



# TESTIMONY

## *Impact of the Governor's 2012-13 Proposed State Budget on Schools*

Senate Finance Committee and  
Assembly Committee on Ways and Means

January 23, 2012

### ***Chairman De Francisco, Chairman Farrell, and other Members of the Senate and Assembly:***

I am Robert Lowry, Deputy Director of the Council of School Superintendents. Thank you for this opportunity to discuss the impact of Governor Cuomo's proposed 2012-13 budget on the state's public schools.

First, we are grateful for the action you and the Governor took last month to ensure the state has the revenues to follow through on the \$805 million School Aid increase provided for in the two-year appropriation enacted in the current budget. The proposed budget would give schools a better starting point than in any of the past three years.

#### **I. LOOKING BACK – HOW SCHOOLS HAVE COME THROUGH THE PAST THREE YEARS**

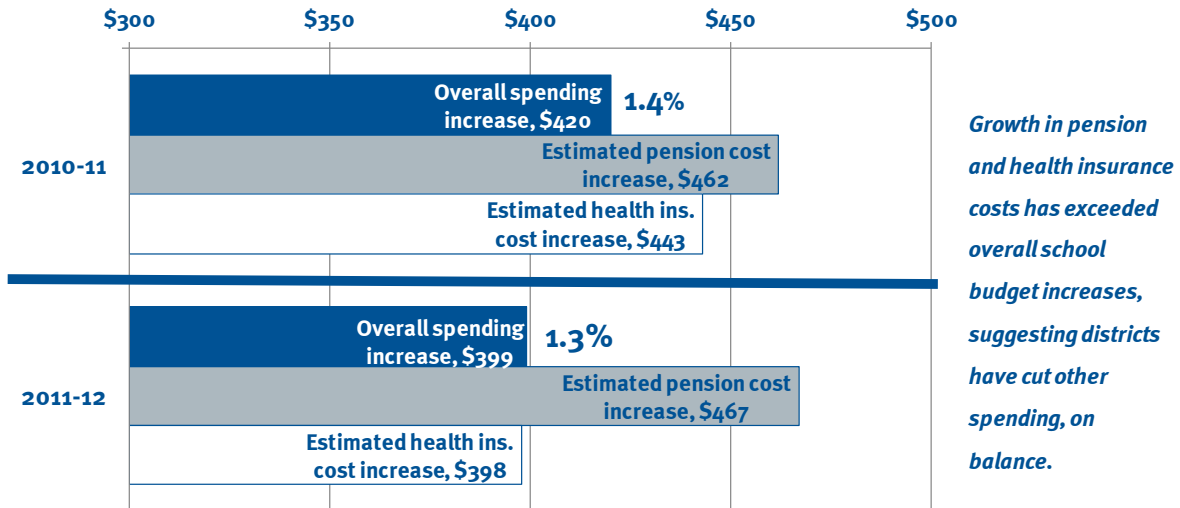
I want to begin by speaking for a few minutes about how schools have come through these past three years – two years in which School Aid was cut, preceded by one year (2009-10), in which most aid was frozen.

Despite your efforts to limit the harm to schools arising from the state's own fiscal challenges, 90 percent of all the school districts are getting less state aid than they were three years ago. Leave out Building Aid – reimbursement for capital expenditures –and only two districts are getting as much help from the state as they were in 2008-09.

At the same time, schools have had to absorb surging pension costs over the past two years, as retirement systems adjusted contribution rates to recover investment losses from the 2008 stock market collapse.

Our estimates are that in each of the last two years, increases in pension and health insurance costs alone exceeded average *total* spending increases. This indicates that districts typically cut *all other* spending, on balance, in order to absorb these costs and hold down local tax increases.

