

## **An Analysis of Two Educational Policy Changes in New York State: Performance Standards and Property Tax Relief**

**Abstract** - This paper examines two educational policy changes in New York State: performance standards, which are designed to boost performance, particularly in troubled districts; and school property tax relief, which is designed to offset the state's high property tax burden. Our analysis pays particular attention to variation in educational costs across districts and to school districts' responses to policy change.

A school district's performance can be moved toward a standard by improving the district's efficiency, increasing the district's property tax rate, or increasing the district's state aid. We find that raising efficiency up to the current "best-practice" level would not be sufficient to bring many districts up to even minimal performance standards. Moreover, without increases in aid or efficiency, many districts could not reach performance standards without a dramatic increase in their tax rate. In principle, a performance-based foundation aid system could help low-performing districts reach a standard. However, New York City currently receives so little aid, despite its relatively high costs and low wealth, that such an aid system would require a major shift of funds to the City and, without a significant increase in the state aid budget, would result in a significant decline in aid in all but the neediest districts. Moreover, even with performance-based foundation aid, significant performance improvements in large cities would require large increases in local property tax rates.

The School Tax Relief program, STAR, passed in 1997, provides a significant school tax reduction for homeowners through a new property tax exemption that is funded by the state. The initial STAR property tax savings create significant inequity across taxpayers. Moreover, they are skewed toward higher-wealth school districts, and therefore undermine the decades-long effort in New York State to make the school finance system more equitable. STAR also will have some unintended consequences. Because the homestead exemption results in a large drop in local voters share of any school property tax increase, it will result in higher school tax rates, and hence in higher taxes on commercial and industrial property, including rental housing. Some of these tax increases may be passed on to workers, consumers, and renters. The tax-freeze aid provision in STAR involves far too little funding to prevent this from happening. Moreover, the STAR-induced property tax increases will boost the cost of the program to the state to about \$2.8 billion per year, which is 25 percent above the official estimate. The paper concludes with a set of recommendations to eliminate these problems with STAR.

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