



State Budget Outlook: 2009-10 and beyond

Mid-Winter Conference
January 2009

**NEW YORK STATE
COUNCIL OF SCHOOL SUPERINTENDENTS**

State Budget for Schools – The Big Picture

\$700 million cut in School Aid from 2008-09 levels.

\$2.5 billion cut from what current law formulas promise for 2009-10.

Major elements:

- Foundation Aid frozen for two years -- \$1.3 billion cut from promised level (included in sum above).
- High Tax Aid, UPK, Supplemental Excess Cost, also targeted aids frozen.
- Expense-based aids funded according to current law formulas (\$435 million increase), most other aids funded to current law.
- \$1.1 billion “Deficit Reduction Assessment” taken as lump sum cut against total aid, excluding construction aids and UPK.

Shift of 15% of Preschool Special Education costs from state (12.5%) and counties (2.5%) -- \$173 million impact, equivalent to 0.5% tax increase.

Middle Class STAR Rebates eliminated -- \$1.4 billion in property tax relief lost.

Increase in maximum drop in STAR exemption (from 10% to 18%) -- \$109 million impact.

Some mandate relief: Wicks, paperwork streamlining, purchasing flexibility, defer state mandates, “Tier V” in pension systems.

Not the worst education budget, however:

| Year | Governor | State Budget Deficit as % of Projected Spending | Proposed % Cut to School Aid (vs. prior year) |
|---------|----------|---|---|
| 1991-92 | Cuomo | 20.5% | 10.1% |
| 2003-04 | Pataki | 29.0% | 8.8% |
| 2009-10 | Paterson | 24.6% | 3.3% |

Source: Council analysis of NYS Division of the Budget documents

But still very discouraging:

- *it threatens gains by districts*
- *it puts reform at risk.*

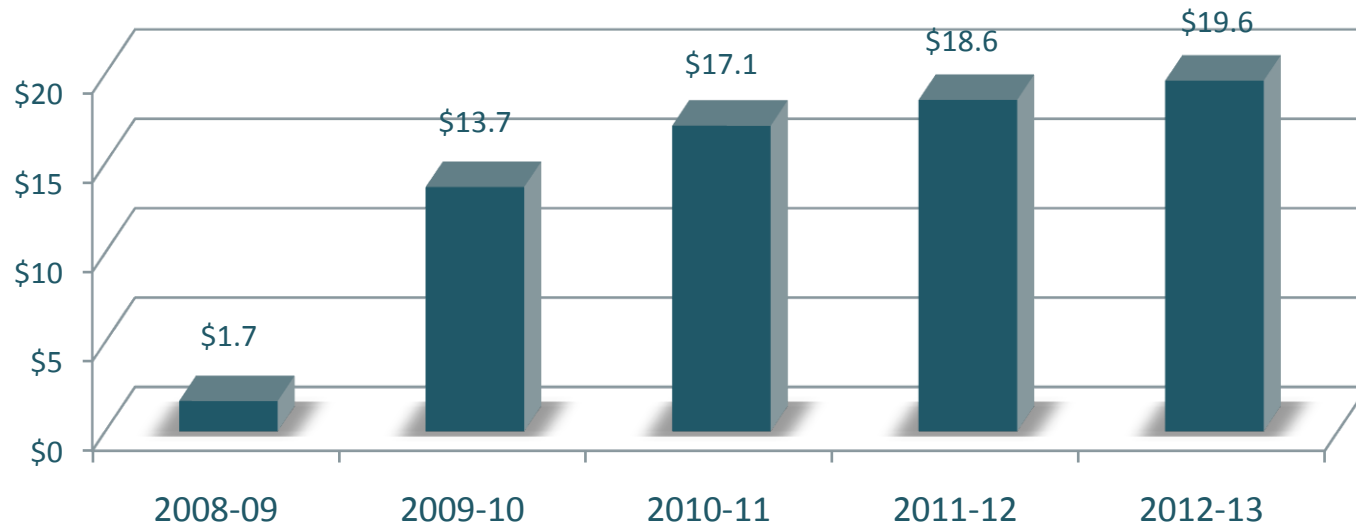
A key theme:

The Foundation Aid formula has put schools in a stronger position

- Not perfect. It has been criticized both upstate and downstate for favoring the other region.
- *But...*
- Policymakers made themselves more accountable for their funding decisions:
 - by prescribing in law predictable aid increases for all districts; and
 - by using aid factors that can be understood and debated.
- It put education funding on the same plane as Medicaid, with cuts measured against growth, not just last year.

\$70 billion in deficits (5 years)?

Projected General Fund deficits (in billions)