**Comparing overall spending with pension and health insurance costs  
(amounts in millions)**

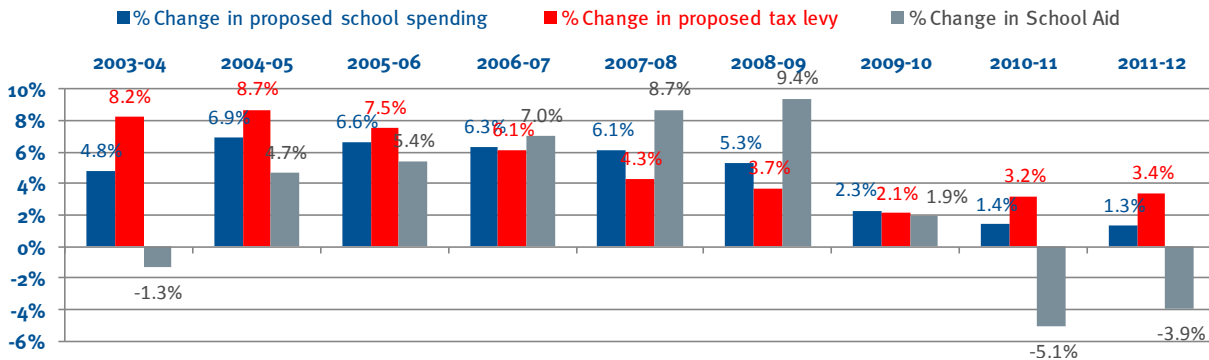


**SOURCE:** Council analysis of NYSED Property Tax Report Card data, State Comptroller expenditure data, and cost factors from the NYS Division of the Budget and NYS Teacher Retirement System.

It is striking to contrast the last two years with 2003-04, the last year state aid was cut. That year schools faced surging pension costs, as they are now. They asked local voters to approve tax increases averaging over 8 percent.

In contrast, faced with bigger aid cuts in the last two years, district leaders asked their local voters to approve budgets with tax increases averaging just over 3 percent. They held proposed spending increases to an average of 1.4 percent last year, and 1.3 percent this year.

**Percent change in district spending, tax levy and state aid, 2003-04 -- 2011-12  
Big 5 Cities not included**



**SOURCE:** Council analysis of NYSED Property Tax Report Card and School Aid data; Education Jobs Fund allocations not included in state aid

Cuts in state aid nearly always hurt the poorest districts most, even when the cuts are designed to soften their impact on those school systems.

First, these communities have the most limited capacity to replace lost state aid through local tax increases. In 20 percent of the state's districts, a 1 percent tax increase raises less than \$50,000 – less than what it might take to pay salary and benefits to save the job of one young teacher. Second, they have less to cut, since they typically have more limited resources to start.

This year for example, while the average district asked voters for a 1.3 percent spending increase, the poorest 20 percent of districts held their spending flat. They faced the same pension and health insurance increases as other districts. So they had to cut other spending more deeply than their counterparts and, again, they typically had more limited programs to start.

**2011-12 School Budgets: Poorest districts held spending flat**

	State Aid Change	Tax Levy Change	Spending Change
Poorest 20%	-2.4%	3.1%	0.1%
Next 20%	-4.4%	3.8%	0.4%
Middle 20%	-4.2%	3.4%	0.7%
Next 20%	-4.3%	3.9%	1.8%
Wealthiest 20%	-4.7%	2.9%	2.2%
<b>State Average</b>	<b>-3.9%</b>	<b>3.4%</b>	<b>1.3%</b>

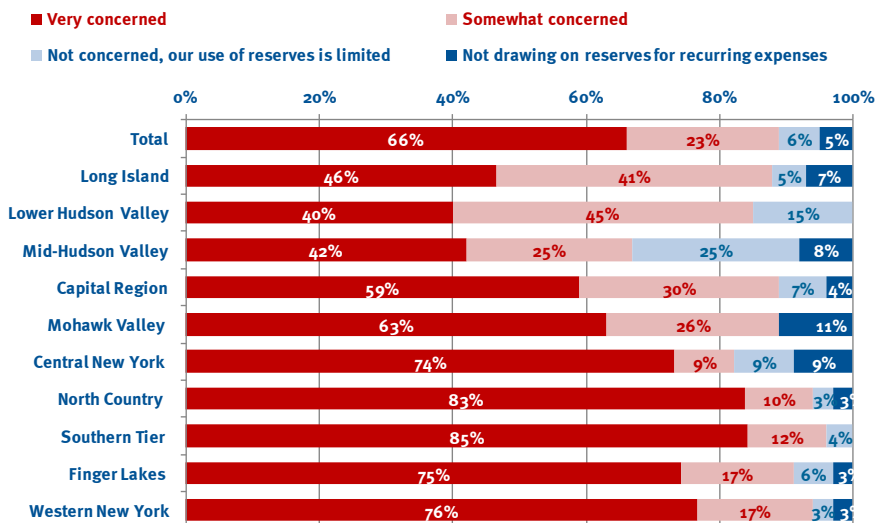
**SOURCE:** Council analysis of NYSED School Aid and Property Tax Report Card data. Big 5 Cities not included. Loss of federal Education Jobs Fund allocations not reflected in state aid figures.

