



# County of Erie

JOEL A. GIAMBRA  
COUNTY EXECUTIVE

DIVISION OF BUDGET, MANAGEMENT AND FINANCE

JAMES M. HARTMAN  
DIRECTOR

August 18, 2007

TO: Joel A. Giambra, County Executive  
FROM: James M. Hartman, Budget Director  
SUBJECT: REVISION OF 3% SALES TAX FORMULA

This memo summarizes our proposal to revise the current Erie County formula for sharing the first 3% of our sales tax revenue. The specific change being proposed relates to the County's sales tax assistance to school districts. We are recommending a new method of assisting our school districts that will maximize their potential for STAR aid from the State, protect local school district taxpayers, and, simultaneously, allow the County to retain a significant portion of sales tax revenue now being provided for schools.

## 1. Current System

Under the current Erie County Sales Tax Distribution Agreement – last revised in 1977 – the County provides 29% of revenue from the permanent 3% sales tax rate to school districts. In 2004-05, the most recent school fiscal year with audited statements, we distributed \$108.6 million to the County's 32 school districts. Significantly, Erie is one of only five counties in New York State to provide sales tax revenue to school districts. Our distribution is significantly more generous than the other four counties – as seen below – and double that of Monroe, the second highest county.

	<u>Sales tax distributed to districts</u>	<u>% of total sales tax</u>
ERIE	\$108,652,414	21.6%
MONROE	55,878,130	14.4%
WESTCHESTER	36,699,180	8.9%
ONANDAGA	12,236,730	5.4%
WAYNE	5,400,000	18.4%

2. Impact on STAR Aid (See explanatory schedules)

In 1997, the State Legislature created the School Tax Relief (STAR) program to reduce the burden of local school property taxes. Under this program, all homeowners receive a \$30,000 reduction in assessed value of their home for purposes of school taxation. Senior citizens with incomes under \$60,000 receive a \$50,000 reduction. This STAR exemption lowers the effective school tax rate on these homeowners. The State then provides aid to the school districts to compensate for the lost property tax revenue from these exemptions. In 2004-05, Erie County school districts received \$131.3 million of STAR aid.

Significantly, however, the high level of sales tax revenue provided by Erie County is actually lowering the potential amount of STAR aid that our school districts receive. This problem is demonstrated using the example of the Orchard Park school district in its 2004-05 year. Orchard Park had a school tax levy of \$34.4 million – with STAR aid of \$5.4 million – making for a net levy of \$29.0 million. The County provided \$4.2 million of sales tax revenue. Without that revenue, the property tax levy would have been \$38.6 million – and the STAR aid would have been \$6.0 million. Thus, Orchard Park was deprived of over \$600,000 of potential STAR aid.

As seen in the attached schedules, the aggregate impact of this example across all Erie County school districts is enormous. Our calculations show that by providing \$108.6 million of sales tax revenue we lost out on \$24.4 million of potential STAR aid from the State.

3. Proposed Revision to School Aid Program (See explanatory schedules)

To correct the problem identified above, we propose the following changes to how the County provides financial assistance to the school districts.

- We would eliminate the current sales tax revenue sharing program. Thus, using the 2004-05 numbers to illustrate, the school districts would be compelled to raise their official property tax levies by the \$108.6 million amount.
- The higher levies would then attract \$24.4 million of additional STAR aid.
- To hold the school districts “financially harmless”, the County would provide the difference of \$84.2 million to the districts in form of a tax credit that would be applied to the school tax bill of all residential and commercial property tax owners. The attached memo from Joseph Maciejewski, our County Director of Real Property Services, describes how the provision of this credit would work administratively. Our approach has been reviewed and confirmed, as seen from the attached letter from the NYS Office of Real Property Services. Our program would be officially named the Erie STAR Credit.
- The County would then retain \$24.4 million of sales tax revenue for our own budgetary needs.