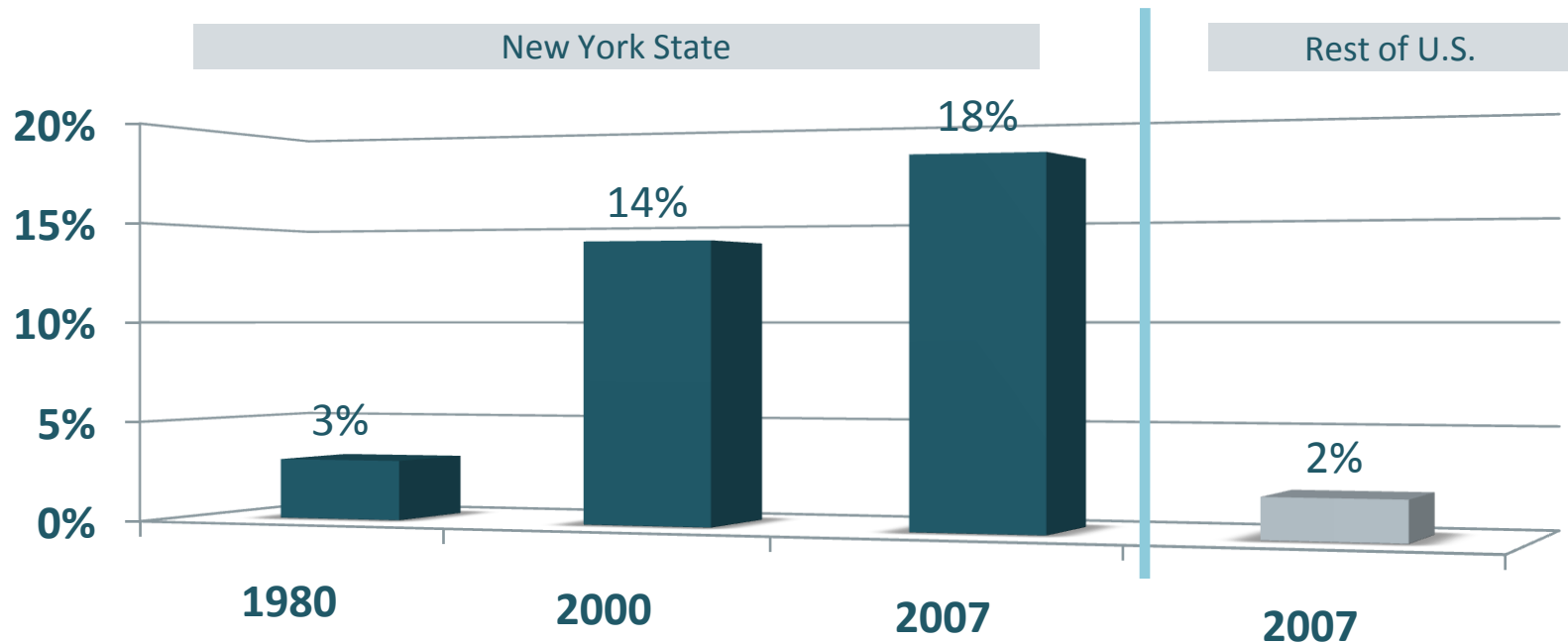


Source: 1009-10 New York State Executive Budget Five-Year Financial Plan

How did this happen?

NYS has become extraordinarily dependent on Wall Street (20 % of revenues)

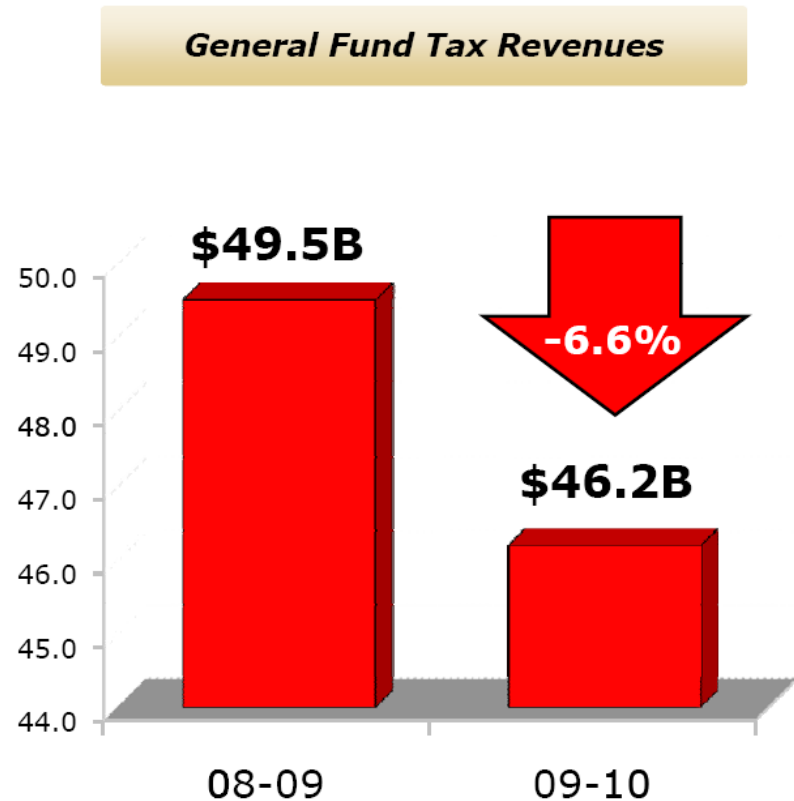
Securities industry wages as % of all private wages



Source: Adapted from, “New York State’s Fiscal Reckoning,” by E.J. McMahon, in *City Journal*, Autumn 2008

A struggling economy = plummeting revenues

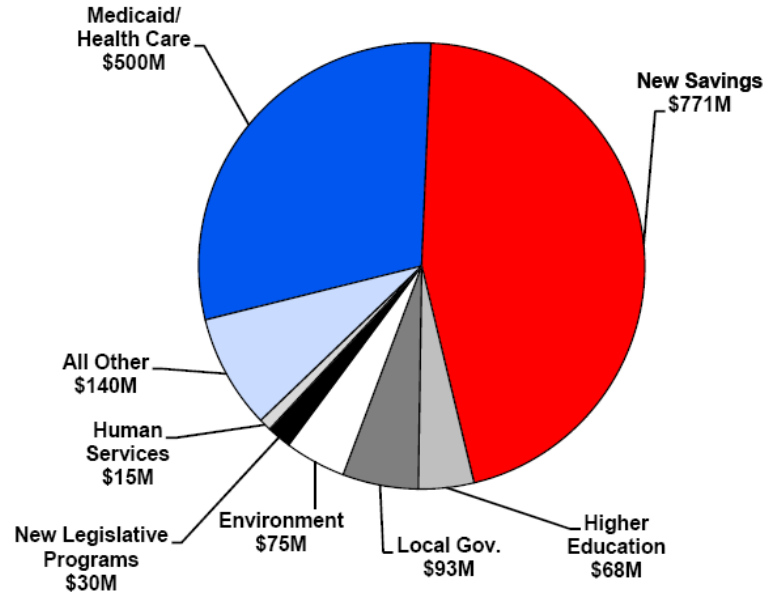
- Greatest crisis on Wall Street since the Great Depression. Financial services sector accounts for twenty percent of state tax revenue.
- Nationally, 533,000 jobs lost in November, highest total in 34 years. Nearly two million jobs lost since beginning of the year.
- NYS economy expected to lose at least 180,000 jobs – 60,000 in financial services sector alone. NYS unemployment rate expected to rise above 7 percent in 2009.
- Real GDP will decline for four consecutive quarters. Consumer spending will decline for 3 straight quarters. Would represent first time either has happened since World War II.
- National unemployment claims have reached 4 million, highest total in 26 years.
- Currently, 43 states facing deficits totaling nearly \$100 billion.



