TESTIMONY

Impact of the Governor's 2013-14 Proposed State Budget on Schools

Senate Finance Committee and
Assembly Committee on Ways and Means

January 29, 2013

Chairman De Francisco, Chairman Farrell, and other Members of the Senate and Assembly:

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

Thank you for this opportunity to discuss the impact of Governor Cuomo's proposed 2013-14 budget on the state's public schools.

Mark Twain said, "When in doubt tell the truth."

The truth is that it was hard to compose our first statement reacting to the Governor's education budget this year. The proposed budget is more positive for schools than we had anticipated.

It's also true, however, that many school districts would still face terrible local budget decisions if it were enacted as proposed.

Two months ago, we published the findings of our second annual comprehensive survey of superintendents on financial concerns.

We reported, for example, that districts have eliminated an average of nearly 9 percent of their positions over the last two years. Rural districts have cut over 15 percent of both their administrative and student support positions over that period.

We found 83 percent of superintendents are concerned or very concerned by their districts use of reserves to fund ongoing expenses.

We reported that the share of small city superintendents saying their districts' financial condition is poor or very poor swelled from 24 percent last year to 43 percent this year.

We also found widespread concern about how recent school budgets are affecting the availability of extra help for students who need it.

Financial & Educational Insolvency

But the findings that grabbed the greatest attention from the news media were those about prospects for insolvency, financial and educational.

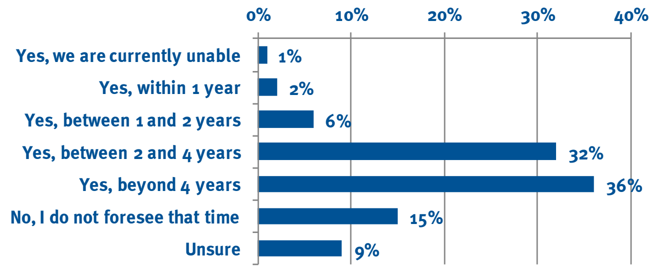
We asked superintendents if they could foresee a time, given current trends, when their districts would be unable to *ever* meet some financial obligations. Nine percent of superintendents foresaw their schools systems facing financial insolvency within two years under that definition. That would equate to roughly 60 school districts.

Within four years, 41 percent of districts could become financially insolvent, superintendents predicted.

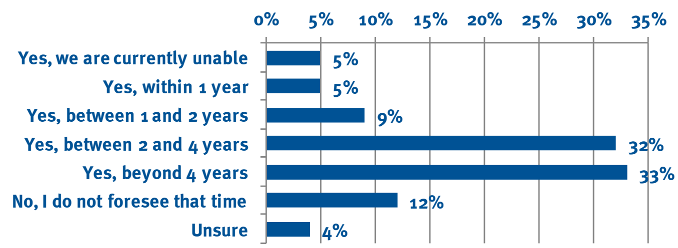
We also asked about the possibility for "educational insolvency," defining that concept as becoming unable to fund all state and federal mandates covering instruction and other student services.

Eighteen percent of superintendents see their districts becoming educationally insolvent by that definition within two years. Half anticipate that fate within four years.

Do you foresee a point at which your district would be unable to ensure that some of its financial obligations will EVER be paid?



Do you foresee a point at which your district would be unable to fund all the instructional and other student service requirements established by laws or regulations approved by the state and federal governments?