#### 4. Implementation Steps

The attached memo from James Tuppen, Assistant County Attorney, describes the legal steps required to enact the new program as described above.

1. Secure agreement for the change from the County Legislature and the cities of Buffalo, Tonawanda, and Lackawanna – the four parties subject to the existing sales tax agreement.
2. Have the County Legislature submit a “home rule” request to the State Legislature for approval of the special Erie County tax credit for school aid purposes.
3. Notify the school districts of the pending change in time for implementation in their 2007-08 fiscal years.

#### 5. Impact on School Districts

As explained, our intention is to avoid any negative budget impact on the school districts. In place of the current revenue-sharing agreement, the Erie STAR Credit Program will be created as part of County law and will be protected from year-to-year fluctuations that may exist in the County budget process. (See Tuppen memo). The amount of the Erie STAR credit to each school district will increase annually at the percentage rate of sales tax revenue growth. Payments to school districts will be made quarterly – the same as with the current revenue-sharing agreement.

#### 6. Benefit to School Taxpayers

The attached August 17 article in the *Buffalo News* describes the program of State rebates to school taxpayers enacted for 2006 – and planned for continuation in future years. The size of the rebate is determined by the official tax rate in each school district. Our proposed change in the method of school assistance will raise the official tax rate in each district – even though the tax credit will negate the impact on individual homeowners. However, our change will increase the amount of the State rebate in each school district because of the higher official tax rate. The estimated impact of this change is shown on the attached table. For the Standard Rebate, the Erie County average is now \$160 – but would grow to \$195. For the Senior Citizen Rebate, the current county average is \$267 – but would grow to \$326. These higher rebates to taxpayers are a compelling extra benefit of our proposed new program.

#### 7. Summary

The program proposed in this memo has major advantages to Erie County and its taxpayers. It maximizes the levels of STAR aid available to our communities while still “holding harmless” the budgets of the school districts. It allows the County to retain a significant portion of the sales tax revenue for our own budgetary needs. Although calculated using 2004 financial statements, we estimate the \$24.4 million will have grown about 3% annually to reach \$26.7 million when it would be available to assist the County fiscal 2008 budget.

One other potential benefit. Elliot Spitzer, the leading candidate for Governor, has a detailed, specific proposal that would increase the size of the STAR program by about two-thirds. Should he be elected, and his proposals be enacted, the negative effect of our current system of Erie County sales tax sharing would be compounded. Conversely, adoption of the changes outlined above would mean a potential financial benefit to the County of over \$40 million. The Spitzer proposal to expand STAR is attached.

**Summary Table**

**Proposed Change in Erie County Financial Assistance to School Districts**

	SALES TAX REVENUE	COUNTY CREDIT TO SCHOOL DISTRICTS	RETAINED COUNTY REVENUE
BUFFALO	\$31,654,133	\$23,717,025	\$7,937,108
LACKAWANNA	1,711,142	1,384,898	326,244
TONAWANDA	1,819,600	1,219,168	600,432
ALDEN	1,615,382	1,204,493	410,889
AKRON	1,207,996	874,187	333,809
AMHERST	2,448,806	1,900,497	548,309
WILLIAMSVILLE	8,584,813	7,249,547	1,335,266
SWEET HOME	3,020,444	2,606,190	414,254
EAST AURORA	1,606,927	1,358,277	248,650
CHEEKTOWAGA	1,887,453	1,545,096	342,357
CHEEKTOWAGA MARYVALE	1,981,903	1,452,747	529,156
DEPEW	1,845,150	1,379,071	466,079
CHEEKTOWAGA SLOAN	1,202,681	795,758	406,923
CLARENCE	4,013,245	3,496,703	516,542
SPRINGVILLE GRIFFITH	1,855,061	1,447,100	407,961
EDEN	1,479,917	1,173,195	306,722
IROQUOIS	2,372,787	1,975,409	397,378
NORTH COLLINS	565,271	431,152	134,119
LAKESHORE	2,499,284	1,842,369	656,915
GOWANDA	624,896	471,169	153,727
GRAND ISLAND	2,526,244	2,068,842	457,402
HAMBURG	3,198,474	2,560,159	638,315
FRONTIER	4,386,772	3,498,724	888,048
LANCASTER	4,970,949	3,913,645	1,057,304
ORCHARD PARK	4,186,794	3,531,443	655,351
KENMORE TONAWANNA	7,029,115	4,991,237	2,037,878
WEST SENECA	5,870,210	4,331,447	1,538,763
HOLLAND	956,147	764,994	191,153
YORKSHIRE	221,852	182,242	39,610
CLEVELAND HILL	1,308,966	868,567	440,399
<b>TOTALS</b>	<b>\$108,652,414</b>	<b>\$84,235,351</b>	<b>\$24,417,063</b>

