

Chairman Farrell and other Members of the Assembly:

I am Robert Lowry, Deputy Director of the Council of School Superintendents. Thank you for this opportunity to discuss how proposed mid-year budget cuts would affect New York's public schools.

Our members respect the difficult work ahead of you, because it lies before them as well. They too are charged with developing budgets that match needs and resources – in our case, balancing what schoolchildren need with what taxpayers can afford.

I also have some personal sympathy for your task – I was the School Aid analyst for this committee in 1990, the last time state aid to education suffered mid-year budget cuts.

But now my role is to explain the damage these proposals would cause for schools.

Today, I will tell you about the actions school superintendents envision their districts may need to take to absorb the proposed cuts. But I will begin and end by providing some context – first, describing recent trends in school district finances, and concluding with concerns about future budgeting challenges we all will face.

The State of School Budgets

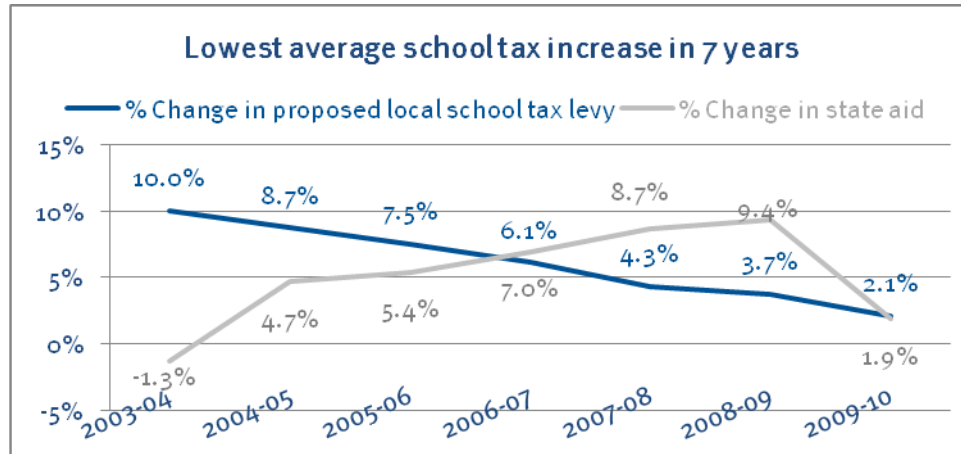
Putting together school budgets this past year was especially tough and produced some unusual results.

Historically, there has been an inverse relationship between state aid increases and school property tax increases: local tax increases are bigger when state aid increases are smaller. The opposite has also generally been true – stronger state aid lessens pressure for local tax increases.

The Foundation Aid formula you enacted in 2007 was an under-appreciated achievement in public policy. It resolved a 13 year-old challenge to the constitutionality of the state's school funding system. It improved equity in school resources. It helped schools cut their local tax increases almost in half from two years before.

This year, however, the typical pattern was broken.

We had the weakest state aid increase in six years. Yet schools adopted the lowest average local tax increase in seven years.



SOURCE: NYSCOSS analysis of NYSED state aid and school property tax report card data; Big 5 City Districts excluded.

Local school leaders worked hard to hold down spending and taxes. They were motivated by the practical consideration of assembling budgets that could win voter approval, and by personal concern over the financial worries of their residents.

The proposals our schools offered last spring won support from voters at the highest rate on record – over 97 percent.

We are grateful for their support and yours, and for the help from Washington as stimulus aid. Without it, we know our choices at the local level would have been far worse.

At one point, we estimated that schools outside the Big 5 Cities would need to eliminate nearly 8,000 jobs, and that was with some districts counting on you to do what you ultimately did – restore the aid proposed to be cut in the Governor’s budget.

Yet when we asked how their districts were able to achieve low average tax increases with lower than typical state aid, most told us they still found it necessary to cut staff.

But whatever strains this year’s budgets demanded, we expect the choices for school leaders will become harder and harder in the years ahead.

That was the overwhelming consensus when we asked superintendents last May how difficult it would be next spring for them to replicate this year’s low tax increases if presented with another year of flat Foundation Aid.

Districts took the “least bad” cuts they could this year. Nonetheless, some poor districts are reporting that they now have nothing left to cut that is not mandated.

One high need small city superintendent put it this way: “Last year we scrubbed the budget in an effort to reduce taxpayer burdens. We set as a goal, do no harm to children and we were pretty much able to avoid direct impacts on services to children. That drawer is now empty.”

