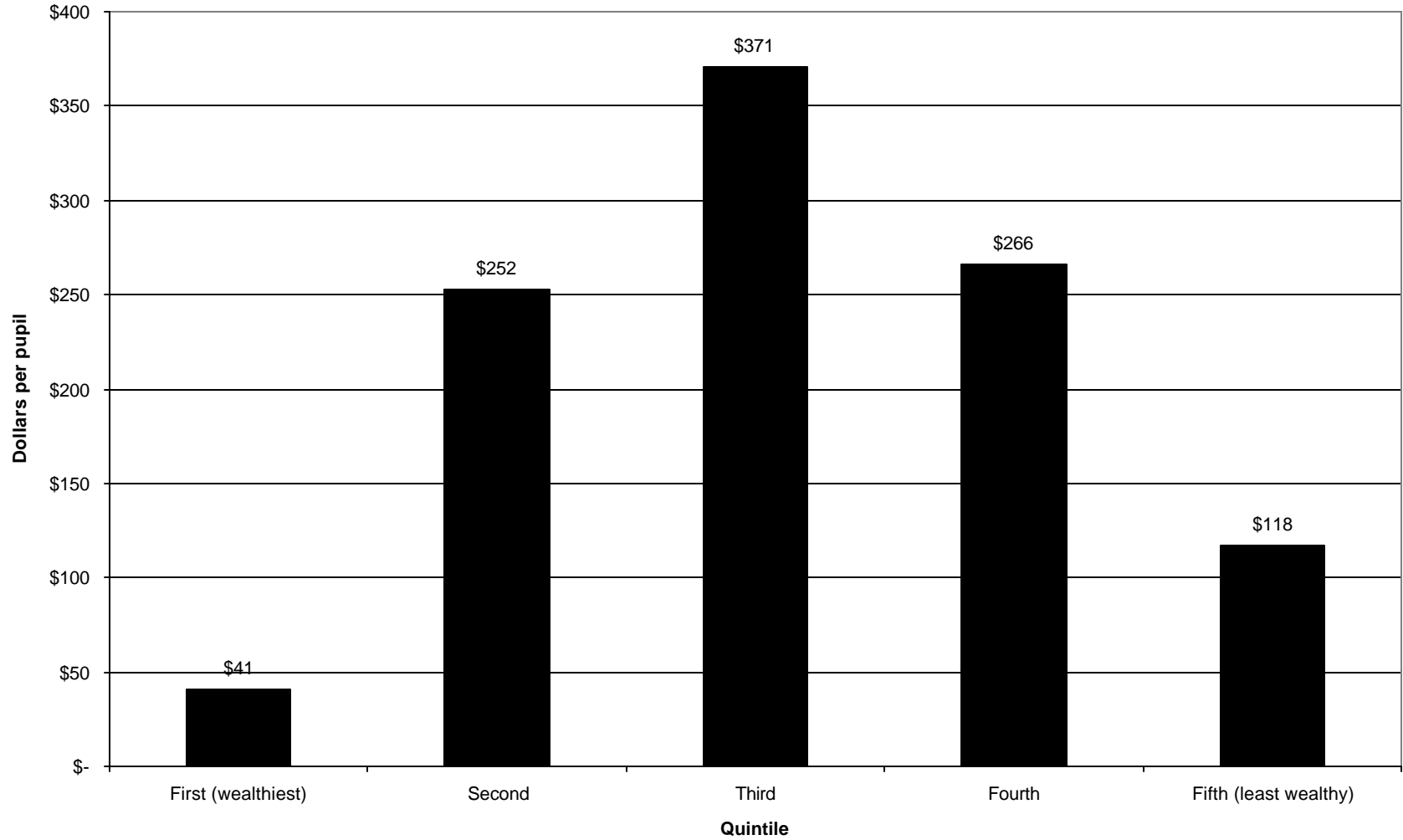


Chart 3, “Per Pupil Tax Effort Aid by Quintile” shows that Tax Effort is clearly not equalizing. The second quintile receives the most aid, the third slightly less and the fourth and fifth receive significantly less. The first (wealthiest) quintile receives very little Tax Effort Aid, because most of the districts in the first quintile receive “save harmless” funding or a \$400 per pupil flat grant in Operating Aid, instead of formula aid such as Tax Effort Aid. The fifth (least wealthy) quintile receives less because they are low spending. Thus, among the districts that actually receive Tax Effort Aid, it is disqualizing. Despite the fact that most first quintile districts receive “save harmless” or a flat grant instead of Tax Effort Aid, the fifth quintile actually receives less tax effort than the first quintile. Tax Effort Aid increases the difference between the bottom quintile and all other quintiles, and it tends to increase differences between districts that receive it.

