



TESTIMONY

2011-12 Executive Budget for Education

Senate Finance Committee and
Assembly Ways and Means Committee

February 15, 2011

Chairman Farrell, Chairman De Francisco, and other members of the Legislative Fiscal Committees:

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

Thank you for this time today to testify on the impact of Governor Cuomo's proposed 2011-12 state budget on New York's public schools.

The Governor has proposed a \$1.5 billion, 7.3 percent year-to-year reduction in School Aid, plus more than \$250 million in shifts of special education-related costs from the state to school districts.

We asked superintendents around the state how the budget would affect their schools. Here are some of their responses:

A Mohawk Valley superintendent said,

We are looking at the very good likelihood of eliminating all athletics, clubs and organizations, all field trips, all music ensembles, and most if not all elective courses. Our secondary students would be able to take only courses required for a Regents diploma, and would spend the rest of their days sitting in study halls. We expect to reduce our kindergarten sections to 1/2 day. This situation frightens me far more than anything I have experienced in my 33-year career in education.

From a Long Island district:

...with the cut in aid coupled with the big increases in retirement and health insurance, plus salary adjustments from previous contracts, we are looking at having to cut between \$5 and \$6 million just to reach a tax rate increase of approximately 5 or 6 percent ... this means somewhere around 40 teachers, 16 support personnel, and 5 or more administrators, as well as eliminating summer school, FLES (Foreign Language in Elementary School), MST [math/science/technology] labs, our enrichment program ... going from full time to part-time librarians at the elementary level, ... as well as going from a 9 period to an 8 period day at our middle schools ...

The superintendent of Phelps-Clifton Springs in Ontario County wrote,

At this week's meeting, I informed our board that we need to close a \$2,900,000 budget gap for next year. I asked them to begin considering closing our middle school (one of four district buildings), reducing kindergarten from full day to half, eliminating our athletic and extracurricular programs, and eliminating 8-10 teaching assistant positions. I then informed them if we did all of that, we would be slightly more than halfway to closing our gap. We will need to come up with more onerous cuts.

According to news accounts, Sachem in Suffolk County is contemplating sending layoff notices to about 30 percent of its staff and Syracuse is considering eliminating 540 jobs, 14 percent of its workforce. Many districts are considering closing school buildings.

Governor Cuomo has suggested that schools can readily absorb his proposed reductions, by using reserves and cutting administration.

School districts must do something not required of the state, cities, counties, towns or villages: present their proposed budgets every year, and ask parents and taxpayers to vote to approve them.

Let me ask you:

If it were really as easy as the Administration contends, do you think that superintendents and school boards would be contemplating laying-off teachers and other staff; cutting art, music, sports, advanced classes and other student opportunities; scaring employees, disrupting working relationships, upsetting parents, and drawing anger on themselves?

FACTS ON SCHOOL DISTRICT FINANCES AND BUDGETING

Here are some facts:

The proposed School Aid cut is the largest ever recommended by a Governor, measured in dollar terms.

If districts could wipe out *every cent* of spending for central administration – for all superintendents, assistant superintendents, business officials, their support staff and office expenses – *it still would not fill the hole the Governor's cuts would create.*

Every year, school districts *do* draw on reserves to balance their budgets, to offset swings in state aid and minimize disruptive program reductions or tax increases.

Without the sums districts used as “appropriated fund balance” in their budgets this year, they would have needed to raise local taxes by 6 percent more than they did. The poorest 20 percent of districts (measured by property wealth per pupil) would have needed to raise taxes by 14 percent more to match what they used in appropriated fund balance in their budgets this year.

School leaders were expecting the coming year to be difficult as well, and were already counting on using reserves to make ends meet. But my sense is that the proposed School Aid cuts are deeper than most school officials were expecting, and they have not yet fully grasped the possible impact of the proposed special education cost shifts.

Whatever districts planned on for reserves last the spring, for many they have already been reduced, by the late adoption of the “FMAP reduction,” to help the state offset a shortfall in federal support for Medicaid.

