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FOR IMMEDIATE RELEASE

Studies Show Tax Caps Undermine Special Education

ALBANY, N.Y., August 18, 2008 — Tax caps have had a devastating impact on the delivery of special-education services for school districts across the country, inflating costs and reducing access for children in need, according to a national briefing paper released today by the New York State United Teachers.

The paper, written by the American Federation of Teachers, cites numerous studies that focus on the impact tax caps have had on education in other states. The findings include larger class sizes, lower test scores and a decline in education quality. School districts with increasing special-education enrollment have been hit particularly hard as they are left struggling to find ways to meet the costs associated with educating students with disabilities.

Those costs include — but are not limited to — providing special-ed students with access to mainstream classrooms, occupational and physical therapists, speech and reading specialists and teaching assistants.

“At a time when students with disabilities in New York are succeeding and meeting the same rigorous Regents requirements as their non-disabled peers, it would be nothing short of immoral to derail their progress by passing an election-year gimmick that would only harm our public-education system and fail to bring any meaningful tax relief to New Yorkers,” said NYSUT President Richard C. Iannuzzi.

“The special-education services my son receives play an essential role in his education,” said Gulcan Yalniz, an Albany resident whose child is enrolled in the Albany City School District. “A loss in the resources necessary to pay for these services would put him at an increased disadvantage and hurt his ability to perform. He should have the same opportunity to succeed as every other child attending public school.”

NYSUT — which is steadfastly opposed to the tax cap proposed by Gov. David Paterson — has argued the legislation would jeopardize New York’s ability to close the achievement gap between poor and wealthy schools, and leave districts operating under fiscal constraints that ultimately would result in cuts to staff, programs and special-education services. Instead, NYSUT has been calling on lawmakers to pass a “circuit breaker,” which would use a sliding scale to base property taxes on a household’s income and ability to pay.

“We have seen, firsthand, that with the right resources — including small classes — we not only can raise the bar for children with disabilities, but we can see them clear that bar,” Iannuzzi said. “Gov. Paterson and the state Legislature should be acting to help even more students achieve rather than debating wrong-headed policies that would only place additional obstacles in our children’s way.”

The state Senate passed Paterson’s proposed cap on Aug. 8. The state Assembly has not voted on the bill.

“State lawmakers must not turn their backs on our most vulnerable students for the sake of political expedience,” said NYSUT Executive Vice President Alan B. Lubin. “The Legislature must keep its promise and ensure that our schools are provided the necessary funding and resources so that all of our children have the same chance to succeed.”

NYSUT, the state’s largest union, represents some 600,000 classroom teachers and other school employees; faculty and other professionals at the state’s community colleges, State University of New York and City University of New York, and other education and health professionals. NYSUT is affiliated with the American Federation of Teachers, National Education Association and AFL-CIO.



Tax Limitations for Special Education in New York State AFT Research and Information Services

The following is an analysis of the implications of tax limitations for special education finance and services in New York State. There are two studies with very different approaches that look at this question and they are reviewed here. There is also much larger research base on the overall effects of tax and expenditure limits that are broadly of the type being proposed in New York. These studies clearly have ramifications for special education as well. This memo lays out the sum of these research findings and provides appropriate citations to studies regarding effects on budgets, school quality, student achievement and special education services. Note that there are a handful of researchers who have specialized in this question, so there are multiple works by a small number of authors.

Budgetary effects of tax limitations

The research is clear that limitations on local governments' ability to raise revenue cause them, in fact, to have less revenue compared to other local governments. For example, a study of over one-thousand municipalities found that imposition of tax and expenditure limitations led to a significant reduction in the growth rate of revenue for public services.¹ A study of a property tax cap in Illinois that only affected some jurisdictions found lower revenues in these districts when compared to the rest of the state.² A national study and one focused on Oregon districts by David Figlio both found evidence of budgetary constraint.³ While none of this should be a surprise, the fact that there's no free lunch often gets obscured in our political debates.

