



in every decision



Cost Containment in School Districts:

What local leaders have been doing, what state leaders can do to help

Faced with the prospect of cuts to state aid, local school district leaders have been acting to cut or control costs. But state action is also needed – both to meet immediate budget challenges and to help address longer-term cost pressures.

Where school spending goes

Schools are labor intensive enterprises. In an average school district, 70 percent of total spending is devoted to salaries and employee benefits. Confronting cuts in state aid and pressures to hold down property tax increases, schools are limited in the savings they can achieve without affecting personnel or instruction.

According to data from the State Education Department, 76 percent of school spending goes to instruction. About 12 percent of school spending is devoted to operations, maintenance, and transportation. Six percent goes for interest and principal on debt. Only 2.2 percent is spent on central administration. There are also expenses for building-level administration, but think about a typical elementary school: commonly, there are dozens of teachers, aides, food service and custodial workers, a librarian, a nurse, and one administrator – the principal. Schools typically have fewer managers per employer than most other public or private employers.

Cost pressures on schools

Schools struggle with some of the same cost pressures as every other enterprise in America – health insurance, pensions, and energy. For now, pension costs are stable and even declining, but school districts will again face steep increases once the current market downturn is factored into what employers must contribute. As with the private sector, recurring double-digit increases in health insurance premiums have been common. Gasoline and diesel prices surged then declined, but natural gas prices have remained high.

Over a four-year period earlier this decade, increases in employee benefit costs (chiefly pensions and health insurance) exceeded increases in state funding for schools outside New York City. This meant that all other cost increases – teacher and administrator salaries, energy and supply costs, debt service, and other insurance premiums, for example – had to be funded from local tax increases. This explains at least some of the higher than historically typical tax increases between 2002-03 and 2005-06.

Special education for students with disabilities is another major cost-driver. The field is heavily governed by mandates – both state and federal. But New York's requirements exceed those imposed by the federal

government or adopted by most other states. An analysis of New York's variations from federal requirements compiled by the State Education Department runs to 30 pages.

New York's placement practices and spending patterns are also out of line with other states. For example, New York ranks second among states in the share of total instructional salaries devoted to special education. If our share were at the national average, over \$1.3 billion would be freed each year for other school purposes, or to return to the taxpayers.

Regrettably, times of austerity create tensions in trying to preserve both general and special education services. During three years affected by the last prolonged recession (1989 to 1992), special education absorbed more than 84 percent of the total increase in spending in districts outside New York City. With special education more protected by mandates, support for general education suffered.

What local leaders are doing to reduce costs

Recently, THE COUNCIL asked school superintendents two questions: What are you doing locally to reduce or control costs? What can the state do to help?

For local action, the two top areas of savings were **energy conservation** and health insurance. Many districts have acted to cut down on school bus trips, either by consolidating regular daily runs, or by trimming trips for sports and other activities. Many districts have also sought to cut utility costs, some by simple steps such as turning down thermostats and turning off lights, but an impressive number have also made building improvements to improve efficiency. Some have also joined energy purchasing consortia.

In **health insurance**, many districts have negotiated for higher employee contributions and more are joining regional consortia.

More and more districts have also found it necessary to **reduce staff**, either through attrition or layoffs. This sometimes translates into **increased class sizes** or **reduced services for students**. It is also common for districts to have **frozen or cut non-personnel expenses**, including supplies, equipment and travel, **postponed repairs**, and **cut back on staff training**.

Another common local cost saving strategy is to make greater use of **shared services**, either through Boards of Cooperative Educational Services (BOCES), or directly with other districts and in some cases with local governments. More districts are pursuing the **consolidation of administrative functions** through BOCES centralized business offices, and **cooperative bidding and purchasing** practices are becoming more common.

What state leaders can do to help schools reduce or control costs

Asked what state leaders could do help schools cut costs, superintendents sometimes respond that in addition to the burdens imposed by individual mandates, it is the cumulative impact of all mandates that makes them so onerous. So the first step state leaders should take is to stop adding to the pile – pledge to impose no new mandate unless its cost is fully offset by the state.