A key point is that this is not the first hard year for schools, or for the state. Nor will it be the last.

Schools have been doing things like finding ways to save on energy, realigning staffing to reflect enrollment losses, joining health insurance consortia and negotiating higher employee contributions, and joining BOCES centralized business offices to cut down on overhead costs.

In 2009-10, despite the smallest state aid increase in six years – made possible only through federal stimulus funds – school districts requested the smallest local tax increases in seven years.

Without the stimulus money that year, thousands more school employees would have lost jobs and average spending would have been much lower.

This year, 2010-11, while budgeting for the 5.1 percent School Aid cut proposed by Governor Paterson, districts proposed spending increases averaging 1.4 percent. Our estimate is that this increase is what rising pension costs alone would have driven. The implication is that districts froze all other expenses on balance.

Pension and health insurance costs will continue to pose severe challenges for school budgeting.

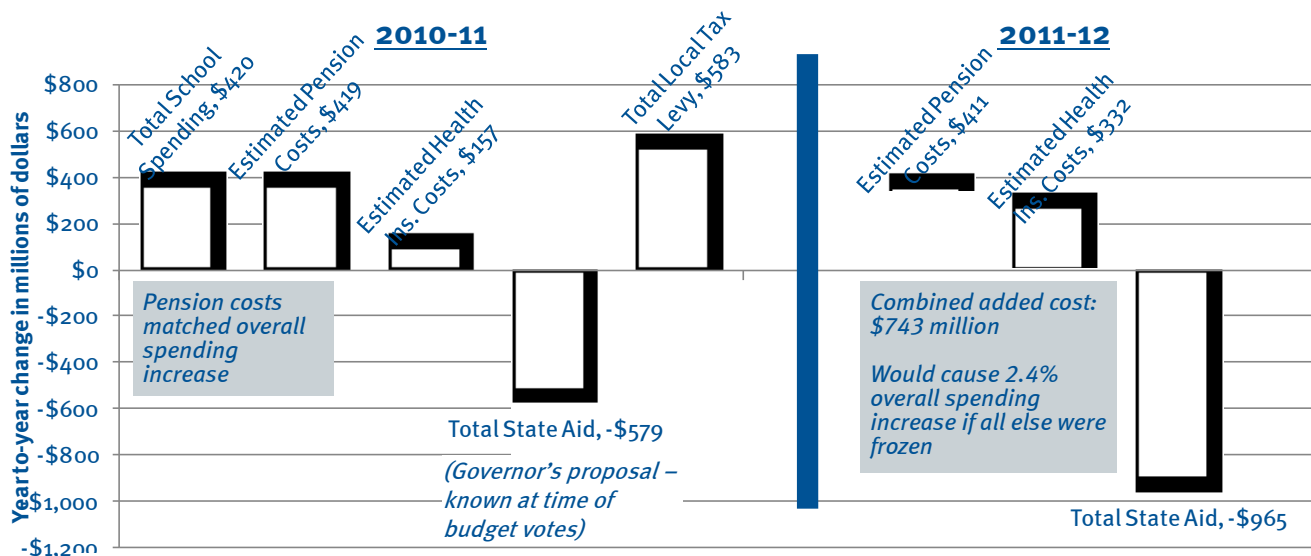
Here are some estimates:

- For 2011-12, mandated employer contribution rates for the Teachers Retirement System are rising from 8.62 percent of payroll, to 11.11 percent.
- The Governor's Budget Division estimates that the average employer contribution rate for the Employees Retirement System will rise from 12.1 to 16.1 percent. (Approximately 80 percent of school employees are in TRS; 20 percent are in ERS)
- The Budget Division forecasts that health insurance costs for the state's workforce and retirees will rise by 9.3 percent.

Applying these cost factors to schools, we estimate that pension and health care costs *just by themselves* would drive up total school spending by an average of 2.4 percent, even if every other cost could be frozen.

So for districts outside the Big 5 Cities, they are facing surging costs for just those two items that could drive up total expenditures by \$743 million, while they face a proposed cut of \$965 million in state aid.

