New York State Council of School Superintendents

Why are so many school districts worried about insolvency?

February 26, 2013

The Council's November 2012 finance survey report[1] found 9 percent of superintendents anticipating financial insolvency for their districts within two years and 41 percent in within four years. Even higher proportions foresaw "educational insolvency" — becoming unable to fund instructional and other student service mandates.

Why do so many school district leaders across the state fear insolvency?

1. ***School districts have endured a series of tough budgets; easier budget cuts have already been taken.***

State aid was cut in 2010-11 and 2011-12 and most aid was frozen in 2009-10. Nearly 90 percent of districts are getting less state aid this year than they did in 2008-09. Even with the increases enacted last year and proposed by Governor Cuomo this year, 80 percent of districts would still be getting less help from the state in 2013-14 than in 2008-09.

Change in Total School Aid -- 2008-09 to 2012-13

87% of districts are receiving less aid this year than they did 4 years ago

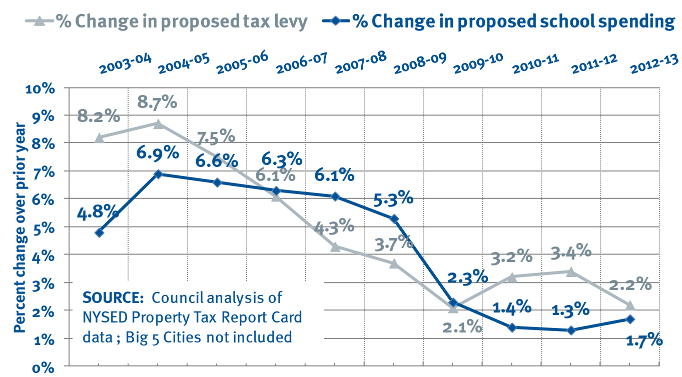
Amount of change between 2008-09 and 2012-13	Number of Districts	Cumulative percentage
Reduction of 20% or more	49	7%
Reduction of more than 15%, up to 20%	108	23%
Reduction of more than 10%, up to 15%	197	52%
Reduction of more than 5%, up to 10%	131	72%
Reduction of up to %5	101	87%
Increase of up to 5%	54	95%
Increase of more than 5%	36	100%
Total	676	-----

SOURCE: Council analysis of NYSED School Aid data

Also, districts have been holding down spending and taxes. Over the past four years, spending increases have averaged 1.7 percent and tax increases have averaged 2.7 percent.

Easier cost control options have been exhausted in many districts. Any job or program cannot be eliminated more than once, so each round of reductions becomes harder to make.

Schools were holding down taxes and spending before the tax cap



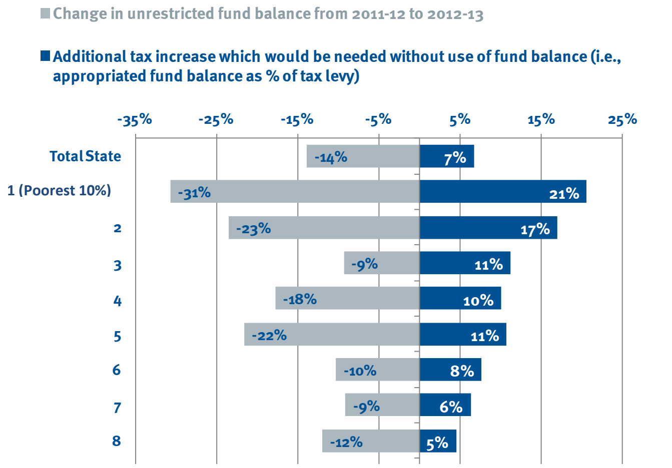
2. ***School districts have been drawing down reserves to spare students and taxpayers from budget actions that would have had more drastic impact. But those resources are disappearing fast.***

Half the districts in the state used more from fund balance in their budgets this year than they have remaining for use next year.

Without the use of reserves (appropriated fund balance) in their budgets this year, districts would have needed to raise taxes by 7 percent more than they did (9.2 percent, instead of 2.2 percent on average), or make cuts of corresponding magnitude. The poorest districts would have needed tax increases of 21 percent more to replace what they used in fund balance this year.

[1] New York State Council of School Superintendents, *Can't Get There From Here: 2nd Annual Survey of NYS School Superintendents on Financial Matters.* November 2012.

What happens when reserves run dry?
Districts grouped by property wealth per pupil

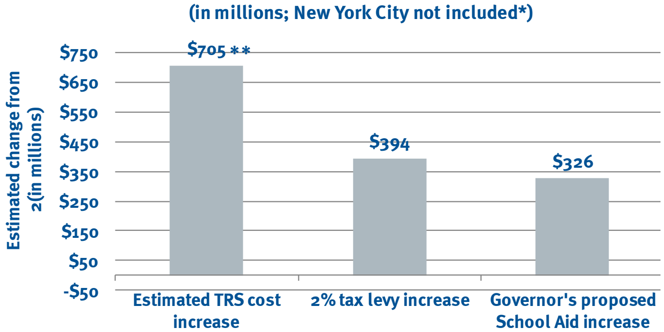


SOURCE: Council analysis of NYSED Property Tax Report Card data

3. *Some hard to control costs – especially pension contributions and health care premiums have been surging.*

Employer contribution rates to the State Teachers Retirement System are due to increase from 11.9 percent of payroll, to 16.25 percent. For nearly all districts, TRS cost increases will exceed what they would receive in state aid from the Governor's budget or what they would generate in local revenues with a 2 percent tax increase. For roughly 40 percent of districts, this one cost would exceed the sum of both revenue increases.

Estimated NYS Teachers Retirement System cost increases vs. revenue from School Aid and a 2% tax levy increase (in millions; New York City not included*)



* New York City has a separate Teachers Retirement SYstem

** Estimated by adjusting 2011-12 TRS obligations to reflect contribution rate increases from 11.11% for 2011-12 to 11.86% for 2012-13 and 16.25% for 2013-14. Actual costs would also be affected by changes in payroll costs since 2011-12.

SOURCE: Council analysis of NYSED School Aid and Property Tax Report Card data.

State government projects that health insurance costs on behalf of its employees and retirees will rise by and average of over 7 percent per year over the next three years. Many districts foresee even greater increases.

4. *There has been limited action on mandate relief, and new mandates have been adopted.*

The new "Tier VI" in state retirement systems will significantly lower school district pension costs – but only over the long term. Other significant mandate relief has yet to be enacted.

New mandates have been imposed – for example, implementing Common Core learning standards and new teacher and principal evaluation requirements.

Some of New York's high education costs are driven by unique laws: no other state we have found has a Triborough Law requiring payment of salary "step" increases even after a contract has expired, nor a Wicks Law mandating use of multiple prime contractors on construction projects. New York also has complex special education mandates. If state leaders want to maintain these policies, they need to acknowledge the costs the policies impose on schools.

5. *The two major revenue sources for schools – local taxes and School Aid – are now subject to state-imposed growth limits.*

Again, just state-mandated increases for Teachers Retirement System costs will exceed what nearly all districts would receive from either of their two primary revenue sources given the state's caps on School Aid and property taxes. For many districts, that one cost would exceed the total revenue they would receive from both these now capped sources.

Our finance survey found disparities across districts over which is the greater concern: state aid or the tax cap. In poorer upstate regions away from the Hudson Valley, only 5 percent of superintendents picked the tax cap as the greater concern; in downstate suburban counties, only 11 percent chose state aid.

Finally, the largest remaining revenue source – federal aid – is also at increased risk.