Research also indicates that state aid does not make up for lost revenues in a comprehensive fashion.⁴ Instead, the property tax is used to partially fill the gaps created by state cutbacks in tough times. During the state fiscal crisis of 2001-03, for example, local property tax increases were able to make up 23 percent of state budget cuts nationwide.⁵ This raises the question of the wisdom of imposing a revenue cap at the same time that New York State is entering another rough fiscal patch.

Most importantly, the budgetary harm created by tax limits is likely to be greatest in communities that are poorest. For example, Daniel Mullins found "the implications are that TELs [tax and expenditure limits] are most constraining on the ability of governments serving economically less prosperous and

¹ Preston, Anne and Casey Ichniowski. 1992. "A National Perspective on the Nature and Effects of the Local Property Tax Revolt: 1976-1986." *National Tax Journal* 44 No. 1 (March, 1992): 123-45.

² Dye, Richard and Therese McGuire. 1997. "The Effect of Property Tax Limitation Measures on Local Government Fiscal Behavior." *Journal of Public Economics*. Volume 66, Issue 3, 1 December 1997, Pages 469-487.

³ Figlio, David. 1997. "Did the 'Tax Revolt' Reduce School Performance?" *Journal of Public Economics*. "Short-Term Effects of a 1990s-Era Tax Limit: Panel Evidence on Oregon's Measure 5." *National Tax Journal*.

⁴ Vigdor, Jacob L. 2004. "Median Voters, Marginal Residents, and Property Tax Limitations"
<http://trinity.aas.duke.edu/~jvigdor/mvmrtl.pdf>.

⁵ Dye, Richard and Andrew Reschovsky. 2008. Property Tax Responses to State Aid Cuts in the Recent Fiscal Crisis. *Public Budgeting & Finance*. Vol. 28, Issue 2, pp. 87-111, Summer 2008 .

at-risk populations to meet public service needs.”⁶ Similarly, findings from Oregon indicate that local tax restrictions have led to a major increase in user fees. These fees hit poorer families at a greater rate than they do the wealthy.⁷

Achievement effects of tax limitations

Schools in jurisdictions with tax limitations have poorer student achievement, all else being equal, than school districts that do not have such limitations. For example, a study of the impact of Proposition 2½ in Massachusetts found evidence of decreased test scores.⁸ A study comparing Chicago area counties that received tax limits to other Illinois counties found a small but statistically significant affect on math scores, although not on reading.⁹

The finding is even more clear in national level analyses. Figlio’s national study, using school level data from 49 states, found that limitations are associated with lower student performance on mathematics, science, social studies and reading exams.¹⁰ Subsequent research by Figlio and Tom Downes, using the National Educational Longitudinal Study and other data, found that the passage of limitations led to a lowering of math scores. This analysis had the benefit of being able to look at states both before and after the imposition of the limitation. Again, this harmful effect was most pronounced in school districts that had lower spending prior to the imposition of the limitation.¹¹

School-quality effects of tax limitations

The research into the student achievement effects of tax and expenditure limitations also focuses on how these limits affect school inputs, particularly pupil-teacher ratio and teacher quality. Both studies by David Figlio that are referenced in the proceeding section find that the imposition of tax limitations are associated with higher pupil-teacher ratio. In “Did the ‘Tax Revolt’ Reduce School Performance?” for example, it was shown that adoption of a tax or spending limit was associated with a 6.4 percent increase in the pupil-teacher ratio.¹² Moreover, the evidence indicated that this effect grew over time. In “Short-Term Effects of a 1990s-Era Tax Limit” Figlio found that Oregon’s pupil-teacher ratio was 6

⁶ Mullins, Daniel. 2004. Tax and Expenditure Limitations and the Fiscal Response of Local Government: Asymmetric Intra-Local Fiscal Effects Public Budgeting & Finance. Volume 24 Issue 4, Pages 111 – 147.

⁷ Thompson, Fred and Mark Green. 2004. Vox Populi? Oregon Tax and Expenditure Limitation Initiatives Public Budgeting & Finance Volume 24 Issue 4, Pages 73 – 87.