ESTIMATED/PROJECTED CHANGES IN SCHOOL DISTRICT REVENUES AND EXPENDITURES
Big 5 Cities not included



SOURCE: Council analysis of NYSED School Aid and Property Tax Report Card data, Office of the State Comptroller local government data; and benefit cost factors reported by the NYS Division of the Budget and NYS Teachers Retirement System

SCHOOL AID SPECIFICS

Gap Elimination Adjustment

The Governor's budget would freeze Foundation Aid, as well as High Tax Aid, and Universal Prekindergarten Aid. It would allow most other formulas to run according to current law. It would then reduce total aid each district would otherwise receive through a new Gap Elimination Adjustment, this time totaling \$2.8 billion.

As with the GEA in place for this year, the new iteration would be calculated taking into account student needs, local ability to fund education, local tax effort, and "administrative efficiency."

The proposed GEA does have progressive elements, designed to lessen its impact on needier districts. Still, it would impose severe hardship on many high and average need districts, as defined by the State Education Department. As the chart below reveals, the proposed GEA would inflict the greatest cuts per pupil on schools serving high need rural and average need communities.

The GEA applies strict criteria to determine eligibility for offsets to its general reduction formula. Consequently, insignificant differences in district characteristics can make a huge difference in aid. For example, districts qualify for a reduction in their GEA if their tax levy on residential property exceeded 4.5 percent of the adjusted gross income reported by residents on their state income tax returns. So a district with a 4.4 percent rate loses out.

PROPOSED GAP ELIMINATION ADJUSTMENT PER PUPIL



SOURCE: Council analysis of NYSED School Aid data

Foundation Aid

The Foundation Aid formula you enacted in 2007 is an under- appreciated achievement in public policy. It generally targeted the greatest aid increases to the neediest districts, while also promising all districts predictable increases in state funding. It also increased the state's accountability for school funding decisions, by prescribing in law a detailed phase-in schedule and by using factors which could be understood and debated.

During the Foundation Aid formula's two years of operation, the poorest districts were able to propose budgets to the voters with the lowest average tax increases and the largest spending increases – closing gaps in resources for their students without over-burdening their taxpayers.

Foundation Aid has now been frozen for two years, and the proposed budget would freeze it again next year and the year after. This category accounts for 50 percent of all revenues for the state's poorest districts. So, if this budget is enacted, they face having half their revenues frozen for four years. This is a hardship, even without taking into account the actual aid cuts they have been experiencing.

The Foundation Aid formula was enacted as a resolution to the Campaign for Fiscal Equity's 13-year successful challenge to the constitutionality of the state's school financing system. The budget would delay full phase-in of the formula until 2016-17, six years past the original target.

The truth, however, is that the budget would give up on the promise of 2007. Although Foundation Aid increases are proposed to resume in 2013-14 and 2014-15, the new, permanent Gap Elimination Adjustment would more than offset those increases.

Expense-Based Aids

The Governor proposes changes to three major expense-based aid formulas, to affect aid starting in the 2012-13 school year.

The Governor would eliminate aid for many management services shared by districts through Boards of Cooperative Educational Services, BOCES. This makes no sense given the administration's emphasis on promoting consolidation, sharing, and administrative efficiency. At the same time the Governor proposes a new \$250 million grant program to encourage long-term cost saving initiatives, he would end aid for one proven vehicle that schools have used to save money on overhead functions.

The budget would also cut BOCES Aid by applying a more steeply wealth-adjusted state reimbursement rate. Even if both these changes had more immediate impact on wealthy districts, they may be most damaging for districts serving poor communities. If aid changes lead wealthy districts to withdraw from BOCES, the capacity of BOCES to maintain those services for poorer districts is diminished.

The budget also proposes changes in Transportation Aid. Starting in 2013-14, districts would face aid penalties if they do not either participate in shared transportation initiatives with other districts or use efficient practices identified by the State Education Department.