Also, this year, districts were helped by a decline in pension system contribution rates. Looking ahead, those rates are projected to surge upward.

Impact of Mid-Year Cuts on Schools

We recognize that no elected official wants to cut aid to schools across the state. But these cuts, at this time, would be especially damaging.

First, there is at least one way in which these cuts will be harder for schools to absorb than those of two decades ago.

Schools now operate with many more mandates. Since 1990, the state has added requirements for extra help for struggling students, professional development for teachers, more detailed requirements for special education, and more mandates to promote school safety and fiscal accountability.

The federal No Child Left Behind Act roughly tripled the volume of required standardized testing in pre-high school years, and that dramatically raised costs for schools.

More broadly, with the standards movement, schools have embraced the idea that “all means all” – all students must receive a curriculum that can truly prepare them for the adult demands of work or higher learning. New York State sought to enact that aspiration into policy through a mandate that all prospective high school graduates must pass Regents Exams in five subjects.

State aid cuts at any time are hard to absorb, but mid-year cuts are hardest of all. First, as with any institution, schools must achieve a full reduction in just half a year. But that presents special problems for schools.

Schools do not have the option of choosing to serve fewer customers, or of taking longer to process transactions. We must educate every child who shows up, and must do so within a 180 day calendar that paces out instruction in every subject, every year.

We have tried to gain a sense from our members what actions they would need to take to absorb these cuts.

A few districts may be able to use reserves to accommodate mid-year aid cuts, if enacted. But the picture which emerges from our exchanges with local school leaders is that they will have to weigh trade-offs: the more they exhaust whatever reserves they have now, the more layoffs they may need to make in the spring, or the bigger the tax bills they will need to send out next summer and fall.

One superintendent of an upstate suburban district put it this way: “If we deplete all fund balance it would mean double digit tax increases in 2010-11. We are desperately seeking to avoid solving a short-term crisis by creating a long-term catastrophe.”

Others say they can foresee a need to cut as much as 10 percent of their staff within two years, if state aid austerity continues.

Superintendents have not had much time to evaluate these cuts, confer with their boards, and weigh their choices. But many districts expect they may need to cut staff.

Personnel reductions seem most likely at poor districts and perhaps most problematic for small rural school systems. One rural superintendent said, “I’m already at bare bones for staff – one or two sections per grade based on enrollment. You can’t put 42 kids in one class.” Others made similar comments.

Significant cuts cannot be absorbed just by cutting or freezing supply, equipment, or travel expenses; first because they comprise small shares of total spending, and second, because in some cases bulk purchases were made at the start of the school year – to realize discounts – or because commodities, such as bus fuel, are locked-in by year-long contracts.

If mid-year cuts do force districts to lay off teachers, the impact isn’t just that those who remain have to work harder, teaching more students in each class. It means disruption in learning for children, as they are shuffled from one teacher’s classroom to a new one.

This year the state used federal stimulus aid to avert more than \$1.1 billion in proposed School Aid cuts. Schools and states were expected to use that funding to create or save jobs, improve education, and avert tax increases.

Many districts report they would need to eliminate some jobs saved with stimulus aid; a few say they would need to eliminate all. So their superintendents are asking if the federal government could impose financial penalties as a result. Right now, I do not believe that would happen, but it is a worry.

There is another sense in which mid-year cuts are especially disruptive for schools.

No other institution provides the public with so many opportunities for input into decision-making. Unlike local governments in this state, or school systems in most other states, New York school districts must seek voter approval for budgets every year. Also, they overseen by independently elected boards, must provide for shared decision-making involving parents and teachers, and typically make extensive use of advisory committees. They also report more data on their successes and shortcomings, both programmatic and financial, than any other institution.

All this is appropriate. It gives the community the greatest opportunity to affect the direction of the one institution that has the greatest influence on its future well-being.

But the outcomes of all that careful deliberation and decision-making directed by all those democratic process can be derailed by the imposition of mid-year budget cuts.

Instead of carefully judging what spending can produce the greatest longer-term payoff for children and taxpayers, school leaders are forced to execute cuts that will produce the biggest short-term savings.

We think the results of this past year's school budget process demonstrate the value of giving districts more time to make budgeting decisions – school leaders accommodated lean state aid, while holding down local tax increases, and won record voter approval for their efforts.

We have also tried to analyze the formula used to allocate the cuts. Measured one way, the cuts appear progressive: the wealthiest districts would face the steepest cuts as a percentage of their aid.

