



*in every decision*



## TESTIMONY

### *2009-10 Proposed State Budget for Schools*

### Senate Finance and Assembly Ways and Means Committees

January 28, 2009

*Chairman Farrell, Chairman Kruger, and other members of the Legislature:*

I am Robert Lowry, Deputy Director of the New York State Council of School Superintendents.

Thank you for this opportunity to testify on the impact of Governor Paterson's proposed 2009-10 state budget upon the public schools that our members have the honor to serve and to lead.

Thank you, also, for your past support for their work and that of all who work with them in striving to ensure that we give all New York's children the education they will need for the demands they will face in the world they will inherit from us.

Superintendents and state leaders both exercise an annual duty to construct budgets that balance needs and resources, in our case to match what schoolchildren need with what taxpayers can afford.

So we appreciate the hard choices that the Governor faced in constructing his budget – and that you will meet in making changes to it. We know that he could have made different choices, choices that would have been more harmful to schools.

#### **Progress At-Risk**

But the proposed budget is profoundly discouraging, because it threatens the progress that you and we have been making on behalf of the schoolchildren and taxpayers we both serve.

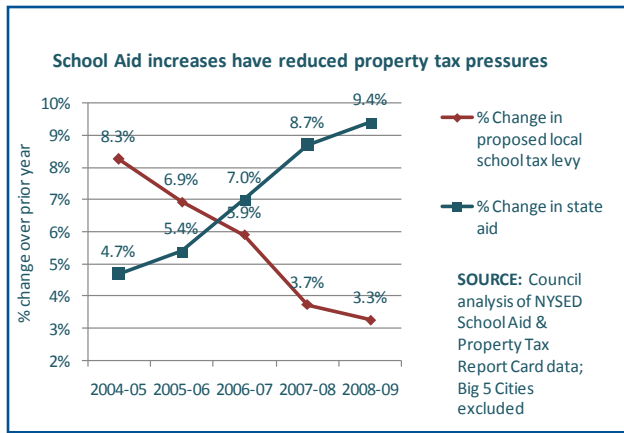
It also places at-risk a significant achievement in public policy – the Foundation Aid formula you enacted in 2007.

The strong state aid increases of recent years have helped reduce property tax pressures, improve equity in school finance, and achieve gains in outcomes for students.

They are one investment that is paying off.

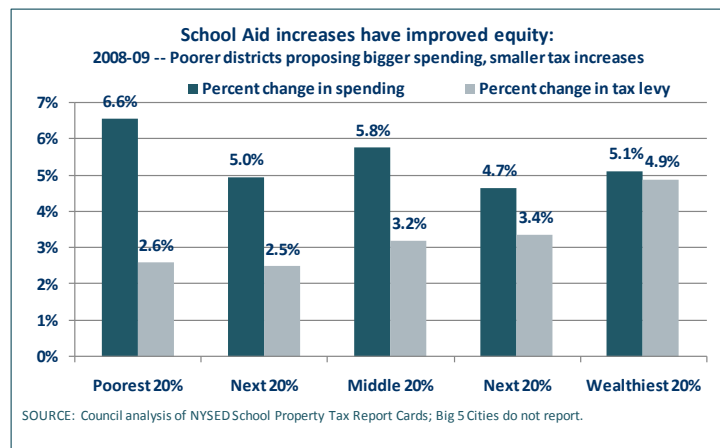
Local school tax increases proposed by districts to their voters last spring averaged 3.3 percent – down by almost half from the average of two years before and below estimates of inflation at the time.

The increases have also improved equity.