We support the already started effort to promote shared transportation arrangements, but those will not be feasible for all districts. Also, these changes would impose new workload demands upon SED, at the same time it is facing a 10 percent reduction in its operating budget.

The Governor proposes a series of changes to Building Aid, including capping annual funding and creating a competitive process administered by SED, whereby projects will be ranked based on the need for the project, the age of the building, and the district's local fiscal capacity. It would also make changes that would generally reduce state reimbursement rates for projects which do get approved.

There are several practical problems with these proposals. Again, they impose new workload demands upon SED, which already deals with backlogs in school construction reviews. It would put both local voters

and SED in the position of giving hypothetical approval to projects – SED on the presumption that voters will approve a project; voters on the presumption that a project will rank high enough to win funding.

OTHER BUDGET REDUCTIONS

As noted, the budget would shift over \$250 million in special education costs from the state to school districts – from a larger tax base to smaller one. School districts would be expected to take over costs from the state that would require nearly a 1 percent average tax increase to absorb, at the same time that a cap on their tax raising capacity is being considered.

BUDGET WOULD SHIFT \$253 MILLION IN COSTS TO SCHOOLS

Program	Cost Shift (in millions)
Summer School Age Special Education	\$86
Private (4201) Schools	\$98
Room & Board Costs for Children in Residential Special Education Programs	\$69
Total	\$253

SOURCE: Assembly Ways & Means Committee Yellow Book, p. 30-3

PROPERTY TAX CAP

I do want to make four quick points about plans for a cap on school property taxes.

First, the bill proposed by Governor Cuomo and passed by the Senate provides,

“If, however, the tax levy proposition is then not approved by the qualified voters, then the trustees or board of education shall adopt a budget that requires a tax levy no greater than that for the prior school year.”

In other words, if voter approval is not forthcoming, school districts would not be allowed to raise their tax levy at all. This is a cap of *zero percent* for schools, not 2 percent or inflation, as local governments would be allowed.

The 2 percent or inflation figure, whichever is less, would operate as a trigger for determining what vote would be required to approve a school tax levy increase – more than 50 percent if below the trigger, more than 60 percent if the increase is above the trigger.

This brings me to my second point. I get paid to advocate for public schools but, but I am also a public school parent who is likely to support my school board’s budget decisions. It angers me that you would say my vote should count less than that of someone on the other side. Municipalities would require only a simple majority to pass their proposed tax levy increase.

Third, as I have touched on already, two driving forces behind property taxes are factors wholly or substantially beyond the control of school leaders and their voters: state aid and pension costs.

This year, for example, districts proposed lower average spending increases than in 2009-10, but higher average tax increases. Why? Because they were budgeting for a 5.1 percent School Aid cut this year, rather than the stimulus-supported 1.9 percent increase in 2009-10.

CHANGES IN SCHOOL SPENDING, TAX LEVY AND STATE AID 2009-10 vs. 2010-11

	Proposed Change in Spending	Proposed Change in Tax Levy	Change in State Aid*
2009-10	2.3%	2.1%	1.9%
2010-11	1.4%	3.2%	-5.1%

* 2010-11 state aid is as proposed by the Governor, since the state budget was not adopted at time of school budget votes
SOURCE: Council analysis of NYSED Property Tax Report Card and School Aid data (Big 5 Cities excluded)

This brings me to my final point. The current school budget voting process asks voters the right question – to authorize and expenditure level. Districts more directly control spending levels.

Voting on spending asks voters to weigh whether a proposed budget strikes the right balance between what students need and what taxpayers can afford. The tax cap frames the question as, “How much will this cost me?”