Chart 3: Average Per Pupil Tax Effort Aid by Quintile

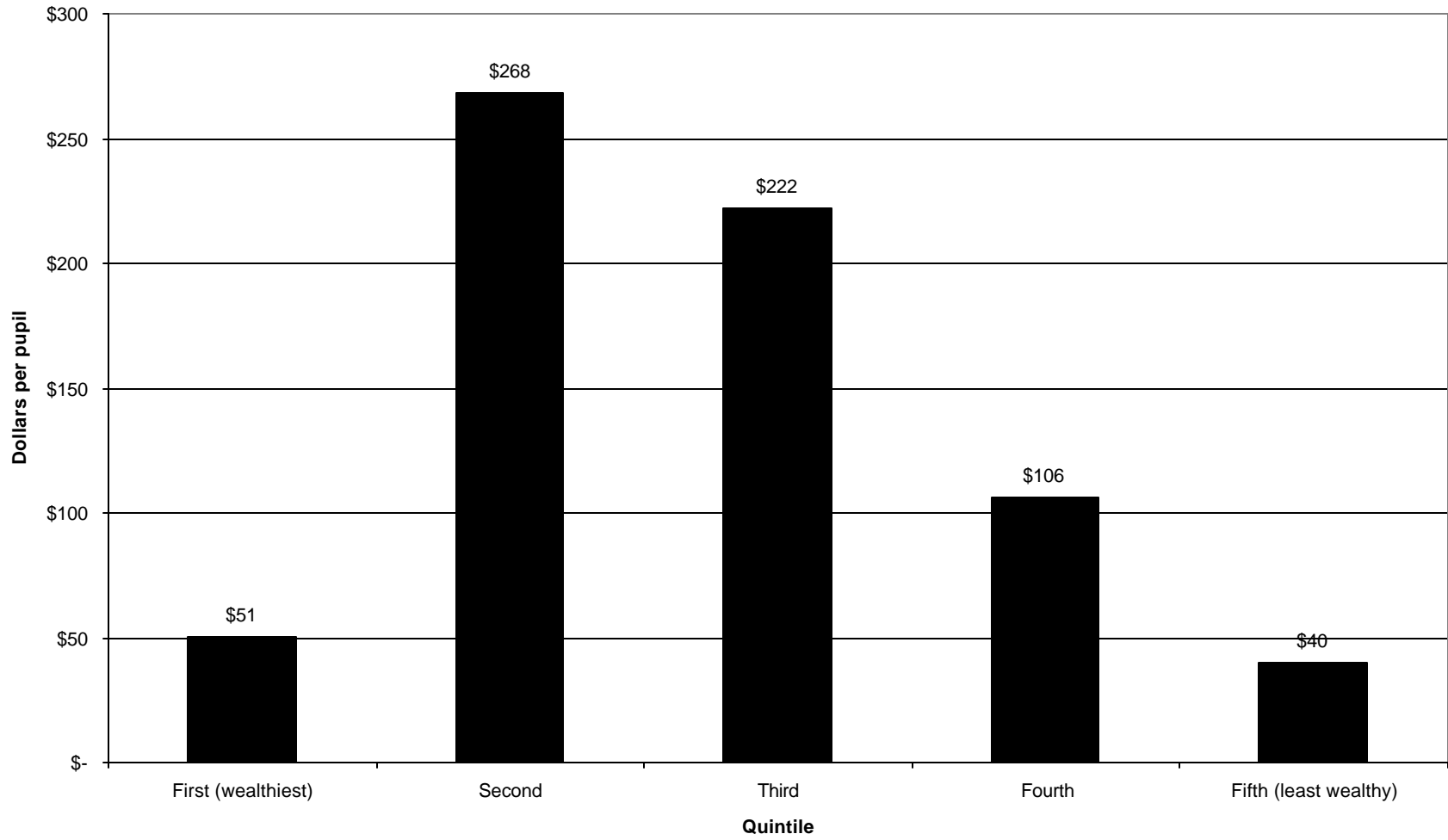
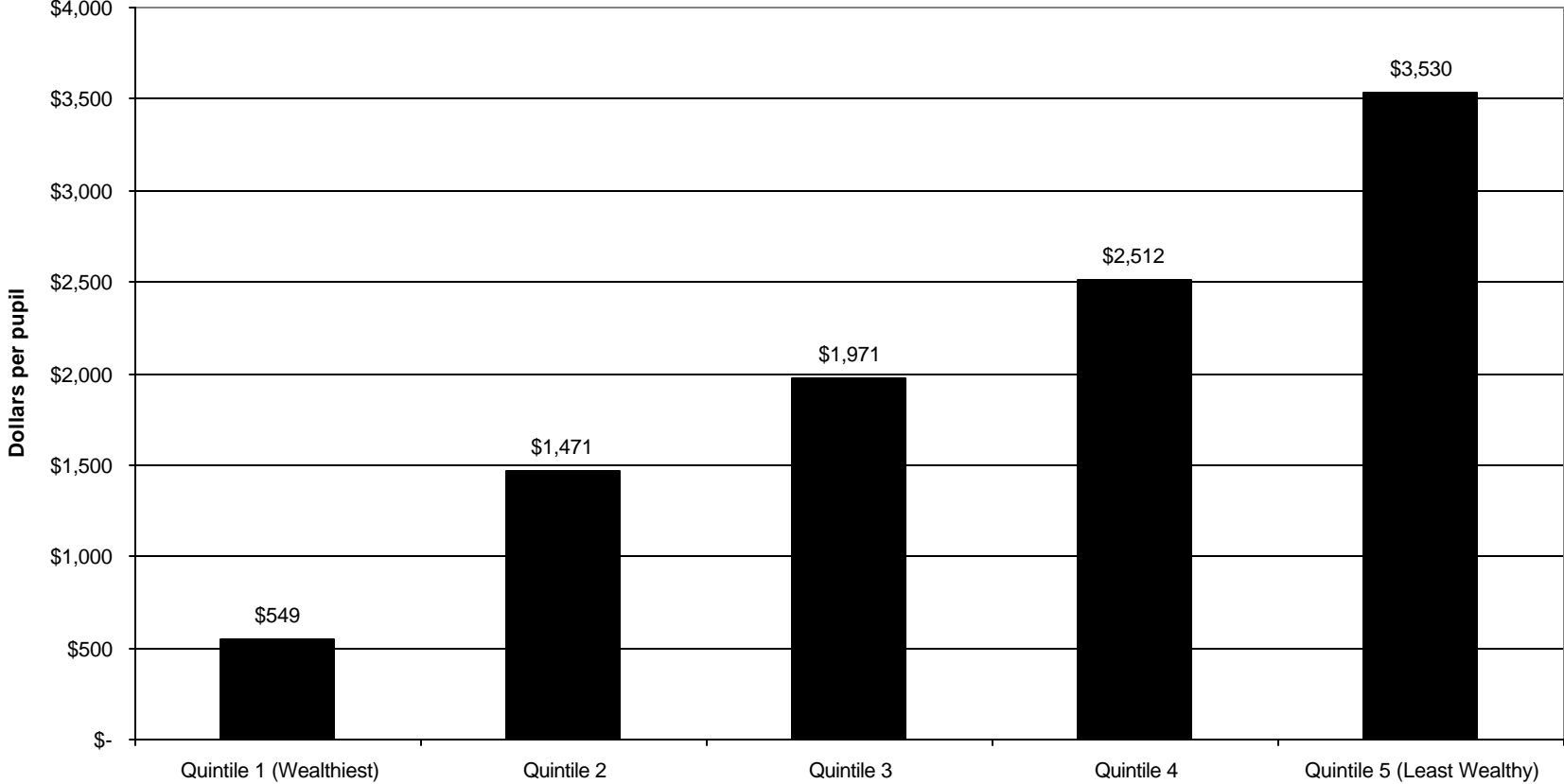


Chart 4, “Per pupil Operating Aid,” shows the primary form of state aid to each the five quintiles as a basis for comparison for the three forms of aid in this study. Notice that only Extraordinary Needs Aid follows the same pattern as Operating Aid, with the less wealthy districts receiving more aid than wealthier districts. Tax Effort and Equalization Aid clearly break the pattern.

Chart 4: Per Pupil Operating Aid, 1999-2000



Comparing Equalization and Tax Effort Aid to the taxes paid by districts rather than to the wealth of districts raises additional questions. Chart 5A, “Per pupil equalization aid and the tax rate,” is a scatter diagram comparing the level of Equalization Aid to the property tax rate. Chart 5B, “The relationship between Equalization Aid and the residential levy as a percentage of income,” compares the amount of money raised by property taxes on homes to the total income of the school district. This index is often considered to be a better measure of the actual tax burden of the people who live in a district. Charts 5A and 5B reveal that there is very little relationship between Equalization Aid and either of these two measures of how a district taxes itself. Charts 6 and 7 compare Tax Effort Aid to the same two measures of how heavily a district is taxed.