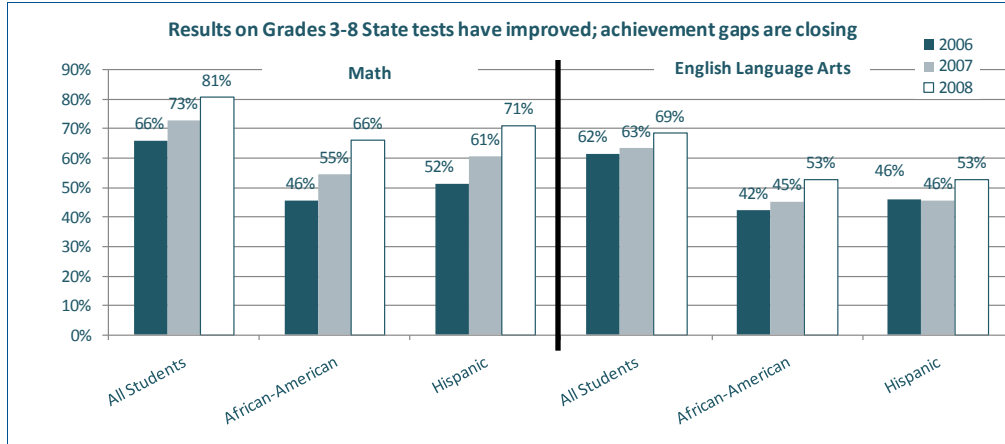
Over the past two years, the state’s poorest school districts have, on average, been able to propose budgets with larger spending increases and smaller tax increases than their peers. This has permitted many to begin closing gaps in resources and opportunities, without overburdening local taxpayers.

That is in dramatic contrast to most previous years, when poor districts often had to propose the biggest tax increases, to cover the same fixed costs as other districts, or to propose the smallest spending increases, and thereby fall further behind their peers in resources for students. Sometimes they had to both, as in 2003-04, the last time School Aid was cut.



We can also report that there have been broad advances in student performance on state tests and some improvement in graduation rates. We need to do better, especially for children from disadvantaged backgrounds, but we are making some progress.

It is harder to directly ascribe these performance gains to gains in state aid, but surely those increases have helped.



Time and again, we hear from superintendents that increases in aid have enabled their schools to provide more help for struggling students, to improve literacy instruction throughout the grades, to expand instructional time, to launch prekindergarten programs or to extend hours for kindergarten or pre-K, to maintain or reduce class sizes, and to begin or expand programs that make school more engaging for more students.

These are the gains that the proposed budget would place at-risk.

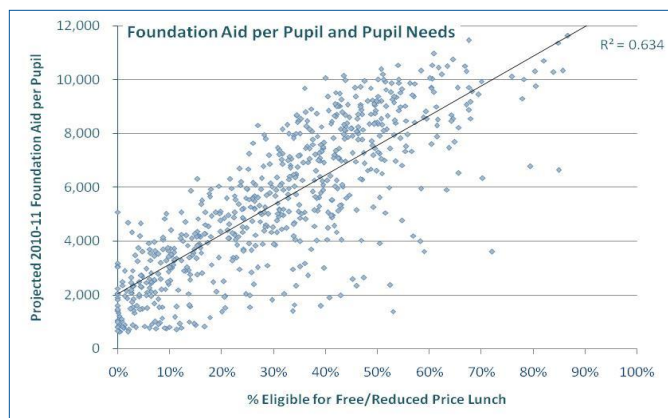
In broad terms, the proposed state budget would make two major cuts in School Aid – freezing Foundation Aid and imposing a lump sum “Deficit Reduction Assessment” against total aid.

There are also proposals to shift preschool special education costs to school districts, to cut targeted programs, to eliminate the Middle Class STAR rebate program and to reduce the value of traditional STAR property tax relief exemptions.

### Foundation Aid Freeze

The Legislature and the Administration did not receive enough acclaim for the enactment of the Foundation Aid formula in 2007. It is an under-appreciated reform.

Generally, it provides the greatest aid per pupil to the districts with the neediest pupils. It made aid more predictable for all districts, promising each district annual aid increases of at least 3 percent. And it made the state more accountable for its funding choices – by implementing a true



formula prescribing annual funding levels for each district, and using formula factors that can be understood, evaluated, and debated.

The Governor now proposes to freeze Foundation Aid for all districts for two years and to stretch-out its phase-in from four years to eight. We have two concerns.

First, school costs will not be frozen; there will be increases in salaries due to negotiated agreements, in health insurance premiums, and in many non-personnel costs.

So freezing the major general purpose aid category will either put increased pressure on property taxes, or force school leaders to make cuts, or do some of both.