To understand the budgeting choices schools have been making, we conducted a survey of superintendents at the end of last summer. I will share some of the highlights.

Seventy-five percent of superintendents said their district's financial condition is worse or significantly worse than a year ago.

Eighty-nine percent were concerned or very concerned by their district's reliance on one-time resources (reserves) to fund recurring costs. This was one of the survey's most striking findings – how near universal the concern about relying on reserves is, whether districts are rich or poor, upstate or downstate.

**Council Survey: Concern about relying on reserves is almost universal**



Without the use of fund balances this year, districts would have needed to raise taxes by 7 percent more than they actually did, or make cuts of corresponding magnitude.

Reliance on reserves among poorer districts was especially deep: the poorest fifth of districts would have had to raise taxes by 17 percent more, or make corresponding cuts, if they had not had reserves to draw on. The problem, of course, is that reserves are running out.

Seventy-five percent of an average district's budget goes for personnel – salaries and benefits. So the implication is that approaching 75 percent of all the cuts a district needs to make will come from personnel. District leaders try to avoid cutting teaching and other student services positions. But as the need to make cuts continues, year after year, it becomes harder and harder to spare the largest expense category, just as it became harder for the state to spare School Aid in its budgets.

There are two ways to reduce personnel costs: employ fewer people, or spend less per employee. Our survey shows districts using both strategies.

Salary or benefit concessions have increased among all categories of employees over the past three years, led by superintendents. Sixty-six percent of superintendents reported accepting a salary freeze or making another cost saving adjustment in their compensation this year.

Districts reduced their workforce by an average of 4.9 percent this year. Cuts to administration and other student support were typically deeper than those to teaching positions. City districts cut teaching jobs by an average of 6.1 percent, while rural districts cut administrative and other student support positions by roughly 10 percent each this year. These are reductions on top of those taken in prior years.

Sixty-three percent of districts increased class sizes this year; 46 percent reduced or eliminated summer school; 33 percent reduced extra help for students within the regular school calendar; and 47 percent reduced or deferred purchases of instructional technology– at a time when technology is seen as a key to improving outcomes and reducing costs.

Roughly 50 percent of districts reduced interscholastic sports, other extracurricular activities, and special education.

<b>Council Survey:</b>				<b>2011-12 Job cuts by category and type of district</b>				
<b>Percent of districts taking various personnel action by year</b>				<b>Total position reductions, by category and district type, 2011-12</b>				
<b>Personnel actions:</b>	<b>2009-10 School Year</b>	<b>2010-11 School Year</b>	<b>2011-12 School Year</b>		<b>City</b>	<b>Rural</b>	<b>Suburb</b>	<b>Total</b>
Salary freeze or other cost reduction in salary or benefits for superintendent	22%	35%	66%	Teachers	6.1%	5.8%	3.4%	4.3%
Cost-reduction concession in salaries or benefits for other central office administrators	14%	25%	52%	Other Student Support	8.7%	10.8%	6.6%	8.0%
Cost-reduction concession in salaries or benefits for building level administrators	9%	24%	47%	Administrators	9.3%	9.8%	6.0%	7.5%
Cost-reduction concession in salaries or benefits agreed to by teacher union	3%	17%	34%	Other	4.3%	4.9%	3.0%	3.6%
Cost-reduction concession in salaries or benefits agreed to by any other union (other than teachers or administrators)	5%	17%	34%	<b>Total</b>	<b>6.4%</b>	<b>6.7%</b>	<b>3.9%</b>	<b>4.9%</b>
Reduction in central office administration positions	14%	23%	29%					
Reduction in building-level administration positions	9%	20%	30%					
Reduction in teaching positions	44%	66%	80%					
Reduction in other instructional support or student services positions	34%	55%	72%					
Reduction in other positions (clerical, transportation, operations and maintenance, food service, etc.)	31%	57%	74%					
Other reduction in personnel costs	17%	29%	45%					

**Note:** Multiple answers per participant possible. Percentages added may exceed 100 since a participant may select more than one answer for this question.