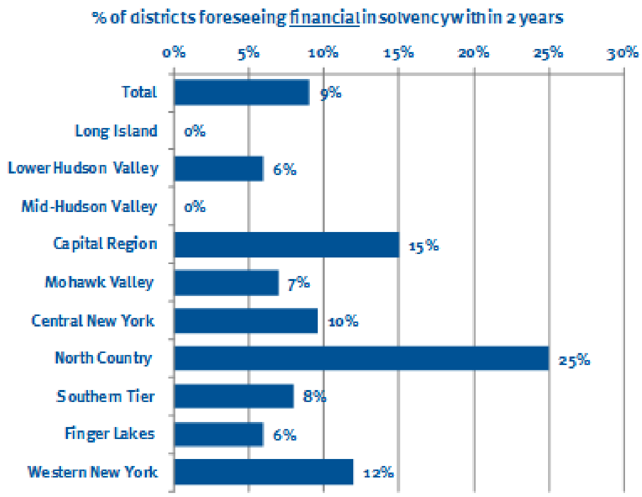


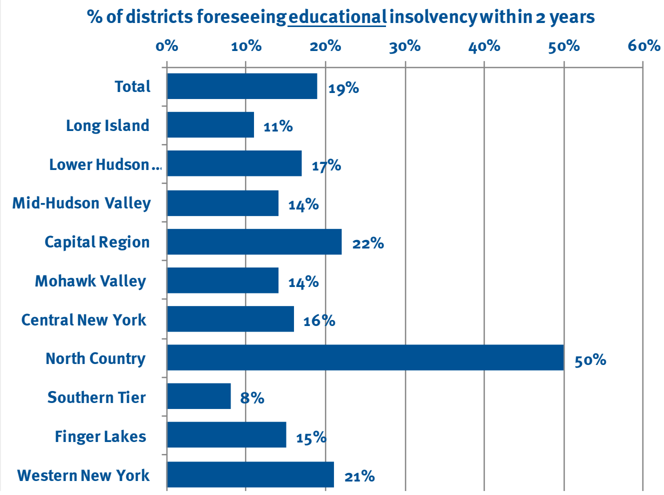
SOURCE: Council survey of New York State school superintendents, August-September 2012. Big 5 City and BOCES superintendents not included.

Superintendents of 5 percent of the districts said their schools systems are *already unable* to fund all the required educational services.

Fears about both types of insolvency were greatest in the North Country, the two rungs of counties across the top of our state. Half that region's superintendents anticipate educational insolvency within two years, and 25 percent see financial insolvency within that horizon.[1]

[1] The regions used in our report were defined as follows: **Long Island:** Nassau and Suffolk Counties; **New York City; Lower Hudson Valley:** Putnam, Rockland, Westchester; **Mid-Hudson Valley:** Dutchess, Orange, Sullivan, Ulster; **Capital Region:** Albany, Columbia, Greene, Rensselaer, Saratoga, Schenectady, Warren, Washington; **Mohawk Valley:** Fulton, Herkimer, Montgomery, Oneida, Schoharie; **Central New York:** Cayuga, Cortland, Madison, Onondaga, Oswego, Tompkins; **North Country:** Clinton, Essex, Franklin, Hamilton, Jefferson, Lewis, St. Lawrence; **Southern Tier:** Broome, Chemung, Chenango, Delaware, Otsego, Schuyler, Steuben, Tioga; **Finger Lakes:** Genesee, Livingston, Monroe, Ontario, Orleans, Seneca, Wayne, Wyoming, Yates; **Western New York:** Allegany, Cattaraugus, Chautauqua, Erie, Niagara





SOURCE: Council survey of New York State school superintendents, August-September 2012. Big 5 City and BOCES superintendents not included.

Why are fears of insolvency so prevalent?
At the beginning of our report, we identified five reasons for the alarm:

1. Schools have already been through a prolonged stretch of tough budgets. "Low hanging fruit" – easier budget-balancing actions – have been taken by many districts.

2. One way school districts have managed austerity in state aid is by drawing down reserves, to spare students and taxpayers from budget actions that would have had more drastic negative impact. But those resources are disappearing fast.

3. Pension contributions and health care premiums — two hard to control costs — have been surging.

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

5. The two major revenue sources for schools – local taxes and School Aid – are now subject to state-imposed growth limits. The largest remaining revenue item – federal aid – is now at increased risk under deficit reduction efforts in Washington.

I'll describe how Governor Cuomo's proposed budget measures up in addressing each of these five fiscal challenges.