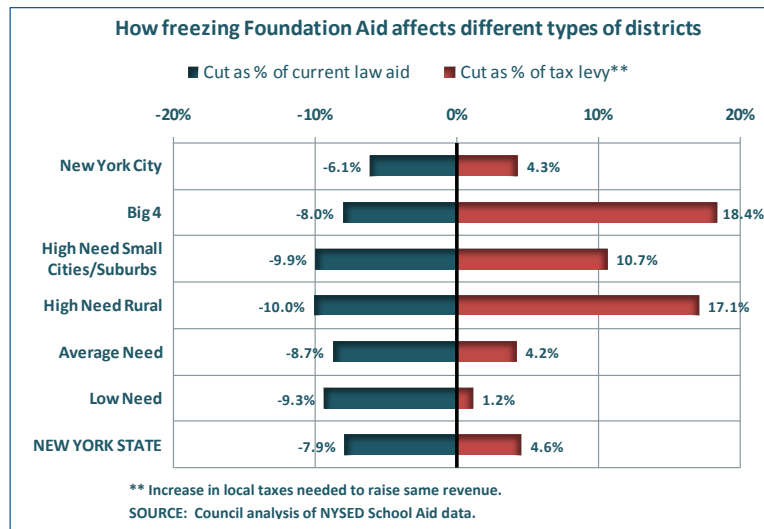
School district leaders will do their best to avoid cuts that harm student services. A few months back, we surveyed superintendents to ask what actions they have been taking locally to reduce costs. The two most frequent expense categories cited were energy and health insurance, neither of which directly affects instruction. But many districts were already reporting reductions in staffing.

On average, personnel expenses consume 70 percent of school spending and instruction accounts for 76 percent of that spending. Teacher salaries, for example, fall into both categories. So when steep cuts are required, it becomes impossible to spare those areas.

Freezing Foundation Aid would deny districts \$1.3 billion in aid they would otherwise receive.

The chart in my testimony illustrates the potential impact on different types of school districts.

The bars on the left indicate the state aid to be lost as a percent of aid; the bars on the right show how much the districts would need to raise local taxes by, *if* they sought to replace the lost state aid that way.



For example, high need rural school districts would receive 10.1 percent less state aid due to a freeze on Foundation Aid. To replace that revenue from local sources would require raising taxes by over 17 percent – an impractical option for most of these districts.

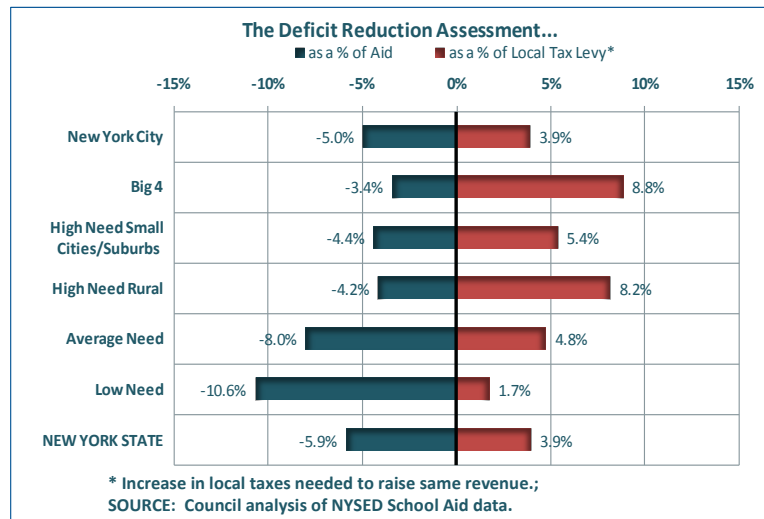
Beyond the immediate loss of aid by school districts, we also fear the freeze will cause the state will to lose one of its best recent accomplishments.

If the Foundation formula is frozen for two years, the state may fall so far behind in its funding commitments that it can never catch up, and be forced to abandon the formula altogether.

**Deficit Reduction Assessment**

The so-called “Deficit Reduction Assessment” is the other major proposed cut to School Aid this year. It is essentially a \$1.1 billion lump sum reduction from unrestricted aids. It would be allocated among districts based on local wealth, pupil needs, and tax effort. Cuts would range between a minimum of 3 percent and a maximum of 13 percent of total aid, excluding Universal Prekindergarten and construction related aids.

Again, we offer a chart to help illustrate the potential impact of this cut on different types of districts. Again, the bar on the left shows the cut as a percentage of aid; the bar on the right shows how much school district would need to raise local taxes by in order to raise enough revenue to replace the lost state aid.



Low need districts would face the biggest percentage cuts in aid – 10.6 percent. But the Big 4 Cities would have the hardest time replacing this revenue from local sources, at least measured by the tax increases that would be required to do so.