WHAT YOU CAN DO TO HELP

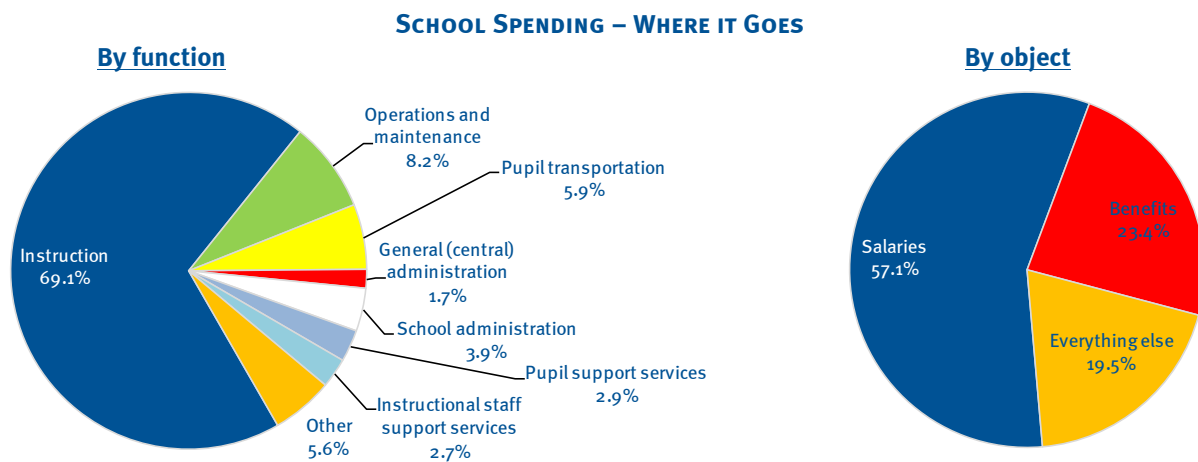
Our Executive Director serves on the Governor’s Mandate Relief Redesign Team and we expect to support its recommendations.

The Board of Regents is also contemplating a package of mandate relief initiatives. Our reaction can nearly be summed up in two just words: “yes,” and “more.” We support the effort and would request further actions.

We also support the Governor’s proposal to allow districts to use funds in Employee Benefits Accrued Liability Reserve accounts to offset cuts. We applaud Comptroller DiNapoli’s effort – commencing today – to expedite the determination of funds not needed to compensate former employees for unused leave time. Some districts placed funds in these accounts to prepare for retiree health care costs and other post employment benefits. This was not authorized by law, but it was prudent, and schools and local governments should be given a lawful way to save for that cost which taxpayers will ultimately bear, as the Comptroller has recommended.

We also support making more aggressive use of BOCES, to enable districts to share overhead costs, regional reviews of other consolidation and sharing opportunities, streamlining procurement and paperwork requirements, and efforts to promote health insurance plans covering bigger pools of districts.

But the reality is that between 70 and 80 percent of school spending goes to personnel. So the implication is that approaching 70 to 80 percent of the cuts districts will need to make will come from personnel. Right now, essentially the only way districts can unilaterally reduce personnel costs is by eliminating personnel, increasingly through layoffs as easier options are exhausted.



SOURCE: Council analysis of U.S. Census Bureau data for New York State school districts for the 2007-08 school year (Note: excluding New York City, the statewide share of spending devoted to central administration was 2.4%)

Some districts and their employees have reached agreements to reduce compensation costs and we expect more will.

When we ask our members for actions the state could take to help them cut or control costs, relief from Triborough always tops the list, along with reducing special education mandates. Some also request legislated imposition of a statewide salary freeze. We doubt it is as legally simple to enact as many proponents assume, but we would support a freeze that authorizes exemptions for districts whose employees have already made significant sacrifices. We also support a new Tier VI in the retirement system.

The bottom-line, however, is that without reductions in the School Aid cuts proposed by the Governor, there will be widespread reductions in staffing and in services to students.

CONCLUSION

No good can come from minimizing the financial challenges facing the state or the schools this year. This is a time for strong leadership. Superintendents have been leading their communities in confronting painful choices about their schools for the past several years. The choices are becoming harder as the demands on schools become greater.

For school district leaders, the future is our business.

No matter how grim today may seem, we cannot stop thinking about tomorrow. Nor can you. We must still strive to give young people the best learning opportunities we can, to prepare them for the demands they will face in life beyond school.

Please do your best in helping us meet today's challenges, so that tomorrow will be better.