Source: Budget Director's Executive Budget Presentation, 12/16/2008

Closing the gaps – no mid-year School Aid cuts

2008-09 \$1.7 Billion Deficit Reduction Plan



New Savings: \$771 Million

Examples

- NYPA Transfer: \$306M
- Agency Spending Controls: \$100M
- Available Fund Balances: \$100M
- Member Items: \$45M

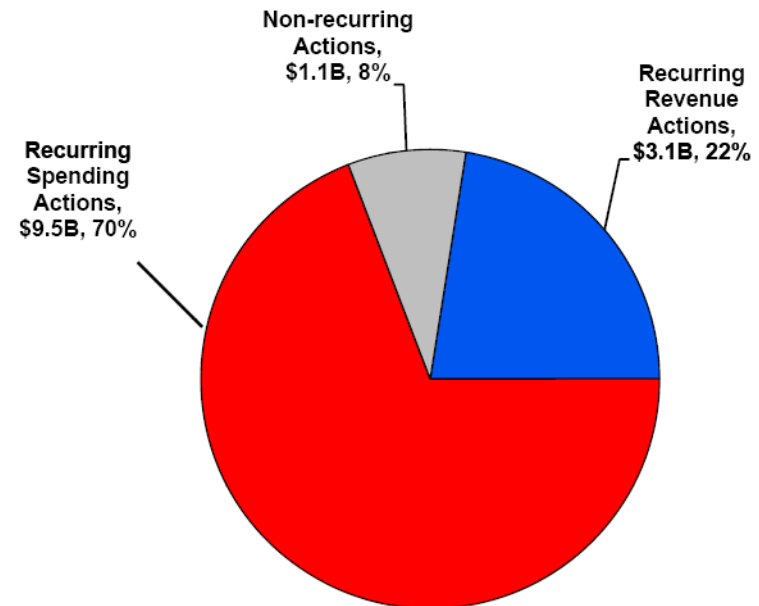
Source: Budget Director's Executive Budget Presentation, 12/16/2008

Closing the gaps – 2009-10 Proposed Budget

Balanced plan for a balanced budget:

- Recurring Actions (92%)
 - Recurring Spending (70%)
 - Recurring Revenue (22%)
- Non-recurring Actions (8%)
- Does not include Federal Stimulus Package or use of Rainy Day Reserves.

\$13.7 Billion Savings Plan



Source: Budget Director's Executive Budget Presentation, 12/16/2008

Closing the Gaps

2009-10 some major components (cuts/revenues are vs. projected levels)

Cuts: **-\$9.15 billion**

- Medicaid/Health: **-\$2.63**
- School Aid: **-\$1.87***
- STAR: **-\$1.67**
- Local Governments: **-\$0.43**
- Mental Hygiene: **-\$0.42**
- Human Services, etc.: **-\$0.39**
- Higher Education: **-\$0.39**
- State Workforce Wages: **-\$0.28**

Revenues: **+\$3.07 billion**

- Utility Tax: **+\$0.65**
- Sales Tax, clothing <\$100: **+\$0.46**
- Empire Zones Reform: **+\$0.25**
- Enhanced Bottle Bill: **+\$0.21**
- Limit itemization for high income taxpayers: **+\$0.14**
- Cable/Satellite TV Sales Tax: **+\$0.12**

“One Shots”: **\$1.14 billion**

* School year cut is \$2.5 billion, but state realizes only 70% in its corresponding fiscal year.

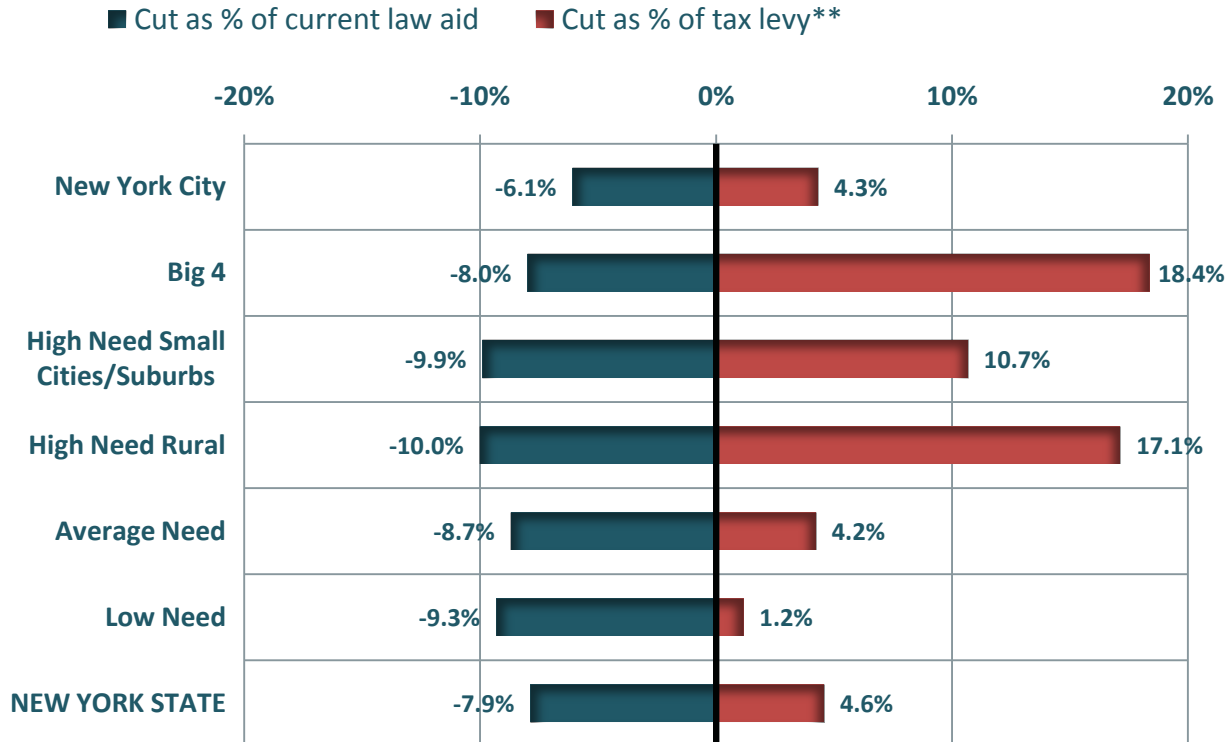
Source: : NYS Division of the Budget, 2009-10 Executive Budget Five Year Financial Plan, December 2008

Major School Aid Proposals:

Foundation Aid Freeze: \$1.3 billion cut from projected level

Planned to last for two years – 2009-10, and 2010-11

How freezing Foundation Aid affects different types of districts



Source: Council analysis of NYSED data.