**Preschool Special Education Cost Shift**

Our comprehensive analysis of all the recommendations in the Governor’s budget affecting schools has been delivered to your offices. It sums up all his recommendations, and our reactions to most.

Right now, I want to address just one other specific cut proposed by the Governor.

His budget would shift 15 percent of the costs of preschool special education to school districts, reducing the state share of this program's cost by 12.5 percent, and the county share by 2.5 percent. The budget says this would increase costs for New York City by \$73 million, and for other districts by \$100 million.

This proposal is utterly inconsistent with the general thrust of reducing pressures on school property taxes.

It would shift a cost from larger tax bases to smaller ones. We estimate that schools would need to raise local taxes by one-half percent to absorb these costs, on top of whatever else they must confront. But the impact on some individual districts will be much greater, either because they have large concentrations of children with disabilities, or low property tax bases, or both.

Last year, you rejected Governor Spitzer's proposal for a more modest shift of preschool special education costs on to schools. Please reject this more drastic proposal as well.

### **Putting it Altogether**

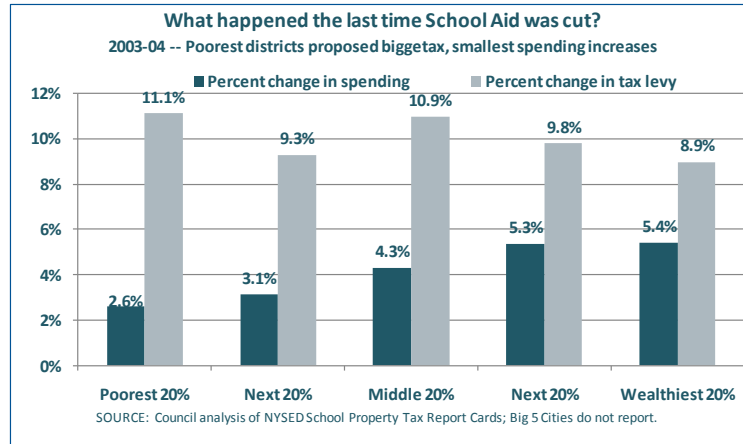
The freeze in Foundation Aid, the Deficit Reduction Assessment, and the other cuts and cost shifts would be partly offset by increases in reimbursement and categorical aids that the Governor proposes to fund according to current law formulas.

We are grateful that the proposed budget does not recommend cutting aid for these categories – BOCES services, school construction, or special education for school-age children in high cost programs, for example. But those aids reimburse schools for specific costs they have already incurred. So the aid is not available to help schools to meet increases in general ongoing costs, such as teacher and staff pay increases. Further, if schools do respond to state budget cuts by reducing their reimbursable expenses, they will pay a price next year, in the form of reduced state aid.

To give you a sense of the impact of the Foundation Aid freeze and Deficit Reduction Assessment upon schools, we have cited the amounts that school districts would need to raise local taxes by to generate sums comparable to the lost state aid. For poor districts, projected double-digit percentage increases in local taxes are common.

That is what happened in 2003 – the last time School Aid was cut.

Tax increases for all districts averaged 10 percent, and the poorest school districts proposed the biggest tax increases and the smallest spending increases. Even as their tax bills climbed the most, they fell further behind in the opportunities they could offer their schoolchildren.



But we need to emphasize that we doubt most districts will follow that route again this year.

Some poor districts, already operating bare-bones programs with nothing that is not mandated left to cut may seek large tax increases, as might some other districts with unique local circumstances. But our clear sense is that average tax increases will be lower. Many districts will seek to hold their tax increases to 4 percent or less.

So how would schools absorb the state aid cuts? Through reductions in programs and staff serving students.

As I explained at the outset, so much of school spending is devoted to personnel and instruction, sparing those areas becomes impossible when deep cuts are required.

If the proposed budget is enacted, we expect that schools will eliminate thousands of positions, many through layoffs. That is what we hear time and again from superintendents around the state.

Orange County school districts estimate they may need to lay off more than 450 employees, for example. If one private employer made that announcement, we are certain it would be front page, top of the broadcast news in local media.

We can't give you a firm estimate of the number of school jobs likely to be eliminated statewide. But I can give you a sense of the magnitude.