Chart 5A: Per pupil Equalization Aid and the tax rate

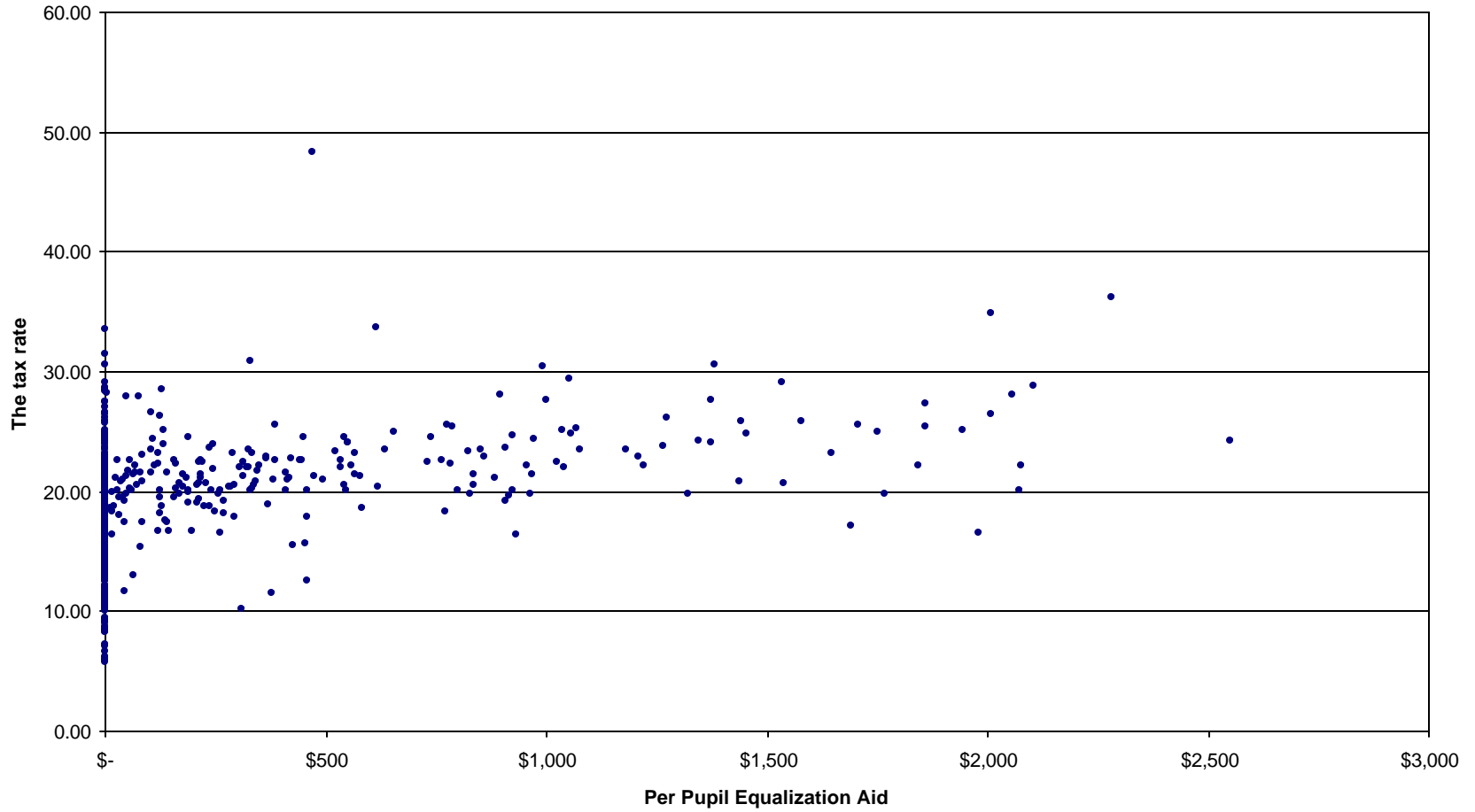


Chart 5B: The relationship between Equalization Aid and the residential levy as a percentage of income

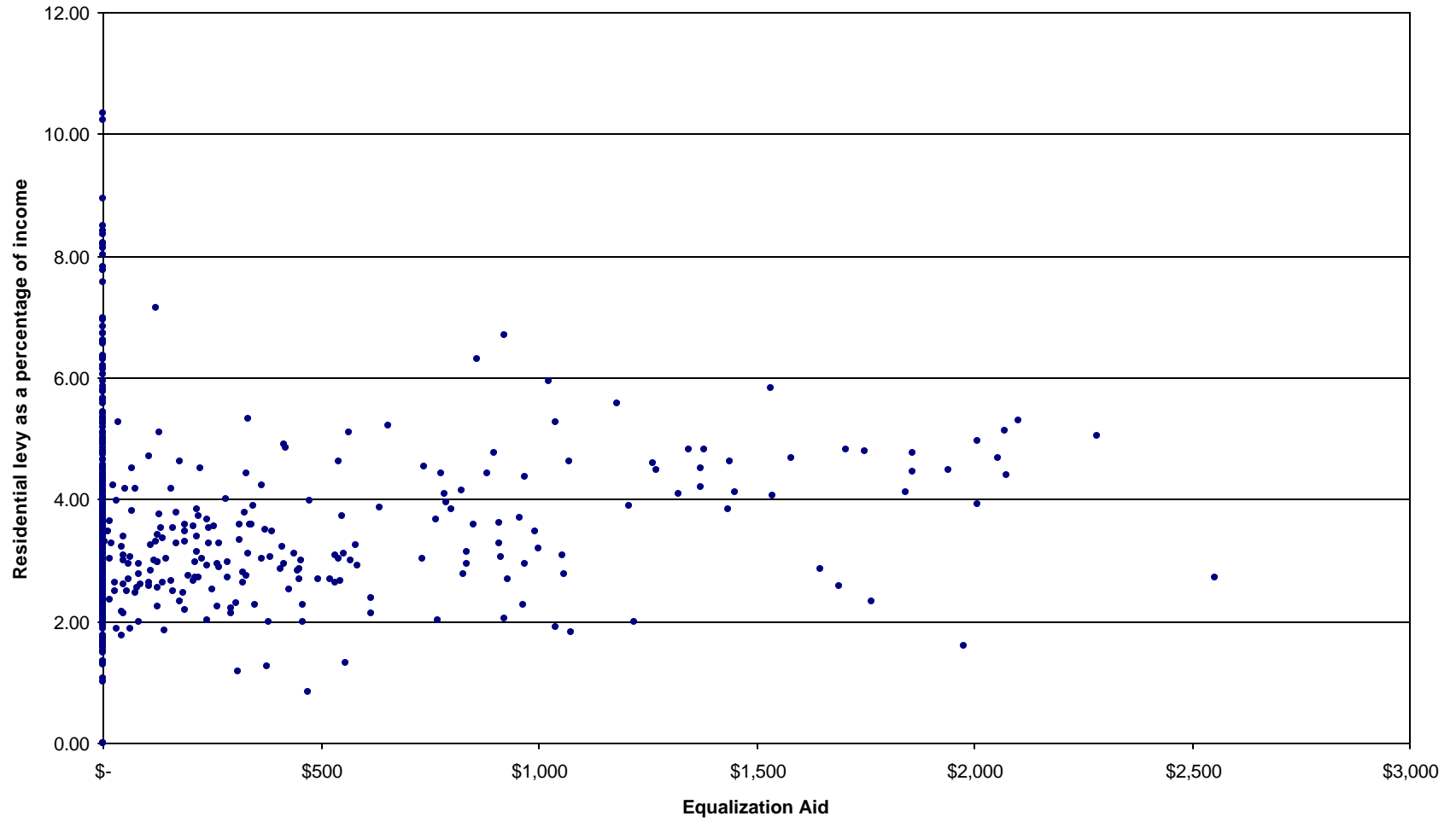


Chart 6, “Tax Effort Aid and the tax rate,” shows very little relationship between the two. Chart 7, on the other hand, shows a very distinct relationship between Tax Effort Aid and the residential levy as a percentage of district income. Although a substantial number of districts at all levels of the residential levy as a percentage of income receive no Tax Effort Aid (represented by the points along the vertical axis), among those that do receive Tax Effort Aid, it rises clearly with the tax levy.