Major School Aid Proposals:

Deficit Reduction Assessment: \$1.1 billion cut
Planned as one-time reduction – only for 2009-10

Measuring the Deficit Reduction Assessment

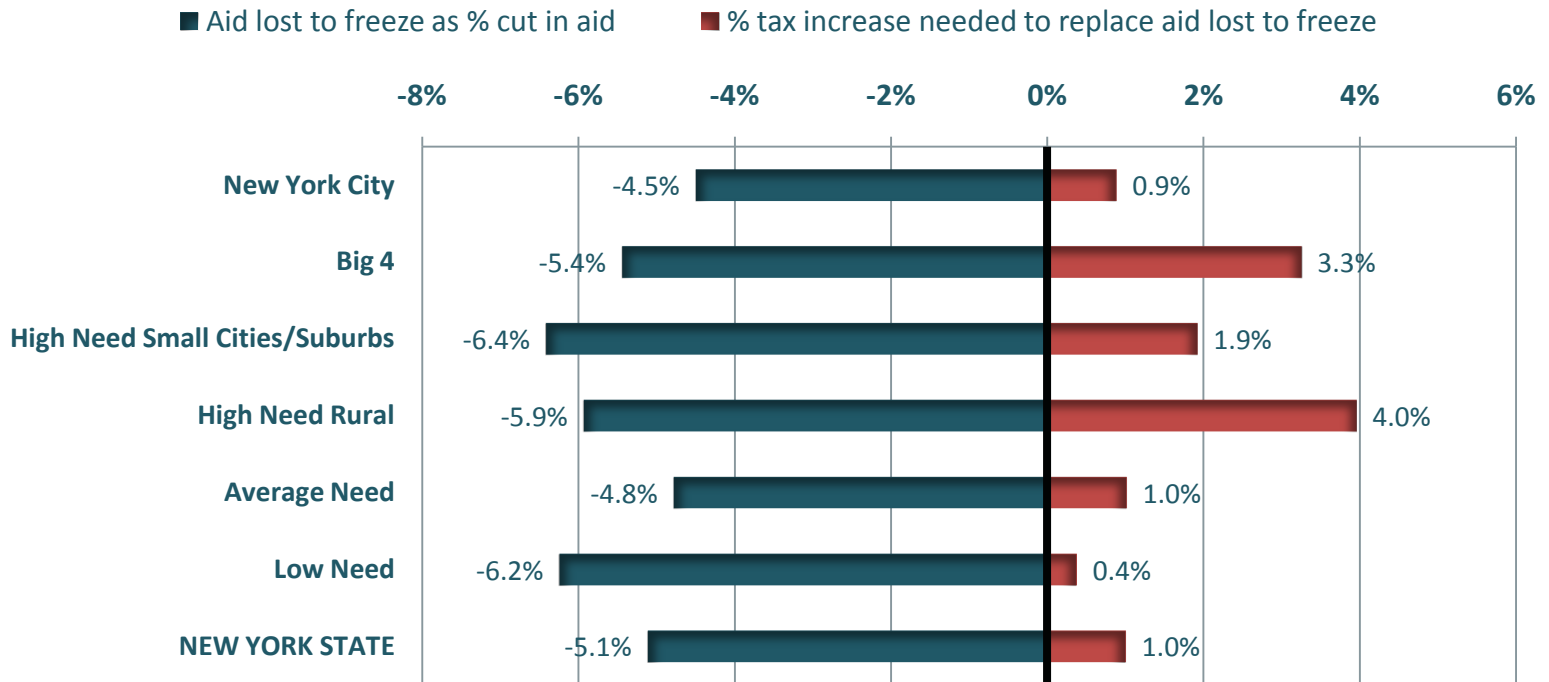
| Need/Resource Category | As % of Aid | As % of TGFE | As % of Local Tax Levy |
|--------------------------------|---------------|--------------|------------------------|
| New York City | -5.0% | -2.1% | 3.9% |
| Big 4 | -3.4% | -2.3% | 8.8% |
| High Need Small Cities/Suburbs | -4.4% | -2.2% | 5.4% |
| High Need Rural | -4.2% | -2.4% | 8.2% |
| Average Need | -8.0% | -2.7% | 4.8% |
| Low Need | -10.6% | -1.4% | 1.7% |
| New York State | -5.9% | -2.2% | 3.9% |

SOURCE: Council analysis of NYSED data

Major School Aid Proposals:

Reimbursement Aids, most other aids funded according to current law formulas

How a freeze on reimbursement aids* could have affected districts (\$281 million cut)



* Building, Transportation, Special Services, BOCES, Excess Cost Aid

SOURCE: Council analysis of NYSED data.

Major School Aid Proposals:

Other freezes, observations

Other aids proposed to be frozen:

- High Tax Aid
- UPK
- Supplemental Public Excess Cost Aid (only \$4 million in total aid, however)
- Targeted School Aid Grants

Observations:

- Essentially two big School Aid cuts:
 - Deficit Reduction Assessment (\$1.1 billion)
 - Foundation Aid Freeze (\$1.3 billion)
- *No permanent cuts to aid formulas (Cuomo & Pataki did propose permanent cuts)*
- UPK, BOCES, special education have built-in constituencies, cuts less likely to stick (all were fully restored in 2003; operating aids were cut.)

Risks to slowing the Foundation formula phase-in

Lessons from experience

Current concern:

- Freezing the formula for two years may mean the state falls further and further behind, and gives up on implementing the formula.
- With delayed phase-in, formula factors may become out-of-date, making them irrelevant to district circumstances.