Note: Calculation based upon the 2004-2005 school year. See attached tables for detail by school district.

**Proposed Change in Erie County Financial Assistance to School Districts**

	BUFFALO	LACKAWANNA	TONAWANDA	ALDEN	AKRON	AMHERST	WILLIAMSVILLE	SWEET HOME	EAST AURORA	CHEEKTOWAGA
<b>Current Method</b>										
Total Levy	68,733,056	6,139,999	8,863,116	9,962,716	4,895,566	23,703,278	80,872,279	25,338,382	14,414,499	17,634,440
STAR Revenue Offset	17,234,454	1,170,643	2,924,851	2,534,120	1,352,806	5,307,369	12,578,723	3,475,159	2,230,443	3,198,637
Net Levy	51,498,602	4,969,356	5,938,465	7,428,596	3,542,760	18,395,909	68,293,556	21,863,223	12,184,056	14,435,803
Percentage of Levy Reimbursed By STAR	25.07%	19.07%	33.00%	25.44%	27.63%	22.39%	15.55%	13.71%	15.47%	18.14%
Sales Tax Revenue Distributed	31,854,133	1,711,142	1,819,800	1,815,382	1,207,998	2,448,806	8,584,813	3,020,444	1,606,927	1,887,453
<b>Proposed Method Without Sales Tax</b>										
Increased Tax Levy	100,387,189	7,851,141	10,682,716	11,578,098	6,103,562	26,152,084	89,457,092	28,358,826	16,021,426	19,521,893
STAR Revenue Offset	25,171,562	1,496,887	3,525,083	2,945,009	1,686,615	5,855,678	13,913,989	3,889,413	2,479,093	3,540,994
Net Levy	75,215,627	6,354,254	7,157,633	8,633,089	4,416,947	20,296,406	75,543,103	24,469,413	13,542,333	15,980,899
Proposed County Tax Credit	23,717,025	1,384,898	1,219,168	1,204,493	874,187	1,900,497	7,249,547	2,806,190	1,358,277	1,545,096
Net Levy	51,498,602	4,969,356	5,938,465	7,428,596	3,542,760	18,395,909	68,293,556	21,863,223	12,184,056	14,435,803
Retained County Revenue	7,937,108	326,244	600,432	410,889	333,809	548,309	1,335,266	414,254	248,650	342,357