Chart 6: Tax Effort Aid and the tax rate

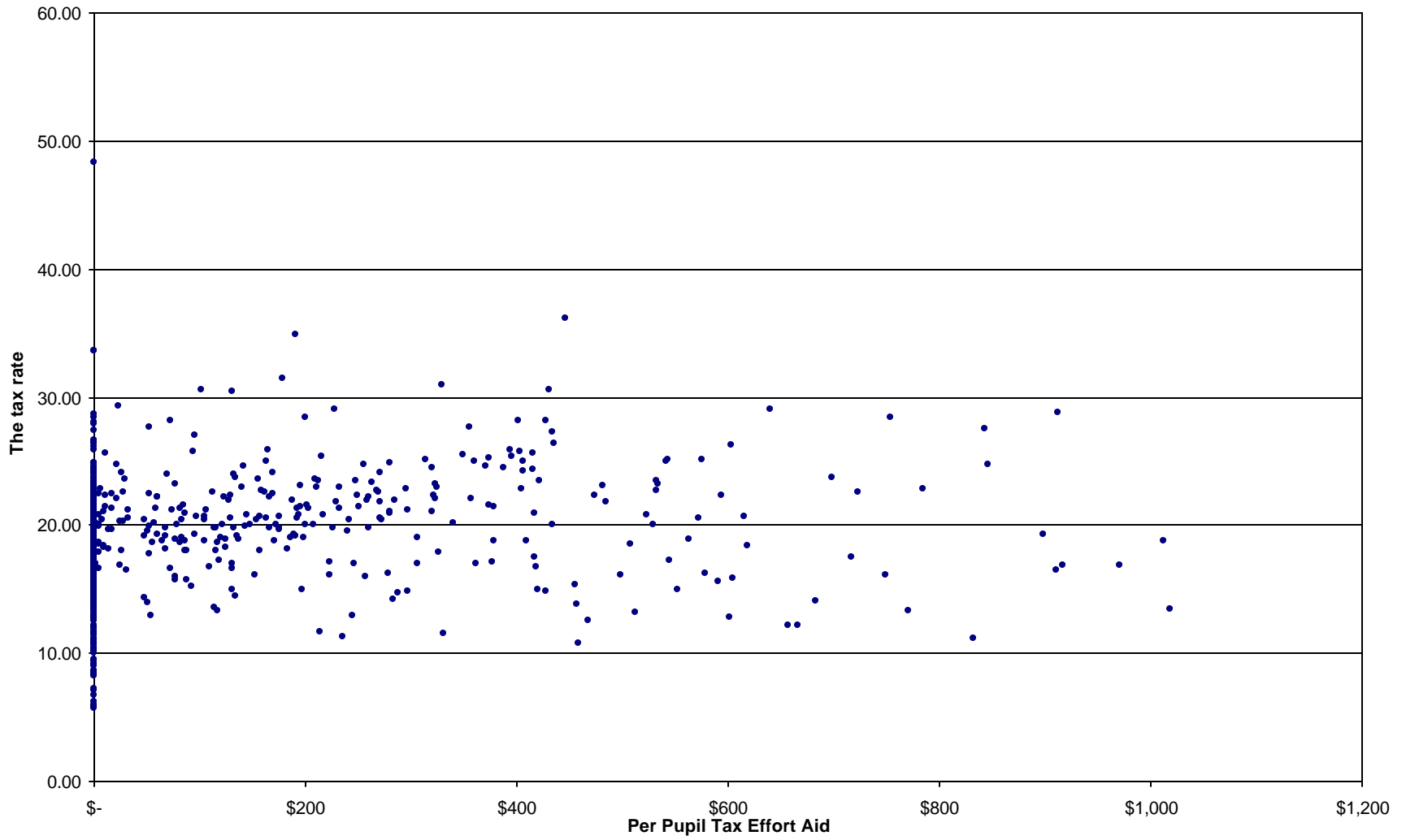
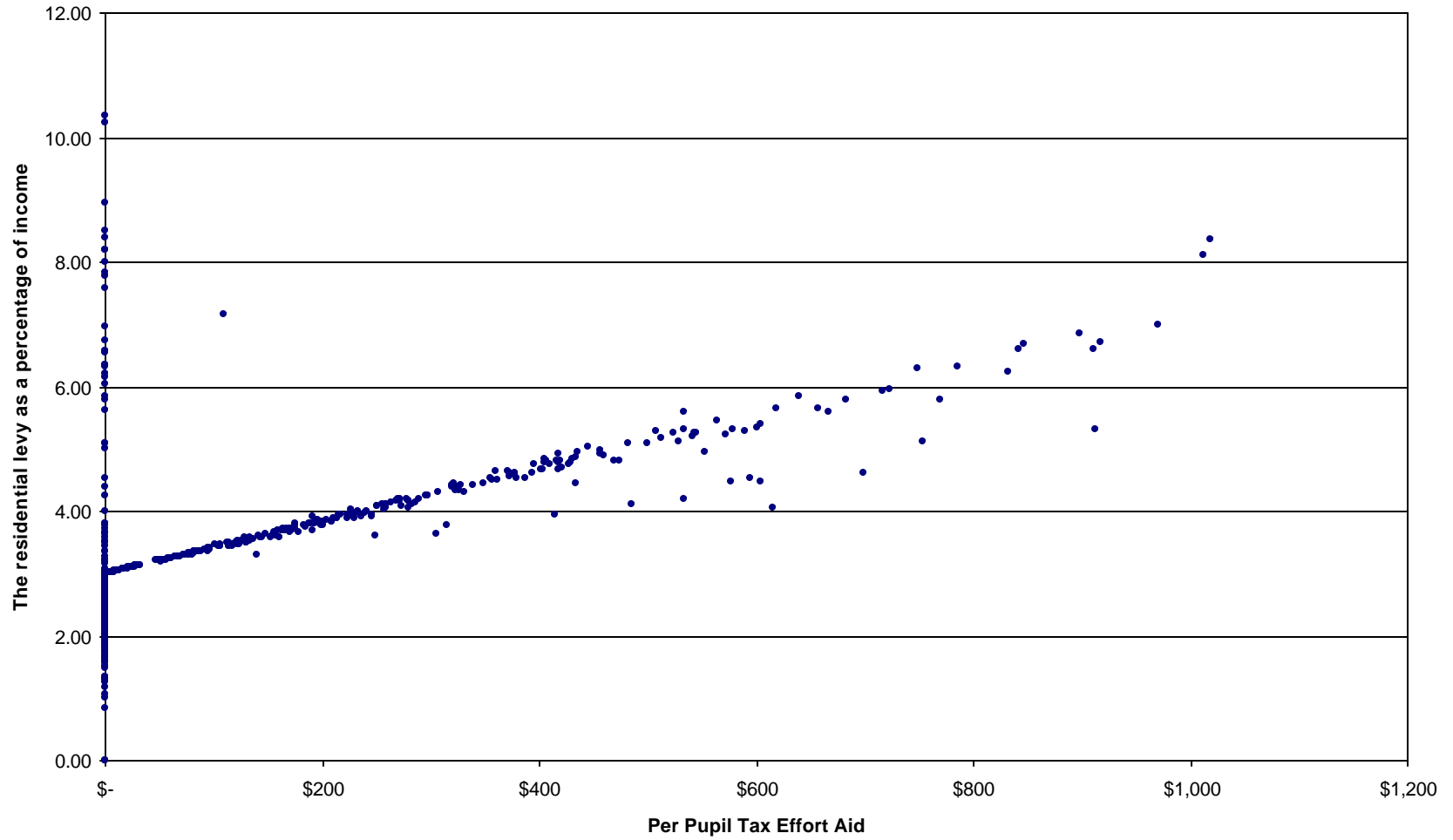