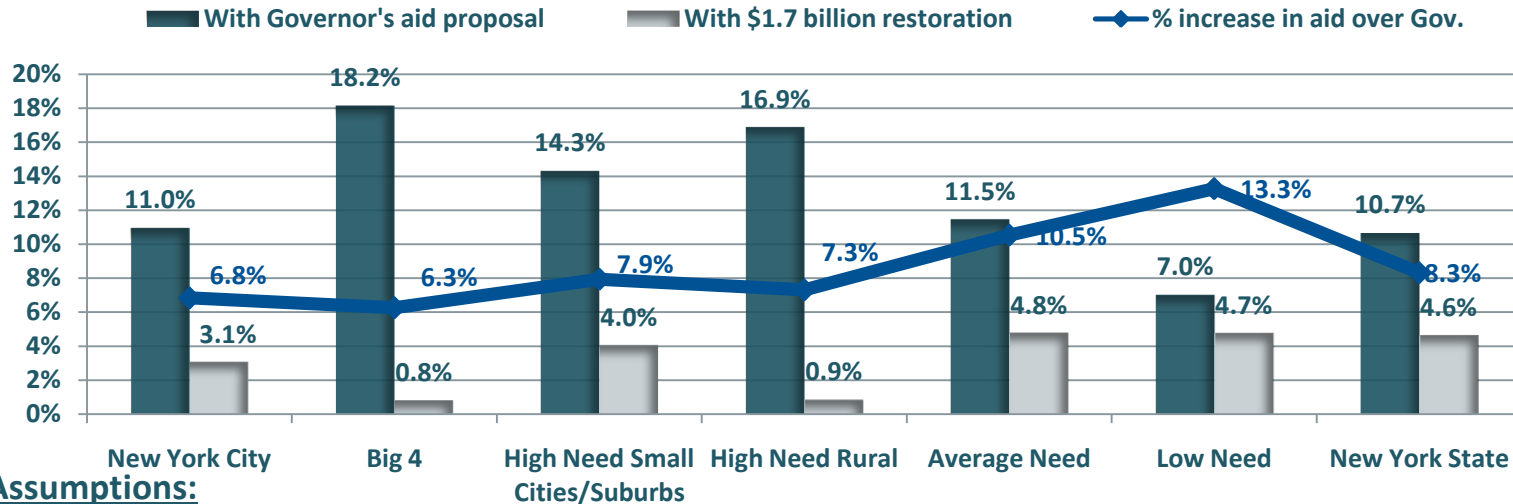
Significant aid reform was enacted in 1993-94:

- New Operating Aid and Extraordinary Needs Aid formulas.
- “Transition Adjustments” limited how much a district could gain or lose while new aids being “phased-in.”
- ***Transition Adjustments were never phased-out*** – state abandoned operating aid formulas first, in 2001-02.

Impact of a hypothetical \$1.7 billion restoration

Eliminate Deficit Reduction Assessment, Increase Foundation Aid

Potential Tax Levy Increases Under Two School Aid Scenarios



Assumptions:

- Total General Fund Expenditures rising by 4.6% (1/2 way between last year's average and contingency cap)
- Deficit Reduction Assessment eliminated (\$1.1 billion add)
- Foundation Aid increased by amount proposed by Regents (\$586 million), but allocated proportionate to current law)

Funding Sources

- *Most ever added to School Aid by Legislature: \$1 billion, in 2003.*
- Can't expect state revenue growth – may get worse.
- Hard to cut other areas – already arguing education has been favored.
- Federal Stimulus Package: Increasing federal share of Medicaid could generate \$5 billion for NYS (Sen. Schumer). Sen. Schumer/Gov. Paterson also seeking billions in a “flexible P-16 education block grant.”
- Raise State Personal Income Tax: Current maximum rate is 6.85% on incomes over \$40,000. \$5 billion could be raised as follows:

| Income Bracket | New Rate | New Revenue |
|----------------|----------|--------------------|
| >\$250,000 | 8.25% | \$541 million |
| >\$400,000 | 8.97% | \$666 million |
| >\$1,000,000 | 10.30% | \$3.8 billion |
| Total | -- | \$5 billion |

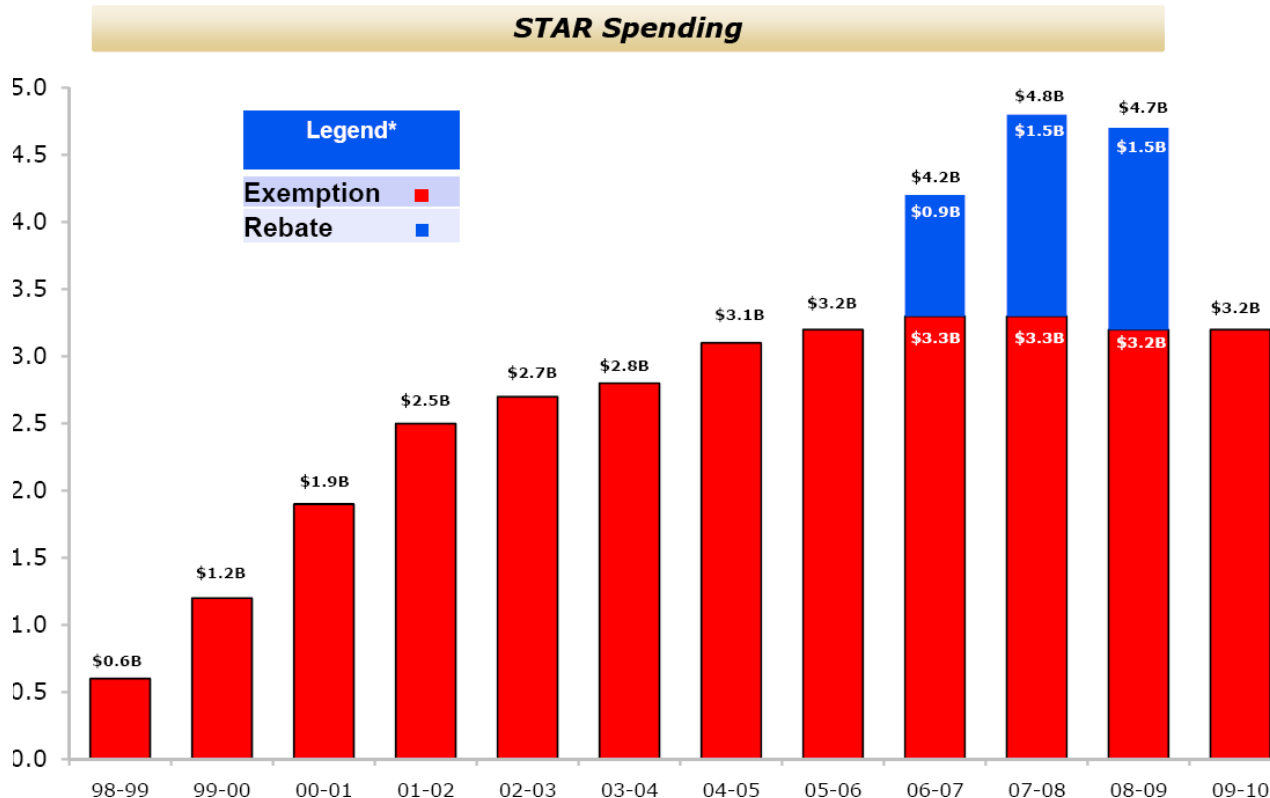
SOURCE: Fiscal Policy Institute, NYS Dept. of Tax & Finance; data based on 2004 returns

