A Financial Sustainability Agenda for New York's Public Schools

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THE COUNCIL of SCHOOL SUPERINTENDENTS
LEADERS • EDUCATORS • ADVOCATES

1. Update and Phase-in the Foundation Aid formula

The Foundation Aid formula enacted in 2007 Is an under-appreciated accomplishment in public policy. It generally drove the greatest aid per pupil to the neediest districts – and it still does. It also promised more predictability in aid for all districts. But the formula was neglected – frozen for three straight years and minimally increased in a few years thereafter. The state is now roughly $4 billion behind in phasing-in the 2007 formula and many high and average need districts are on save-harmless.

As called for by the New York State Educational Conference Board, the state should:

- Commit to a firm timeline to fully phase-in the Foundation Aid formula; and
- Commence studies to update or restructure elements of the formula, including the weightings used to account for pupil needs, the index used to account for regional cost differences, and the per pupil amount needed to prepare students for success.

Phasing-in and updating Foundation Aid is the cornerstone in the Council's Financial Sustainability Agenda: *If the state will not change the rules – by amending the tax cap and helping schools manage costs – then it must fund the rules – through Foundation Aid.*

2. Adjust the Tax Cap

Advertised as a 2% property tax cap, the base for the cap was below 2% for 4 straight years. Massachusetts, cited as a model for New York's tax cap allows communities to increase their tax levy by 2.5% *without voter approval*. In New York, school may not raise their levy at all without voter approval – *in effect a zero percent tax cap.*

To support more effective multi-year financial planning by schools, state government should:

- Make the base for the school property tax cap a fixed 2 percent, rather than the lesser of 2 percent or the change in the Consumer Price Index over the prior calendar year (this change is unlikely to affect taxes in the near future – economic forecasts predict inflation of 2% or more for several years);
- Enact a more workable "carryover" provision, giving districts an incentive to hold tax increases below 2 percent in years when they can and reserve the savings for use in tougher years; and
- Provide an exclusion for pension costs when they increase by more than 2 percent, rather than the current two percentage points.

Action must also be taken on two problems highlighted by bills previously passed by both the Assembly and Senate but vetoed by the Governor – financing BOCES capital costs and allowing districts to realize revenue from tax base growth generating payments in lieu of taxes (PILOTs).

3. Help Schools with Costs

New York is a high cost state in may things, not just education. One set of factors behind New York's per pupil school spending are state mandates. Prospects for meaningful change in these requirements are limited, at least in the near-term. Here are some worthwhile steps to deliver smaller scale assistance:

- Increase one-time exemption from voter approval for small capital projects from $100,000 to $250,000.
- Provide that any new mandate imposing new costs cannot take effect until the next local fiscal year succeeding its adoption.
- Eliminate the requirement for an internal audit capacity for all districts.
- Make regional collective bargaining agreements practical by streamlining requirements.
- Authorize regional high schools.
- Authorize transportation "piggy-backing," allowing a private bus contract to serve multiple districts.
- Utilize calendar year Consumer Price Index calculation for transportation contract renewals.

The full report recommends actions to achieve longer-term impact, including an annual report card on mandates enacted and repealed, standardized reporting of collective bargaining outcomes, and studies on health insurance and special education.

4. Give Schools a Reserve for Teacher Pension Costs

The final component in a financial sustainability agenda is to give school districts access to a reserve for obligations to the New York State Teachers Retirement System, so that they may set-aside funds for future pension costs for all employees, as municipalities may do now.

Twice in recent years, increases in district costs for TRS contributions exceeded their overall increase in spending, meaning that districts had to cut all other costs, on balance, in order to absorb rising pension costs. The employer contribution rate will decline next year, providing savings for school districts, but is virtually certain to rise sharply the following year.

The tax cap has changed how district leaders think about reserves. They are one tool still available to exert some control over the financial future of schools, but no district will attempt to over-ride the cap just to build reserves.

The state should:

- Allow school districts to establish a reserve for future TRS obligations. We endorse the proposal drafted by the Teachers Retirement System which would limit how much districts could put into the reserve each year and how much could be accumulated in total.