Chart 7: The relationship between Tax Effort aid & the residential levy as a percentage of income



Two Poorly Functioning Regional Cost Aids.

The geographical distribution of Equalization and Tax Effort Aid is more striking than the distribution of these types of aid in terms of wealth. Nassau and Suffolk counties receive substantially more of these two types of aid both in total and on average than other counties in the state. In fact, Nassau and Suffolk together receive most of the Tax Effort and Equalization Aid distributed to the entire state. This result comes despite the fact that many of the districts in Nassau and Suffolk receive the flat per pupil grant instead of Tax Effort or Equalization. Table 1 shows that the two Long Island[†] counties (Nassau and Suffolk) receive 58.79% of all Tax Effort Aid and 58.59% of all Equalization Aid distributed to the entire state. That is, although the two Long Island counties together have only 15% of the state's enrollment, they receive nearly 60% of all of the Tax Effort and Equalization Aid distributed to the entire state (See Charts 8 and 9). Even Westchester County, which has faced many of the same regional cost increases in property values, receives far less in Tax Effort and Equalization Aid than Nassau and Suffolk.

[†] This refers to Long Island excluding the parts of Long Island within the city limits of New York.

Table 1: The Geographical Distribution of total Tax Effort, Equalization, and Extraordinary Needs Aid

Region	CWR	Tax Effort Aid		Equalization Aid		Extraordinary Needs Aid		Enrolment	
	Simple Average	Total	Percentage of State Total	Total	Percentage of State Total	Total	Percentage of State Total	Total	Percentage of State Total
Westchester	2.33	\$3,390,915	1.74%	\$31,085,823	5.81%	\$5,037,576	0.76%	112,400	3.94%
Suffolk	2.71	\$75,651,120	38.78%	\$234,099,578	43.78%	\$23,209,653	3.49%	246,266	8.63%
Nassau	1.92	\$39,047,286	20.02%	\$79,188,173	14.81%	\$14,776,801	2.22%	185,276	6.49%
Long Island (Nassau and Suffolk)	2.36	\$114,698,406	58.79%	\$313,287,751	58.59%	\$37,986,454	5.71%	431,542	15.12%
State as a whole	1.17	\$195,087,470	100.00%	\$534,737,347	100.00%	\$665,053,258	100.00%	2,854,527	100.00%
State excluding Nassau and Suffolk	0.92	\$80,389,064	41.21%	\$221,449,596	41.41%	\$627,066,804	94.29%	2,422,985	84.88%

Chart 8: The geographical distribution of Tax Effort Aid

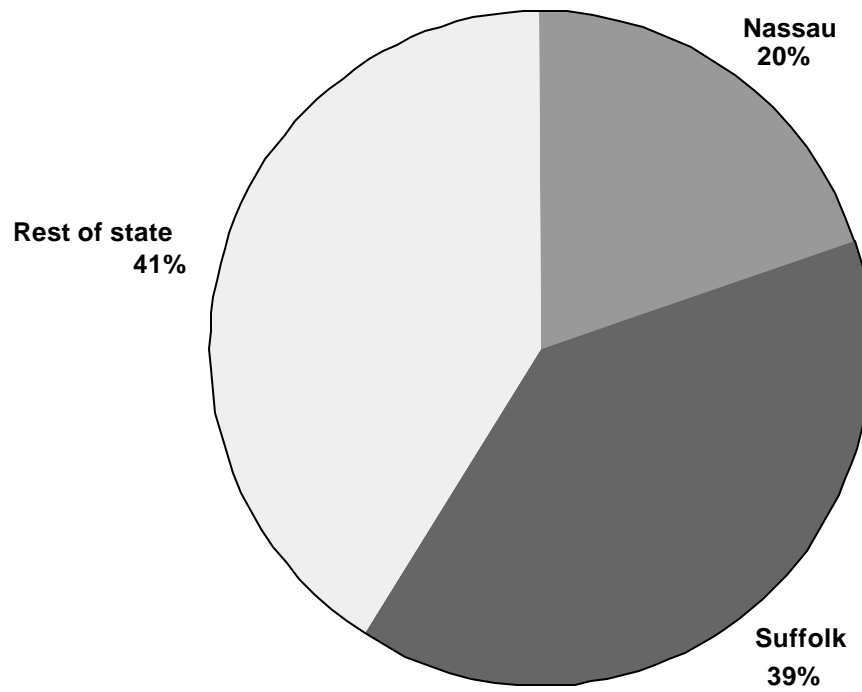
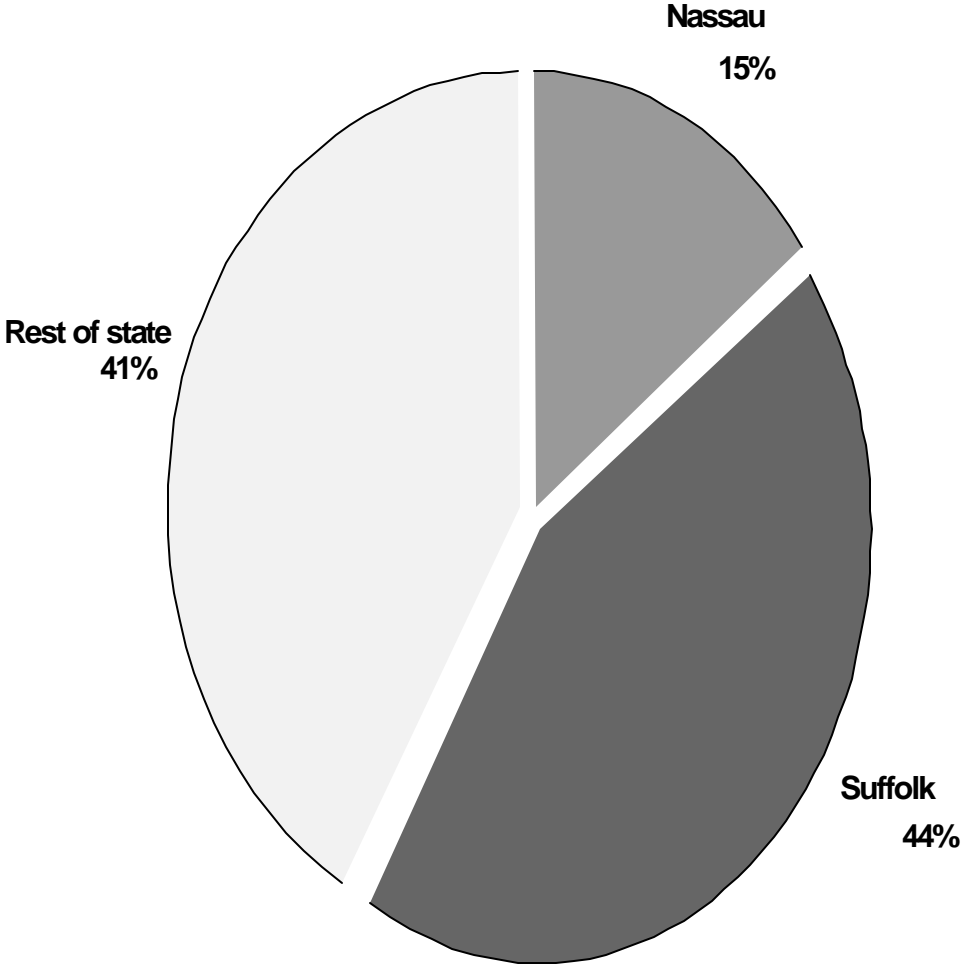