⁸ Shadbegian, Ronald J. and Robert T. Jones. Did Proposition 2 1/2 affect local public education in Massachusetts? Evidence from panel data Global Business and Economics Review. Volume 7, Number 4 / 2005363 – 380. Note that Shadbegian and Jones find that Prop 2 1/2 did not lead to a reduction in school revenues. This is likely because townships had the option of protecting schools at the expense of other services, as well as because of generous increases in state aid. However, the affect of Prop 2 ½ on other services such as housing, health and public safety may have had an indirect effect on student achievement. For this argument see Richard Rothstein’s Class and Schools.

⁹ Thomas A. Downes, Richard F. Dye, and Therese J. McGuire, “Do Limits Matter? Evidence on the Effects of Tax Limitations on Student Performance,” *Journal of Urban Economics*. Vol. 43 (1998), pp. 401-417.

¹⁰ Figlio, David. 1998. “Did the ‘Tax Revolt’ Reduce School Performance?” *Journal of Public Economics*. Volume 65, Issue 3, September 1997, Pages 245-269.

¹¹ Downs, Thomas and David Figlio. 1997. “School Finance Reforms, Tax Limits, and Student Performance: Do Reforms Level Up or Dumb Down?” See also <http://www.ssc.wisc.edu/irpweb/publications/dps/pdfs/dp114297.pdf>.

¹² Figlio, David N. 1997. “Short-Term Effects of a 1990s-Era Tax Limit: Panel Evidence on Oregon’s Measure 5.” *National Tax Journal*.

percent lower than neighboring Washington state's before the passage of Oregon's tax limitation. Five years later, Oregon's pupil-teacher ratio was 2 percent higher than Washington's.

Another Figlio study, this time co-authored with Kim Rueben, uses data from the National Center for Education Statistics to show that "tax limits systematically reduce the average quality of education majors, as well as new public school teachers in states that have passed these limits." It also shows that "The average relative test scores of education majors in tax limit states declined by ten percent as compared to the relative test scores of education majors in states that did not pass limits."¹³

Special education effects of tax limitations

An analysis, by the Institute for Wisconsin's Future, of school district revenue limitations in that state found that school districts with increasing special education enrollment had particular cost problems. Spending limits made it difficult for districts to fill in the gap between rising costs and inadequate growth in state aid¹⁴ This study differs from others here in that it relied on a series of public forums to create a narrative about the effect of the revenue limit. There is a section on special education that includes a number of quotes from educators and parents. This one quote from a parent is particularly telling:

"Our children require specialists—special needs teachers, speech pathologists, occupational and physical therapists—and teaching assistants to help them stay in an 'inclusive' classroom. This requires a lot more money than regular curriculum. The additional money that the state pays is not nearly enough. In our district alone, the number of children enrolled in special needs programs has doubled in the past two years. My daughter has lost access to several regular classrooms. She asked me if this is happening because I forgot to give her a good brain when I made her."
—Kelly Hurda, Bayside special needs parent.

A more technically sophisticated analysis by Julie Cullen and David Figlio looked at the question of how tax limits affect special education enrollment. They found that budgetary pressures led districts to systematically identify children for special education at a higher rate. They find that the effect is harmful to the quality of the special education services received by students. Here is a quote from a National Bureau of Economic Research summary of their study:

As fiscal incentives to classify marginal students increase, the relative quality of learning-disabled classes appears to decline in school districts in states with binding tax limits, whereas it improves for districts in other states. This may be evidence that constrained districts behave strategically by reassigning students to special education for fiscal gain.¹⁵

¹³ David Figlio and Kim Rueben. 2001. "Tax Limits and the Qualifications of New Teachers." *Journal of Public Economics*. Vol. 80: 49-71.

¹⁴ Institute of Wisconsin's Future. 2001. "Are School Revenue Limits Limiting Learning?" <http://www.wisconsinsfuture.org/publications/education/RevLimits.pdf>.

¹⁵ Cullen, Julie and David N. Figlio, 1998, "Local Gaming of State School Finance Policies: How Effective are Intergovernmental Incentives?" University of Michigan and University of Florida.

Final thoughts

The conclusion from the research is pretty clear. Tax limits work in that they do constrain the resources going to schools. This leads to larger classes, less qualified teachers and lower test scores. They also put particular pressure on special education programs. The net effect is a lower quality educational experience for all students.