



IN EVERY DECISION

VANTAGE POINT

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“Funnel Vision”– Missing the Big Picture on School District Reserves and Accountability

There is a tendency to think about schools as though looking through a funnel, missing some bigger picture considerations.

For example, it is often overlooked that *school districts operate with more accountability and transparency than other entities, yet also with more limitations on some of their financial practices.*

Comptroller’s Report on School Fiscal Accountability
“Funnel vision” toward schools was evident in some of the media reporting on State Comptroller Thomas DiNapoli’s five-year summary of his office’s school fiscal accountability project earlier this month.

Much of the media coverage of the Comptroller’s report focused on its conclusions that some school districts have accumulated reserves in excess of what current laws allow.

But there is a tension between the report’s findings (some schools have “unnecessary” reserves) and its recommendations (schools need to have more ways to set aside money in reserve).

The implication of recommending changes to laws governing school reserves is that current laws don’t completely make sense. We agree.

Exceptional Accountability for Schools

Here are some examples of the exceptional accountability requirements schools operate under:

- ✓ School districts outside the Big 5 cities must put their budgets up for voter approval each year, a requirement not imposed upon counties, cities, towns, or villages. Except in New York City and Yonkers, public schools are overseen by independently elected boards.

- ✓ Schools provide other uncommon opportunities for public input into policy-making – mandated budget hearings and “shared-decision-making” procedures, as well as informal and voluntary efforts – community forums, advisory committees, and PTAs.
- ✓ School districts also send annual budget information notices to all residents, publish school and property tax report cards, and disclose administrative compensation. Again, these requirements are not imposed upon municipalities.
- ✓ The State Education Department also regularly publishes school and district performance data – test results, high school completion rates, and violent incidents, to name a few. Is there as much performance data available for any other public service?
- ✓ Every school district and BOCES in the state has been audited by the State Comptroller within the past five years, another mandate not imposed on municipalities.

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Exceptional Reserve Limitations for Schools

Despite these exceptional accountability mandates, schools operate with tighter controls on some aspects of their finances than other public agencies.

For example, a school district is permitted to maintain an unreserved, unappropriated fund balance (a “rainy day” fund) of up to 4 percent of its budget. There is no percentage limit for municipalities.

Also, while both local governments and school districts may set aside funds for future contributions to the State and Local Employees Retirement System (ERS), roughly 70 percent of school employees are in the Teachers Retirement System (TRS) and, probably due to an oversight, pension reserve accounts cannot be used to save for future TRS cost increases.

School leaders who have shared reactions to the Comptroller’s five-year accountability report with us welcome his recommendations to give schools more ways to set-aside money for tax stabilization, teacher pension contributions, and retiree health insurance obligations.

“Tax stabilization” – averting or moderating local property tax increases is one of the primary uses schools make of their rainy day funds now. This year, districts appropriated over \$900 million from unreserved fund balances. Local tax increases averaging over 4 percent would have been needed to raise that amount of revenue.

School District Reserves and School Aid Cuts

Governor Paterson has argued that most schools have adequate reserves to absorb his proposed state aid cuts, without steep property tax increases or spending cuts that would harm student services.

But that is not the picture that school leaders are looking at. Virtually every district which has reported to us expects to eliminate positions in its budget for next year. In some cases the cuts could be drastic – 5 to 10 percent of staff. A few may need to cut even deeper.

In 2003, the last time state aid to schools was cut, districts proposed budgets with local tax increases averaging 10 percent. That won’t happen this year.

Some districts, especially those with little left to cut that is not mandated, have no choice but to ask for large tax increases. But most districts are aiming much lower, with the result that there will be steeper cuts to programs.

Our position remains: We will not minimize the challenges facing state leaders, don’t minimize ours. Again, schools have more limited reserves than other municipalities.

“Rainy day” funds (unreserved fund balances) for town governments commonly exceed 10 or even 20 percent of expenditures. That fact is not widely known, because municipal fund balances are not reported on any state government website (as are school reserves), nor has every city, town, or village been audited in the past five years the Comptroller’s Office, as have school districts.

But are the municipalities over-taxing? Or are they being fiscally responsible, carefully setting aside funds for future contingencies?

The Government Finance Officers Association recommends maintaining an unreserved fund balance of between 5 and 15 percent of general fund revenues, or up to two months’ expenses. *So what New York school districts are permitted to maintain as a maximum rainy day fund is less than what experts deem adequate as a minimum.*

Conclusion

There are bigger problems with the Governor’s expectation that schools should exhaust all reserves this year.

- ✓ First, as Comptroller DiNapoli has warned, next year could be even worse, due to the “funding cliff” facing the state and the schools, if federal stimulus aid expires as now scheduled.
- ✓ Second, like other public agencies – or businesses or families – schools do need to have money in the bank to cover unforeseen costs.

Should a family feel comfortable with nothing on hand to cover emergency costs? Or how about an emergency fund equal to 4 percent of its annual expenses – the maximum that schools are supposed to have?