Chart 9: The geographical distribution of Equalization Aid



Tables 2 and 3 compare the levels of per pupil Tax Effort, Equalization, and Extraordinary Needs Aid received by Nassau and Suffolk counties to the average in the rest of the state. Table 2 uses simple average and table 3 uses a weighted average, but the results are similar. Both show that the per pupil amount of Tax Effort and Equalization Aid received by Long Island school districts greatly exceeds that received by a typical district in the rest of the state. Both the simple and the weighted average are equally legitimate measures of the center of the data. The simple average is more affected by the values of many smaller districts and the weighted average is more affect by a few larger districts. The weighted average can be thought of as the amount received by the typical student while the simple average can be thought of as the per pupil amount received by the typical district.

Table 2: The Geographical distribution of average per pupil Tax Effort and Equalization Aid (simple, unweighted average)

Region	CWR Simple average	Tax Effort Aid		Equalization Aid	
		Per pupil	Relative to the average in the rest of the state	Per pupil	Relative to the average in the rest of the state
Suffolk	2.71	\$234.18	259.21%	\$640.11	541.91%
Nassau	1.92	\$216.11	239.21%	\$354.24	299.90%
Rest of the State	0.92	\$90.34		\$118.12	

Table 3: The Geographical distribution of per pupil Tax Effort and Equalization Aid (weighted average)

Region	CWR Weighted average [‡]	Tax Effort Aid		Equalization Aid	
		Per pupil	Relative to the average in the rest of the state	Per pupil	Relative to the average in the rest of the state
Suffolk	1.24	\$307.19	925.90%	\$950.60	1040.09%
Nassau	1.80	\$210.75	635.22%	\$427.41	467.65%
Rest of the State	0.94	\$33.18		\$91.40	

[‡] The weighted average of CWR differs so much from the simple average because Long Island has a large number of small, very wealthy districts and a small number of larger less wealthy districts.

Chart 10 compares per pupil Tax Effort Aid in Nassau and Suffolk Counties to the rest of the state using weighted averages. As shown in Table 1, Nassau receives more than six times and Suffolk receives more than nine times the average level of per pupil Tax Effort Aid in the rest of the state.

Chart 10: Per pupil Tax Effort Aid in Nassau and Suffolk Counties (Weighted Average)