A look at the longer-term Projected deficits and School Aid levels (\$ in billions)

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|---------|---|--|---------|
| Projected Deficit -- Current estimates | -13.7 | -17.1 | -18.6 | -19.6 |
| Projected Deficit -- if Governor's Budget enacted | 0 | -1.8 | -4.0 | -5.5 |
| Projected Changes in School Aid | | | | |
| Change from <i>prior year</i> under Governor's plan | -0.698 | +1.697 | +1.680 | +1.820 |
| | | <i>Deficit Reduction Assessment ends – districts back near level of 2 years before.</i> | <i>Foundation Aid freeze ends.</i> | |
| Change from <i>projected levels</i> under current formulas | -2.519 | -3.510 | -3.350 | -3.100 |

Source: NYS Division of the Budget, 2009-10 Executive Budget Five Year Financial Plan, December 2008

STAR and Middle Class STAR Rebates



Source: Budget Director's Executive Budget Presentation, 12/16/2008; figures include NYC Personal Income tax Credit

Notes:

- Increases in rebates in '06 and '07 offset tax levy increases in many districts.
- Rebate funding would not be available to be re-programmed to fund a circuit-breaker

Property Tax Cap

- Council Position: *“A property tax cap will hurt our schools. There are better options.”*
- The issue receded since August special session.
- State budget concerns are now dominating attention.
- The Property Tax Relief Commission now also proposes mandate relief, but still prioritizes the cap.
- A tax cap would be devastating in the emerging fiscal climate – schools are threatened with cuts in both major revenue sources (state aid and property taxes).

Property Tax Cap Proposal

Some details...

- The cap on tax levy increases would not be 4%. It would be the lesser of 4% or the 120% of the increase in the CPI.
- Division of the Budget projects 1.4% CPI for 2009; ***Cap would be 1.68% for 2010-11.***
- The cap could be lower: with 250 signatures (fewer in small districts), voters get could force a referendum to set a lower cap (e.g., zero).
- A super-majority vote of at least 55% would be required to exceed the cap; 60% if “general purpose aid” is increasing by 5% or more.
- Districts would have some authority to “bank” tax levy below the cap for future use.

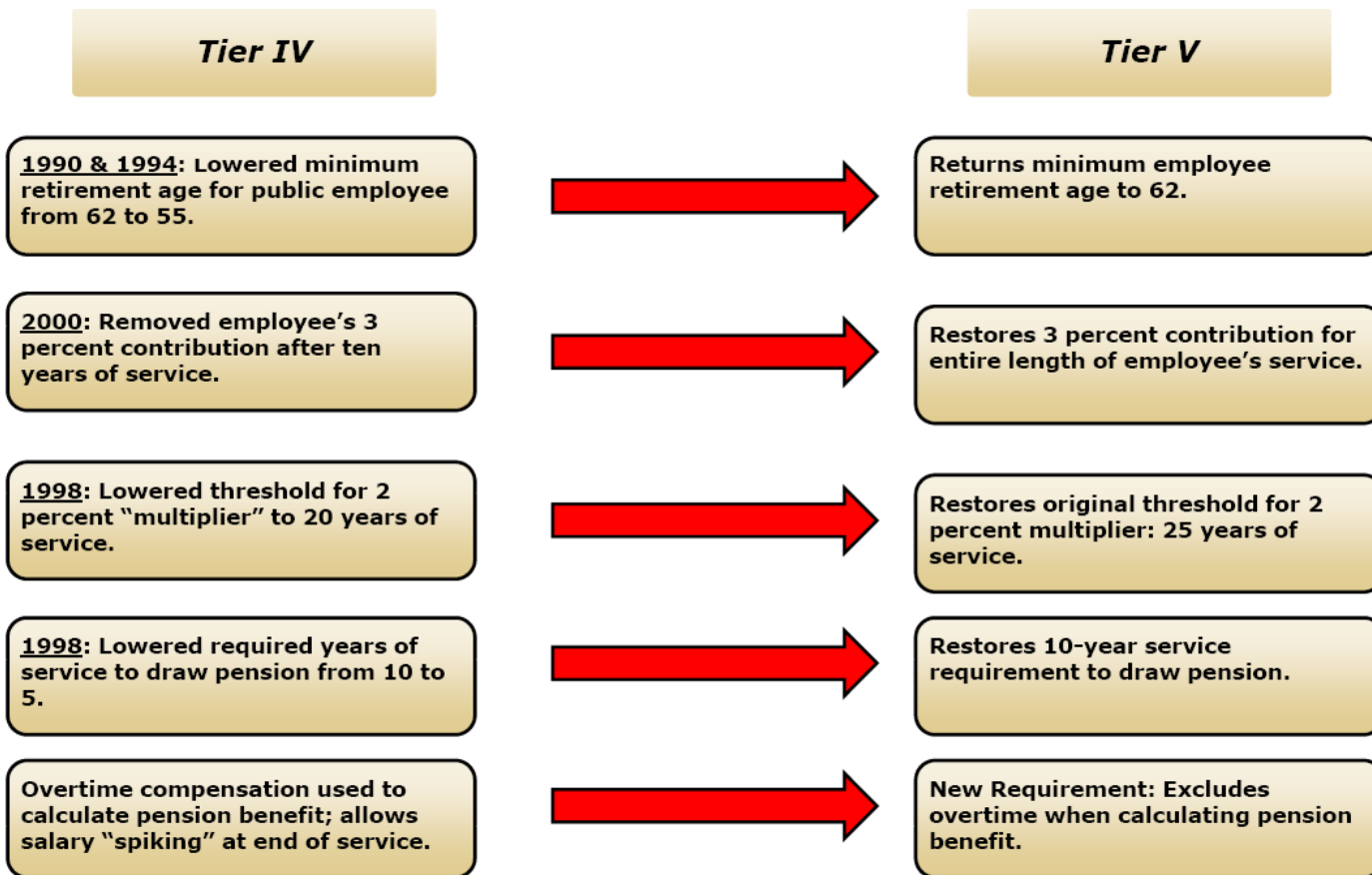
Cost Containment

Most of Governor's proposals so far are small scale

- Exempt schools from Wicks law for 5 years
- Streamline planning and reporting requirements
- Raise thresholds on bidding requirements; allow schools/local governments to “piggyback” on more contracts.
- Delay implementation of prospective state mandates until start of next school year.
- Report that Governor will propose legislation to implement some Suozzi Commission mandate relief proposals.
- “Tier V” – next slide.