**Proposed Change in Erie County Financial Assistance to School Districts**

	MARYVALE	DEPEW	SLOAN	CLARENCE	SPRINGVILLE- GRIFFITH	EDEN	IROQUOIS	NORTH COLLINS	LAKESHORE	GOWANDA	GRAND ISLAND	HAMBURG	FRONTIER
<b>Current Method</b>													
Total Levy	13,208,973	14,035,336	10,198,966	30,490,098	11,007,090	7,803,047	14,993,177	3,430,812	12,546,968	1,815,300	20,362,835	20,028,565	24,339,000
STAR Revenue Offset	3,526,714	3,545,278	3,450,786	3,924,363	2,420,658	1,617,228	2,510,955	814,013	3,297,863	446,572	3,686,897	3,997,074	4,927,133
Net Levy	9,682,259	10,490,058	6,748,180	26,565,735	8,586,432	6,185,819	12,482,222	2,616,799	9,249,105	1,368,728	16,675,938	16,031,491	19,411,867
Percentage of Levy Reimbursed By STAR	26.70%	25.26%	33.83%	12.87%	21.99%	20.73%	16.75%	23.73%	26.28%	24.60%	18.11%	19.96%	20.24%
Sales Tax Revenue Distributed	1,981,903	1,845,150	1,202,681	4,013,245	1,855,061	1,479,917	2,372,787	565,271	2,499,284	624,896	2,526,244	3,198,474	4,366,772
<b>Proposed Method Without Sales Tax</b>													
Increased Tax Levy	15,190,876	15,880,486	11,401,647	34,503,343	12,862,151	9,282,964	17,365,964	3,996,083	15,046,252	2,440,196	22,889,079	23,227,039	28,725,772
STAR Revenue Offset	4,055,870	4,011,357	3,857,709	4,440,905	2,828,819	1,923,950	2,908,333	948,132	3,954,778	600,299	4,144,299	4,635,389	5,815,181
Net Levy	11,135,006	11,869,129	7,543,938	30,062,438	10,033,332	7,359,014	14,457,631	3,047,951	11,091,474	1,839,897	18,744,780	18,591,650	22,910,591
Proposed County Tax Credit	1,452,747	1,379,071	795,758	3,496,703	1,447,100	1,173,195	1,975,409	431,152	1,842,369	471,169	2,068,842	2,560,159	3,496,724
Net Levy	9,682,259	10,490,058	6,748,180	26,565,735	8,586,432	6,185,819	12,482,222	2,616,799	9,249,105	1,368,728	16,675,938	16,031,491	19,411,867
Retained County Revenue	529,156	486,079	406,923	516,542	407,961	306,722	397,378	134,119	656,915	153,727	457,402	638,315	888,048

**Proposed Change in Erie County Financial Assistance to School Districts**

	LANCASTER	ORCHARD PARK	KEN TON	WEST SENECA	HOLLAND	YORKSHIRE	CLEVELAND HILL	TOTALS
<b>Current Method</b>								
Total Levy	30,233,463	34,439,770	54,379,765	38,749,451	4,774,443	1,026,824	8,673,167	617,094,381
STAR Revenue Offset	6,430,558	5,390,798	15,765,758	10,157,427	954,508	183,333	2,918,073	131,972,990
Net Levy	23,802,905	29,048,974	38,614,009	28,592,024	3,819,935	843,491	5,755,094	485,121,391
Percentage of Levy Reimbursed By STAR	21.27%	15.65%	28.99%	26.21%	19.99%	17.85%	33.84%	
Sales Tax Revenue Distributed	4,970,949	4,186,794	7,029,115	5,870,210	956,147	221,852	1,308,966	108,652,414
<b>Proposed Method Without Sales Tax</b>								
Increased Tax Levy	35,204,412	38,626,564	61,408,880	44,619,661	5,730,590	1,248,676	9,982,133	725,746,795
STAR Revenue Offset	7,487,862	6,046,147	17,803,634	11,696,190	1,145,661	222,943	3,358,472	156,390,055
Net Levy	27,716,550	32,580,417	43,605,246	32,923,471	4,584,929	1,025,733	6,623,661	569,356,740
Proposed County Tax Credit	3,913,645	3,531,443	4,991,237	4,331,447	764,994	182,242	868,567	84,235,351
Net Levy	23,802,905	29,048,974	38,614,009	28,592,024	3,819,935	843,491	5,755,094	485,121,391
Retained County Revenue	1,057,304	655,351	2,037,878	1,538,763	191,153	39,610	440,399	24,417,063