Majorities of superintendents said their district’s 2011-12 budget had a negative impact on instruction in core subjects, extra help for students, other student services, extracurricular activities, and operations and maintenance.

The survey also included questions about Race to the Top, the potential impact of the new tax cap, and priorities if new funding became available.

We also invited superintendents to share open-ended comments. What comes through from those is intense worry about the future.

For example, one upstate rural superintendent said, “...I have reserves to sustain the district for only one and a half more years.... This district will not survive unless our merger is successful or the state addresses inequities in state aid.”

Another began, “We have been making severe cuts for the past three years,” and concluded, that if funding continues to drop, “There will be absolutely no reason for a

family to move to our rural area because our school district will not be able to offer anything but a basic program to their children. We need help in order to survive.”

## **II. THE GOVERNOR'S BUDGET**

How would the Governor's budget proposals help schools meet the financial challenges they face?

Total School Aid would increase by \$805 million, or 4.1 percent. But for now, districts could count only on a share from \$552 million to be allocated through aid formulas, an average increase of 2.9 percent.

### **School Aid Incentive Grants**

There are three major components of the Governor's School Aid proposal. First, out of the \$805 million increase, \$250 million would be awarded as competitive grants, to encourage and reward gains in student performance or management efficiency. These are desirable goals, but more than new incentives, we think changes in old rules are necessary – changes in state mandates will allow schools to get more impact for students from the resources taxpayers can provide.

Full allocations would not be made by the time school boards must adopt the budgets and tax levies they will ask voters to consider in May. We are also skeptical that competitive grant programs can absorb so large an expansion in a single year. Finally, several of our members leading poor districts fear they will be disadvantaged because they cannot afford the expense of hiring skillful grant writers.

We recommend holding the incentive grants at \$50 million, as the Regents have recommended, and using the \$200 million to further reduce the Gap Elimination Adjustment.

### **Expense-Based Aids**

Second, expense-based aids such as Building, Transportation, BOCES, Excess Cost (for special education) and various categorical aids would be funded according to current law formulas. There has been a marked slowing in the growth of these aids, with poorer districts tending to scale back more in their use of the programs, so wealthier districts generally show greater aid increases.

Past Governors’ proposals have sometimes sought to make immediate changes to expense-based aid formulas, threatening to break a promise of state reimbursement for costs districts have already incurred. We appreciate that was not done that in this year’s Executive Budget.

There is also a plan to initiate a statewide contract for bus purchases. The details are not perfect, but the proposal is innovative and we look forward to working with the Administration and other school groups to ensure it does work for districts.

**Gap Elimination Adjustment**

The other major element of the formula aid changes would reduce the Gap Elimination Adjustment, providing districts with additional aid totaling \$290 million.

Where past Gap Elimination Adjustments tended to impose greater per pupil cuts on poorer districts, this proposed reduction in the GEA appears to provide the greatest benefit to poor districts.

**Proposed GEA reduction would help poorer districts**

Districts grouped by property wealth perpupil	% Reduction in GEA
Poorest 20%	-17.9%
Next 20%	-10.1%
Middle 20%	-7.2%
Next 20%	-4.9%
Wealthiest 20%	-2.9%
New York City	-16.1%
<b>New York State</b>	<b>-11.3%</b>

**SOURCE:** Council analysis of NYSED School Aid data

None of the figures reflect the end of \$607 million in federal Education Jobs Fund money, first allocated in 2010-11, but which districts have through this year to spend. The loss of that funding will offset proposed aid increases for many districts.

Also, costs continue to climb. In our survey, the greatest number of superintendents said that before any cost cutting, their district’s baseline spending would need to rise by between 3 and 4 percent to cover known costs such as collective bargaining agreements, pension contributions, health insurance premiums, and so on.