Cost Containment

Tier V for new public employees (restore Tier IV)



Source: Budget Director's Executive Budget Presentation, 12/16/2008;

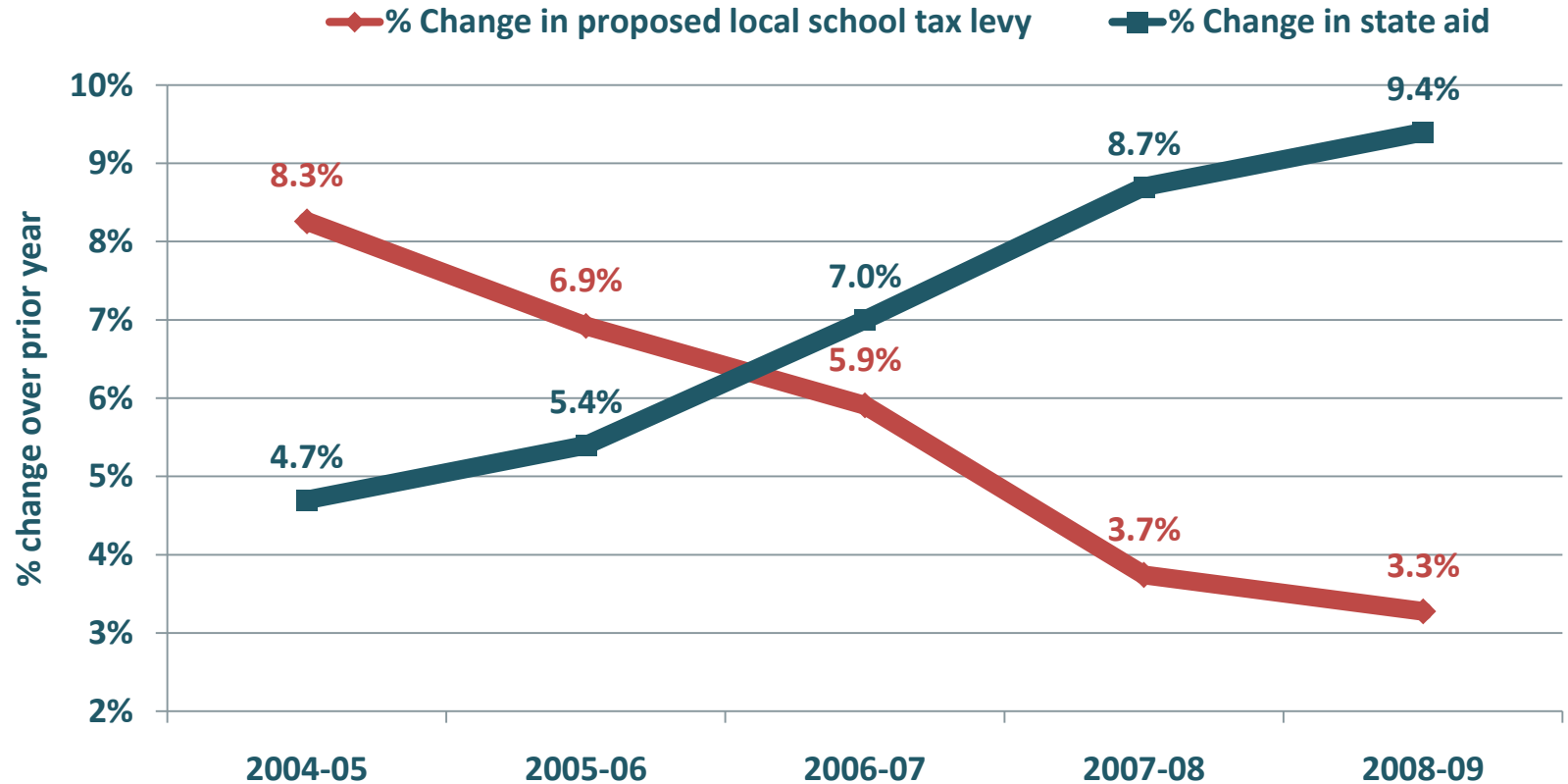
Politics

Changing Composition of the State Senate Majority

| Region (Some Senators represent districts that cross regions) | 2008 (Republicans) | 2009 (Democrats) |
|--|-----------------------|---------------------|
| Long Island | 8 | 2 |
| Northern Suburbs | 2 | 3 |
| Upstate | 18 | 5 |
| <u>New York City</u> | <u>4</u> | <u>22</u> |
| TOTAL | 32 | 32 |

- There are 62 State Senators.
- With 32 members, a majority has no votes to spare – every vote, from every region is essential.
- Assembly Democrats gained 1 seat – now have 109 of 150 members, including 27 from upstate (now tied with Republicans upstate).