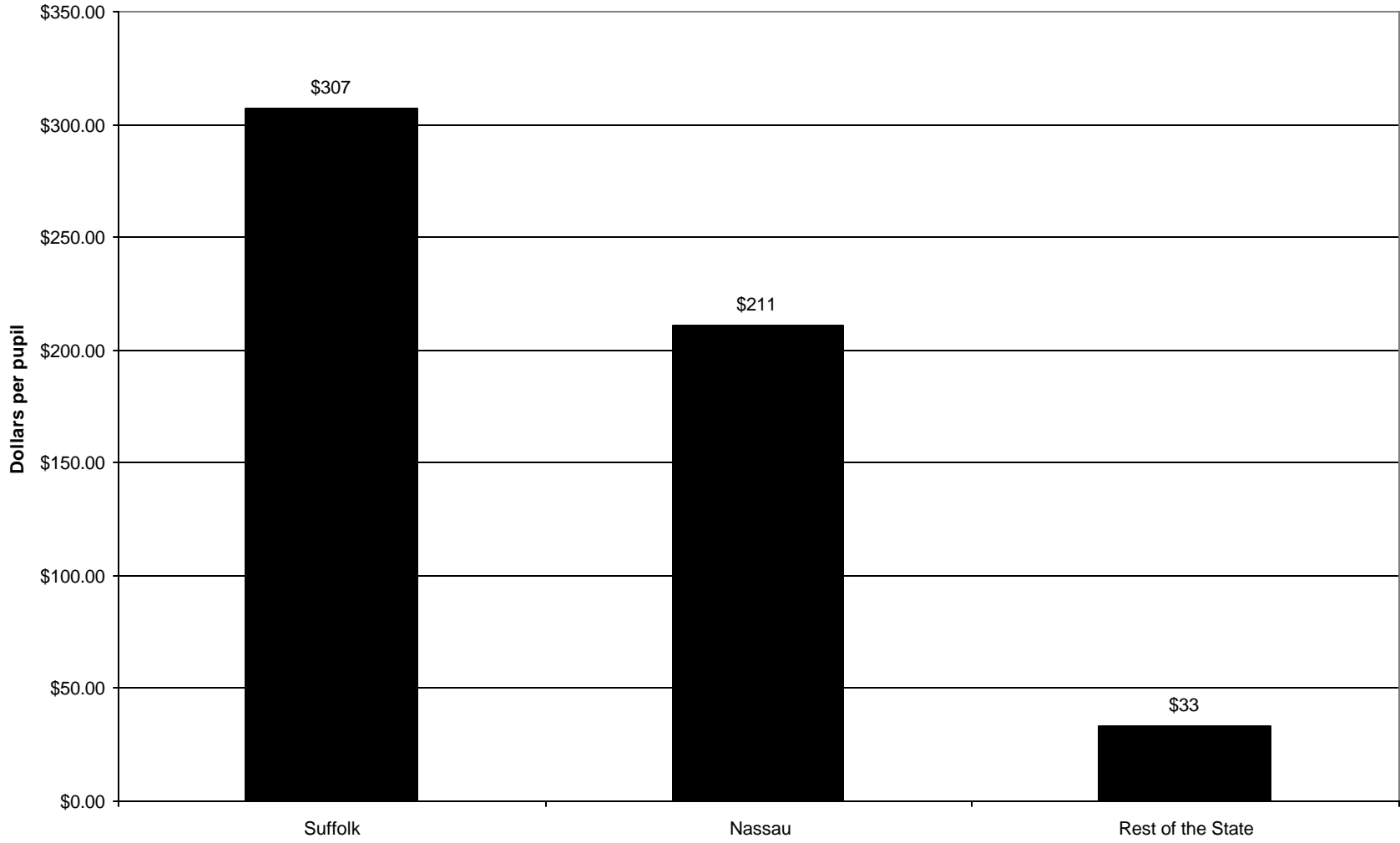
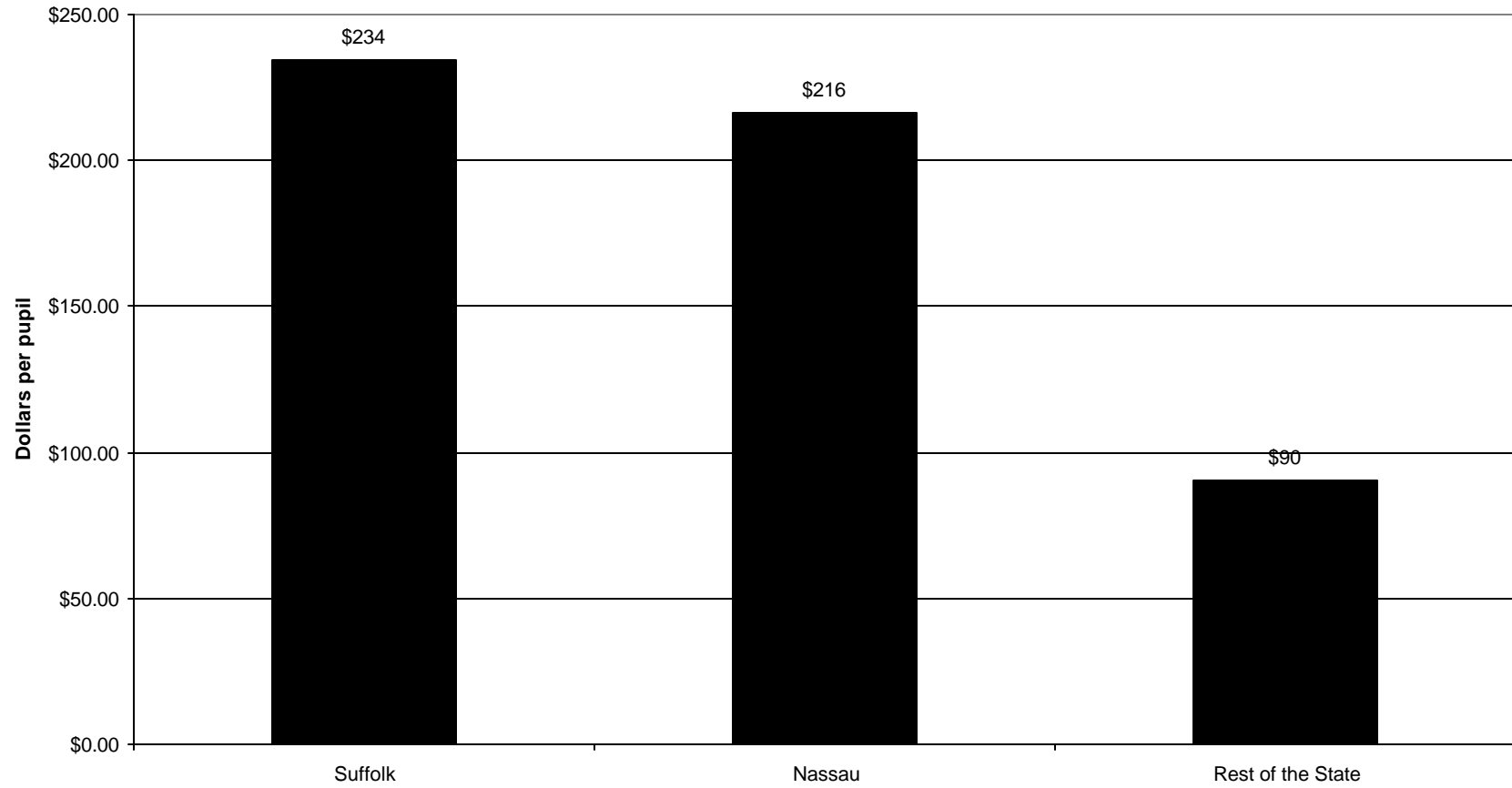


Chart 11 presents the same comparison using a simple average. Here the differences are not as extreme, but are still quite striking. As Table 2 shows, the typical district in both Nassau and Suffolk Counties receive well more than twice as much Tax Effort Aid per pupil than the typical district in the rest of the state.

Chart 11: Per pupil Tax Effort Aid, simple (unweighted) average



Charts 12 and 13 make the same comparison for Equalization Aid. As show in Table 3 and Chart 12, using a weighted average Nassau County receives close to five times the level of per pupil Equalization aid than the rest of the state, while Suffolk receives more than 10 times the average for the rest of the state.

Chart 12: Per pupil Equalization Aid in Nassau and Suffolk Counties, weighted average