But poorer districts count on state aid to fund a larger share of their budgets. Measured against their total expenditures, cuts to the poorest 10 percent of school districts average nearly three times greater than those for the wealthiest 10 percent.

Also, the reduction formula employs two caps to limit cuts for targeted districts, one for districts deemed “high need,” the other for those making a high local tax effort. Both apply precise eligibility cut-offs, with the result that districts that fall just slightly short of qualifying for the benefit can suffer steep consequences in lost aid.

Longer-term Fiscal Outlook

I want to conclude by discussing the longer-term fiscal picture.

In some of his media appearances, Governor Paterson has noted that schools can use reserves to offset cuts. We will not minimize the hardship you face in balancing the state's finances. Please don't minimize the challenges confronting school leaders.

Despite your efforts, some school districts still found it necessary to make staff layoffs this year. For example, the Rochester City Schools had to make over 100 layoffs this year. The state made none.

I want to add that schools have more limited reserves than general purpose local governments.

For schools, general reserves are limited to no more than 4 percent of their budgets. Municipalities operate without any percentage limitations on their general reserves – even though school budgeting processes are more transparent and accountable, culminating with voter approval (or rejection) of annual operating budgets.

The Government Finance Officers Association recommends, at a minimum, maintaining an unreserved fund balance of no less than five to 15 percent of regular general fund operating revenues. So the most that New York state schools may maintain as an unreserved fund balance under law is *less than* what the GFOA deems adequate as a minimum.

Also, unlike general purpose local governments, schools are not legally permitted to establish specific reserves to cover future pension costs for most of their employees – those in the Teachers Retirement System.

Whatever happens over the next month or so, it will not be the end of hard times for the state or the schools. So, for the same reason that the Governor resists using the state’s “rainy day” reserves to close this year’s state deficit, we question the soundness of expecting schools to deplete whatever reserves they may have to close what would be state-imposed gaps in their budgets.

Many superintendents have a perceptive grasp of the state’s financial picture. They recognize that if these proposed cuts are approved, it will set a new, lower base for whatever happens in state aid to education next year.

A downstate suburban superintendent said, “I am most concerned about the double impact of these cuts along with other cuts for the future year’s budget.”

Also, in using federal stimulus to fund education aid, the state did, in effect, cut its general fund support for schools by more than \$1 billion. What happens when the federal stimulus aid is due to expire after next year?

One rural superintendent described this year as “...the initial wave of a fiscal tsunami that is likely to last two years beyond 2009-10.”

Speaking to the State Board of Regents earlier this week, Lieutenant Governor Richard Ravitch warned that the state could face a deficit of over \$15 billion in 2011-12. Part of that is due to the expected loss of stimulus aid and scheduled expiration of state tax increases adopted this year. Part is due to an expected surge in employer pension costs – a force that will challenge schools as well.

Comptroller DiNapoli has warned that employer contribution rates for the State and Local Employees Retirement System could triple by 2015.

Fewer than a third of school employees are in ERS; most are in the Teachers Retirement System. TRS has not yet released rate estimates, but system officials have warned of “significant” increases to come.

Here is a rule of thumb for understanding pension cost pressures: Pension contributions are calculated as a percentage of payroll. Since payroll typically accounts for about 50 percent of total school spending, a 4 percentage point increase in contribution rates by itself would drive up total spending by 2 percent – assuming that schools could freeze every other expenditure.

So we face the prospect of continuing austerity in state aid, surging costs in at least one major expense category, and continued pressure to spare homeowners and businesses from burdensome property tax increases.

At the local level, school leaders have been working to cut energy and health insurance costs, share more services, freeze or cut non-personnel expenses, and, where necessary, make the least damaging staffing reductions they can.

We are advocating for the state to make more aggressive use of BOCES – Boards of Cooperative Educational Services – to enable schools to share and reduce their costs for administrative and other overhead functions.

But 70 percent of school spending is devoted to personnel. Without a dramatic turnaround in the state’s finances, or continued generous federal aid, we will have no choice but to cut personnel costs.

If we cannot curtail the growth in those costs, we will need to cut more positions and that will result in larger class sizes, less extra help for struggling students, fewer enrichment opportunities and other harm to student services.

So as a first step, we support the Governor’s call for a new “Tier V” in the public retirement systems.

Conclusion

Once again, thank you for convening this hearing, for listening today, and for all your past support for New York’s public schools.

We hope the actions you take in the weeks and months ahead will not reverse the progress that your support has made possible and will help schools better meet whatever budget challenges are yet to emerge.