One investment that is paying off: School Aid increases have reduced property tax pressures

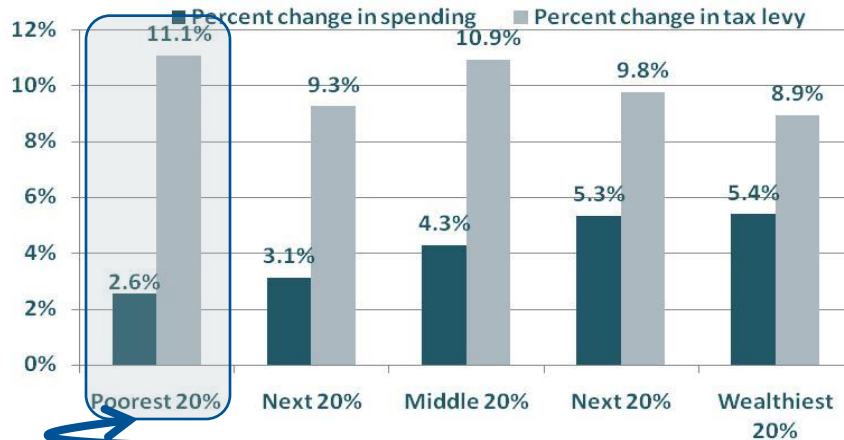


SOURCE: Council analysis of NYSED School Aid & Property Tax Report Card data; Big 5 Cities excluded

One investment that is paying off: School Aid increases have improved equity

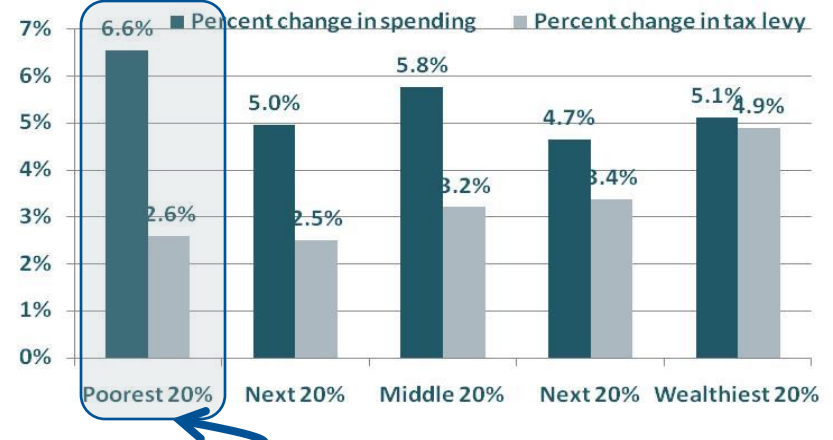
2003-04:

State aid cut \$207 million – poorest districts proposed smallest spending, biggest tax increases.



2008-09:

Strong state aid increase – Poorest districts proposing bigger spending, lower tax increases.

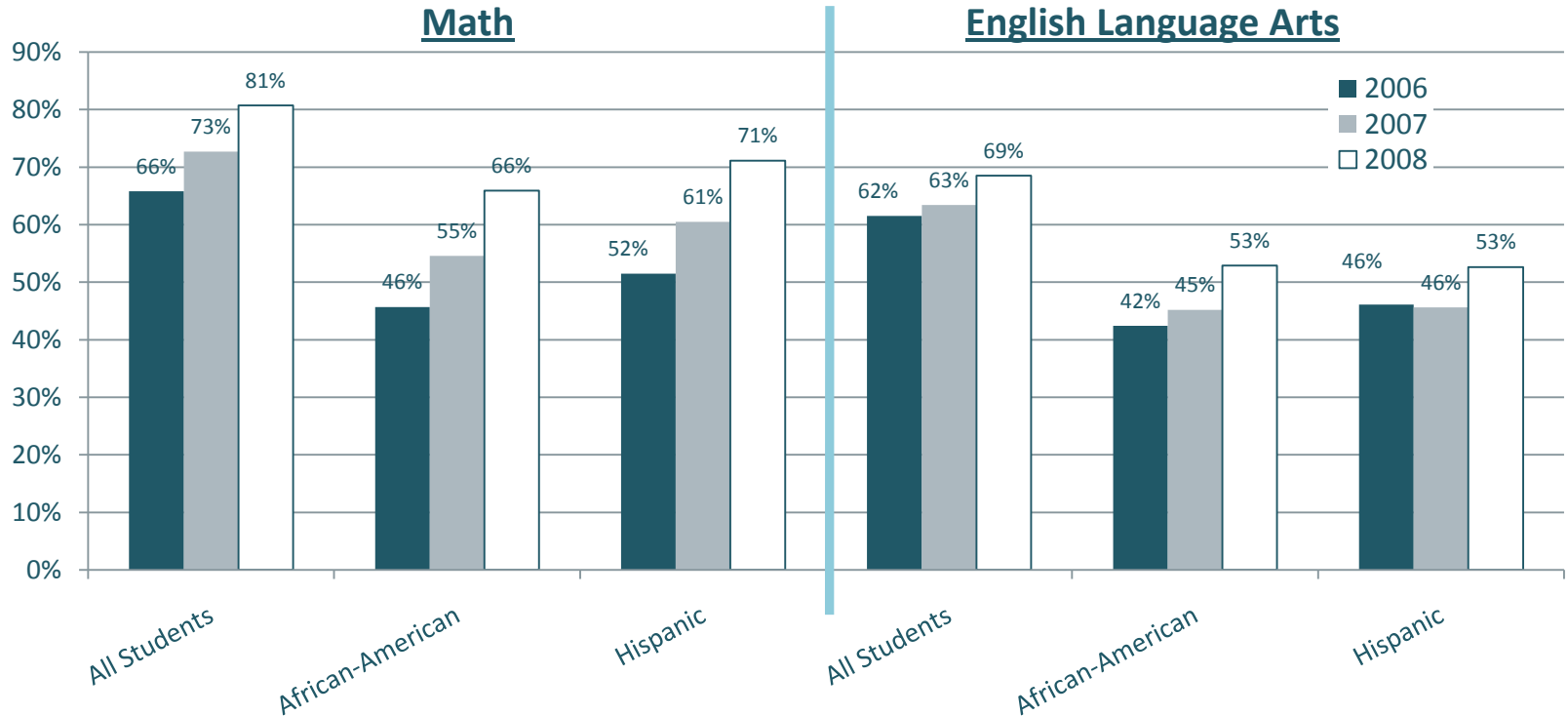


Source: Council analysis of NYSED school property tax report card data, 2003 and 2008; districts sorted by property wealth per pupil.

Note: *If every district had been subject to a tax cap in 2003, nearly \$1 billion in cuts might have been needed.*

One investment that is paying off: Student outcomes are improving

Students meeting standards on grades 3-8 state tests



SOURCE: NYSED data

NEW YORK STATE
COUNCIL OF SCHOOL SUPERINTENDENTS
7 Elk Street, 3rd Floor
Albany, NY 12207
(518)449-1063
www.nyscos.org