Schools face some inescapable rising costs – for negotiated staff salaries and health insurance; for supplies, books and other items; perhaps for energy; and in some districts for enrollment growth. Under a contingency budget, schools would be permitted to increase spending by 4 percent next year. So assume that level of increase in baseline school costs.

On the revenue side, assume the Governor’s budget is enacted and that schools hold their local tax increases to no more than 4 percent.

Statewide, schools would then face a gap of \$1.8 billion between revenues and expenditures, a gap to be closed by cuts. A proportionate share cut to personnel would be over \$1.2 billion. If we assume an average salary and benefits for school position to be \$50,000, then cutting over 25,000 jobs would be required.

We can make different sets of assumptions, but any plausible combination leads to the conclusion that thousands of school positions will be eliminated if the state budget is adopted as proposed.

Superintendents are alarmed by what those cuts would mean for the programs they have built and the gains we have been able to achieve.

### **Federal Stimulus Funds**

We draw some hope from developments in Washington.

The federal stimulus package now moving through Congress promises significant funds for schools. Estimates for the House version expected to pass today are that New York State will receive almost \$2 billion from a state stabilization grant program designed to avert or reduce cuts in state aid to schools and colleges. Additional funds would be targeted for school construction and other initiatives. Outlines of plans from the Senate and President Obama are similar.

We will ask you to ensure that New York honors Washington’s intent – to use federal aid preserve and improve school services.

### **Helping School Leaders Control Costs**

We should not use the possible good fortune of federal aid to put off changes in how we structure public services, however.

We welcome the mandate relief proposals that the Governor has advanced thus far.

Streamlining planning and reporting requirements will enable school leaders to spend more time on activities that can make a difference for schoolchildren and taxpayers, instead of compiling scores of documents that no one at the state has time to review.

Repealing the Wicks Law makes more sense than the incremental reforms to that law adopted last year. It should be telling that entities that can choose seldom if ever do choose to employ multiple prime contractors for their construction projects.

Giving schools more flexibility in procurement practices would be welcome.

Deferring imposition of state mandates until the start of the next school year would avoid disrupting already adopted local budgets.

We support the proposal to allow districts to offset aid cuts with surpluses from reserve accounts set up to pay retirees for unused leave time.

But we also support the Comptroller's proposal to let schools participate in trust funds so that they can save for retiree health insurance costs. Three-quarters of the districts studied in depth in a recent audit had put funds in reserve to help meet these eventual costs. It may not have been specifically authorized by law, but it was fiscally responsible. So districts should also be permitted to use surplus leave time reserves as they planned – to fund other benefits they owe their retirees.

We commend the Governor for raising the sensitive issue of changing pensions for new hires into public service. His proposal should start a careful and forthright discussion on how to balance the compensation needed to attract and keep the best teachers and administrators for schoolchildren with costs that are sustainably affordable for taxpayers.

We still hope the Governor will propose legislation to implement more of the mandate relief recommendations of the Suozzi Commission on Property Tax Relief and the Lundine Commission on Local Government Efficiency. We anticipate that the Board of Regents will also advance recommendations on cost containment.

When we ask our members what they want the state to do to help them control costs, they most often ask for changes in health insurance – creating statewide or regional plans, for example – and in special education – to better match our mandates to what the federal government

requires and how most other states operate. Some also ask for changes in laws governing school personnel practices. We should also be making more aggressive use of BOCES, to achieve functional consolidation and streamline the administrative and overhead operations of schools.

### **Conclusion**

In 2006 we issued a policy report presented as *An Education Speech for the Next Governor*. We said the state faced three imperatives in education:

To continue raising standards and achievement for all students – an economic imperative.

To close gaps in achievement between disadvantaged students and their more fortunate peers – a moral imperative.

To deliver education as efficiently as possible – a practical imperative.

Right now our attention is focused chiefly on challenges of the third imperative, on practical questions of how to pay for the schools we have.

But we have to keep on building the schools that our young people will need, by continuing to raise standards and achievement and by closing gaps in outcomes and opportunities.

For several decades, Wall Street has been the cornerstone of our state's prosperity. Now, New York must broaden its economic base. Every study says that the key to future prosperity starts with helping more people develop higher skills. Strong public schools are essential and New York builds from a strong foundation.

Thank you for your help in building that foundation, in keeping it strong, and for listening today.