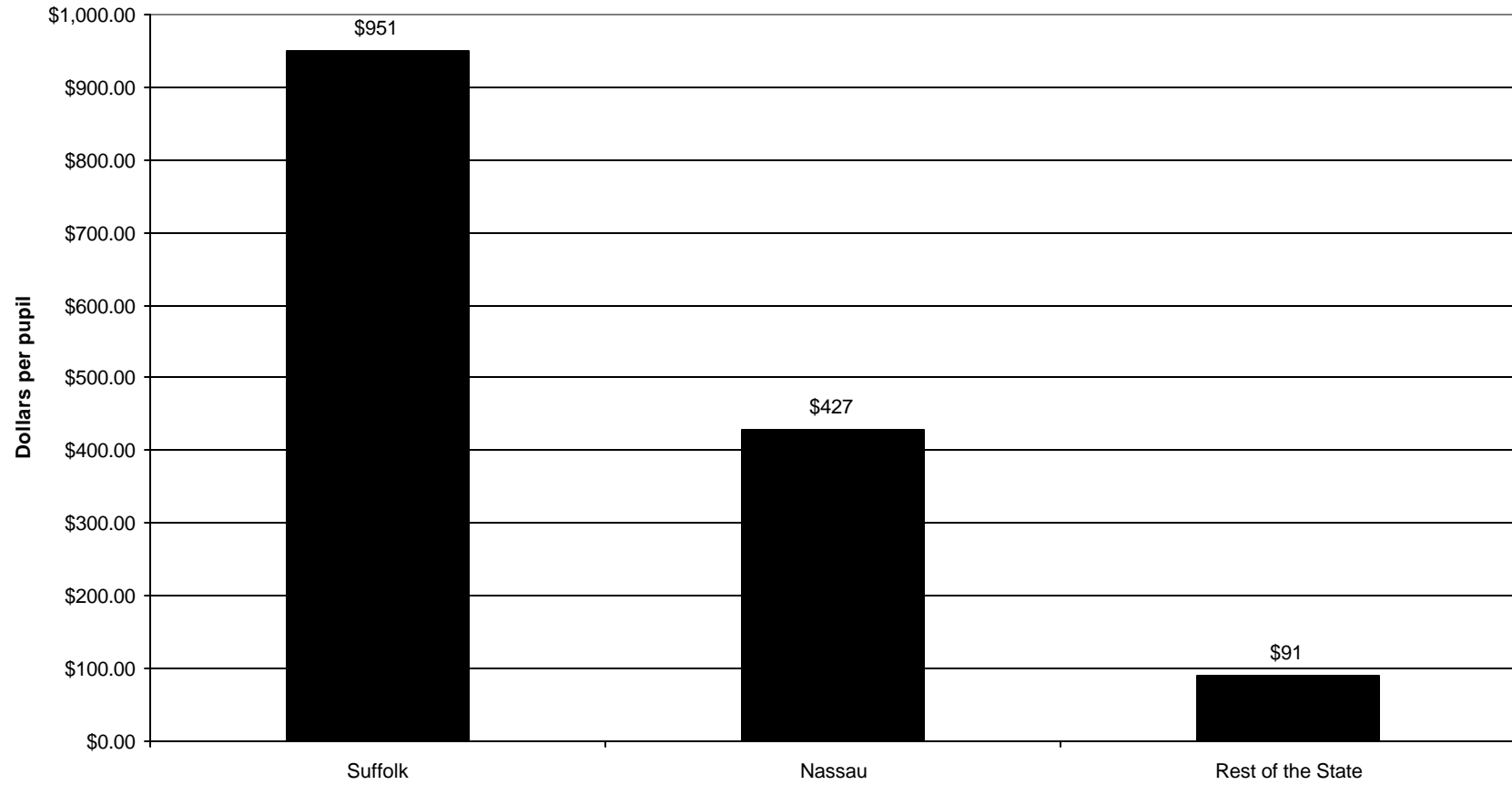
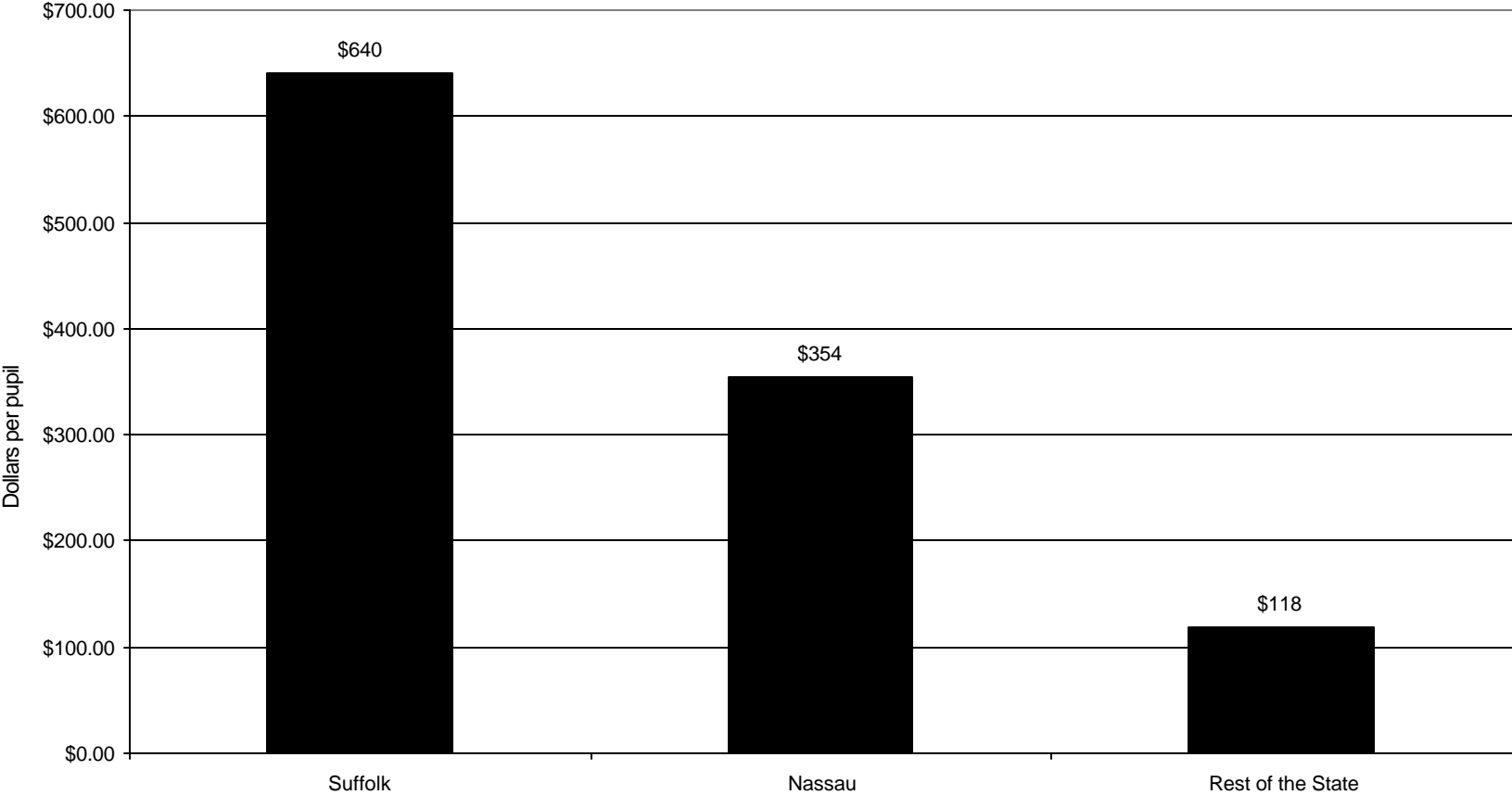


Chart 13, compares average per pupil Equalization Aid in Nassau and Suffolk Counties to the average in the rest of the state using a simple (unweighted) average. As table 2 shows, Nassau county receives almost 3 times the level of per pupil equalization as the rest of the state and Suffolk receives more than five times the level of the rest of the state.

Chart 13: Per pupil Equalization Aid, simple (unweighted) average



Conclusion

From the above figures one can conclude that the major effects of Equalization and Tax Effort is to aid districts in Nassau and Suffolk Counties. The two counties together receive the majority of all Tax Effort and Equalization Aid distributed to the entire state. Both counties have had increased property values and costs, and therefore both have some legitimate claim to need aid. However, they are not the only counties in the state that have faced increased costs and the neediest districts in these counties are not receiving the full value of aid because of the aid caps. A poor district that already receives a high level of state aid may be eligible for a large amount of Tax Effort or Equalization Aid, but may not receive it because it has already reached it's aid cap. Meanwhile, a wealthier district nearby may be eligible for a similar amount of Tax Effort or Equalization Aid and will receive its full value because its aid is below the cap. Thus, the disparity between the districts will increase.

Replacing Tax Effort and Equalization Aid with a regional cost aid and eliminating caps on aid could make the state school system more equitable and more rational.