Assuming an average spending increase of 3.5 percent, the Governor’s formula aid increases, and a 2 percent increase in local tax levies consistent with the new cap, districts outside the Big 5 Cities would face a gap approaching \$500 million, without taking into account the loss of Education Jobs Fund money.

Some of that gap will be closed through new employee concessions, other cost saving innovations, and through further use of reserves. But schools simply need more help from the state, especially those serving our poorest communities.

### **Preschool Special Education**

The Governor has recommended programmatic reforms to preschool special education, as well as a restructuring of how future costs should be shared.

We support programmatic changes to revise evaluation procedures and require greater justification when a distant service provider is chosen. But we oppose requiring schools to assume a share of the growth in costs for the program. With the advent of the tax cap, any state cost shift now amounts to a state order for schools to cut some current services.

### **Mandate Relief**

We support the Governor's Tier VI pension proposal. Again, pension costs have been one of the pivotal factors in school budgeting over the past decade. The proposal would combine a traditional defined benefit plan with a chance for new hires to choose a 401k-style defined contribution plan.

Beyond the longer-term fiscal relief it promises for schools, the option may also strengthen our chances to attract talented young people into education. There are legitimate criticisms of defined contribution plans. But the economy is changing, expectations are changing, and offering new hires only a defined benefit plan requiring 10 or 12 years to vest might hurt our chances to attract the young people we need as teachers.

Schools also need more immediate help in reducing and restraining costs. Last month, the Council joined other school, municipal, and business groups in the *Let New York Work* coalition to advocate a six-point agenda for significant mandate relief. Our top priorities are relief from Triborough, so that step increases stop once a contract has expired, and action to slow the growth in health insurance costs.

We also support making more aggressive use of BOCES and authorizing regional high schools. We will be making recommendations to the regents on changes they can make to help schools maximize their most important resource – student time.

### **Teacher Evaluations**

School superintendents across the state have been doing their best to implement the state's new teacher and principal evaluation procedures. The work would be complicated under any circumstances, partly because of the need to collectively bargain many elements of the structure, partly because of the details and timing of guidance from the State Education Department. The challenge has been compounded by the uncertainties created by the ongoing litigation between the teacher unions and the State Education Department.

The Governor has given the parties 30 days to reach a resolution, or he will propose changes in the law. He has also proposed withholding aid increases to districts which do not have new evaluation procedures in place by January 17, 2013.

The Governor is right – New York cannot afford the potential loss of \$1 billion in federal aid due to problems with implementing the new law. The direct benefit of Race to the Top to individual districts is limited, but the funding has given the state an unparalleled opportunity to modernize the infrastructure of education that all schools rely on – to create better standards, assessments, curricula, data systems, and other services.

But without a better state framework, threatening districts with a loss of aid will not produce better evaluations. The prospect of losing aid would increase the pressure on school boards and superintendents to make concessions that would weaken the new evaluation systems.

Both the Governor and the Regents have recommended changes to the laws governing tenured educator discipline hearings, section 3020-a of the Education Law. We are asking our leaders for their reactions to the reform proposals.

### **III. CONCLUSION**

A few weeks ago, I told the *New York Times* that there are many people who would disagree with Governor Cuomo's rhetoric and parts of his analysis, but agree on the big

picture – we must find ways to produce more learning for students with whatever resources our taxpayers can provide.

New York is hugely diverse. We have some of the nation's absolute best public schools. Two weeks ago it was announced that, as usual, New York students accounted for about a third of the national semi-finalists in the Intel Science Talent Search. We rank second in the proportion of high school graduates completing Advanced Placement classes. But we also have schools that have struggled year after year. The worst of our graduation rate problems tend to be concentrated.

New York is a high labor cost state overall, with the highest average weekly wages for *all workers*. This explains part – not all – of our high educational spending. National studies have regularly concluded that we have either the widest, or among the widest, gaps in spending between high and low poverty districts.

State-level comparisons tend to oversimplify complex circumstances and overlook simple facts. But there is no debating that we need to find ways to do better.

The education commission the Governor announced in his State of the State address should be a vehicle for an extended and honest statewide conversation over how state and local practices need to change so that our schools can produce more learning for our students with the resources our taxpayers can provide. We look forward to being part of that conversation.

Thank you for your time today and for your past efforts on behalf of schools.

I would be pleased to try to answer any questions.