Governor's Proposals

Governor Paterson has offered several cost-containment proposals which THE COUNCIL supports, either as written or at least in concept, as in the case of his pension proposal:

- **Streamline paperwork requirements:** Compiling over 100 plans and reports required by state or federal law and regulation wastes time of school leaders producing items no one ever reviews, instead of allowing them to focus on actions that can better serve schoolchildren and taxpayers.
- **Five-year exemption for schools from Wicks Law requirements for multiple prime construction:** Private entities and other states choose to use single prime contractors. Schools could avoid costs and disruptive delays.
- **Increase flexibility in procurement:** Increase thresholds for when formal competitive bidding is required on purchase contracts; allow schools and municipalities to “piggyback” on certain contracts offered by other states.
- **Deferral of new mandates until the start of the next school year after adoption:** This would spare schools from having to absorb unplanned costs after their budgets have already been adopted.
- **Use of excess Employee Benefit Accrued Liability Reserves to offset cuts:** A recent Comptroller’s audit found some districts had set aside more than needed to fund liabilities for unused leave owed to retiring employees. Districts should be allowed to use surpluses (certified by the Comptroller) to offset aid cuts and maintain programs.
- **Contract for Excellence (C4E) flexibility:** C4E districts are required to spend most of their Foundation Aid increases on new or expanding programs. Faced with aid cuts and freezes, these districts need flexibility to preserve local priorities and avert onerous local tax increases.
- **Establish a “Tier V” in public pension systems:** A proposed new pension tier for incoming public employees would essentially roll-back enhancements made to Tier IV since its creation. School compensation must balance what is needed to attract and keep the best educators and leaders for students with costs that are sustainably affordable for taxpayers. But extending the vesting time from five years back to 10 might worsen attrition among early career teachers.

Council Proposals

- **Make more aggressive use of BOCES and shared services:**
 - Reduce prohibitions on BOCES providing some non-instructional services.
 - Allow BOCES to provide some services to municipalities.
 - Streamline process for allowing BOCES to provide non-state aided services.
 - Allow Big 4 Cities to participate and receive BOCES Aid.
 - Raise cap on BOCES aidable expenses.
 - Allow longer facility leases.
 - Allow BOCES to operate regional high schools in areas with steep enrollment losses.
 - Eliminate cap on BOCES superintendent salaries.

- **Regional reviews of consolidation and sharing opportunities:** As recommended by the Lundine and Suozzi Commissions, convene committees of school leaders and others in each BOCES region to recommend options for district consolidation and shared services. Encourage development of regional administrative operations, transportation, energy procurement, and health insurance programs.
- **Temporary state commission on special education:** Charge a commission of Executive, Legislative, Regents, school, and public representatives to evaluate why New York's special education system is so expensive and how to provide more effective and efficient service.
- **Specific special education mandates:** Limit school districts' burden of proof in special education disputes. Restore the one-year statute of limitations on challenging special education service decisions. Reduce use of specific class size and student ratios, and move toward performance based accountability. Authorize reserves so that schools can set aside funds for expensive, unexpected placements.
- **Statewide/regional health insurance consortia or plans:** Reduce restrictions on school districts joining health insurance consortia. Pursue development of a statewide health plan or regional plans to encompass all school employees.
- **Bulk purchasing of prescription drugs:** It should be possible to achieve significant savings by consolidating prescription drug purchasing for Medicaid, state correctional and higher education institutions, local governments and school districts. Other states are pursuing this.
- **Energy Conservation:** Expand promotion of energy conservation services offered by various state agencies, prioritize assistance to school districts, consistent with the priority on school property tax relief.
- **Regional collective-bargaining:** As recommended by the Lundine and Suozzi Commissions, authorize the creation of regional collective bargaining agreements.
- **Retiree health insurance:** As recommended by the Comptroller, give school districts and local governments a legal means to do what is fiscally responsible – set aside funds for retiree health insurance liabilities.
- **Retirement Contribution Reserve Accounts:** Public pension costs will surge over the next year due to the stock market downturn. Compared to local governments, schools are at a disadvantage in preparing for this impact. Funds can be set aside in Retirement Contribution Reserve Accounts for future payments to the State and Local Employees Retirement System, but not to the Teachers Retirement System.
- **Charter school funding:** Ensure charter schools share fairly in any reductions a district is forced to adopt due to state aid cuts or a contingency budget.
- **Annual report on mandates:** Require the State Comptroller to compile an annual report on mandates adopted and repealed each year, including estimates of their costs.

Emerging cost challenges

In addition to considering cost-containment to help manage potential reductions in state support, state and school leaders must also begin to address longer term cost pressures on schools: potential steep increases in employer costs for pensions due to the stock market downturn, mounting obligations for retiree health insurance, and declining savings from employer turnover due to a slowing of retirements.