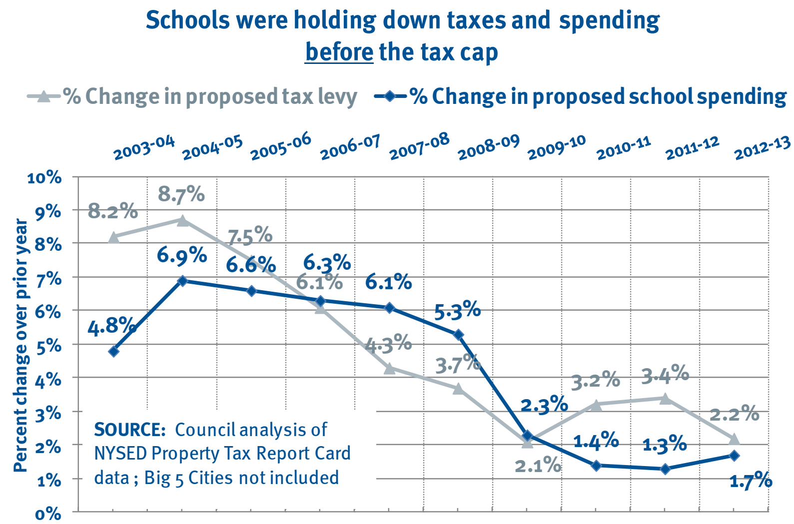
First, schools have already been through a prolonged stretch of tough budgets. "Low hanging fruit" – easier budget-balancing actions – have been taken by many districts.

We had two years in which School Aid was cut (2010-11 and 2011-12) and one year in which most aid was frozen (2009-10). Despite the aid increase in this year's state budget, 88 percent of districts are receiving less help from the state than they got in 2008-09, four years before.

Exclude Building Aid, and only seven districts in the whole state are getting as much aid as in 2008-09.

At the same time, districts have been holding down local tax increases. They did so well before the advent of the property tax cap.

The last time School Aid was cut – back in 2003 – districts asked voters to approve budgets with tax increases averaging 8.2 percent. But over the past four years, local school tax increases have averaged under 3 percent.

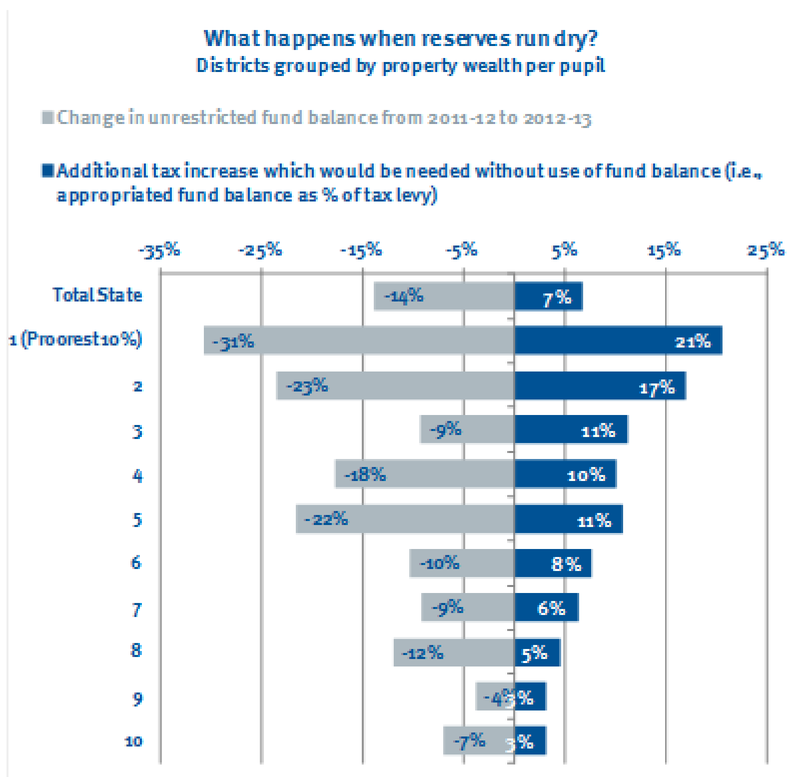


Second, one way school districts have managed austerity in state aid is by drawing down reserves, to spare students and taxpayers from budget actions that would have had more drastic negative impact. But those resources are disappearing fast.

Without the use of reserves – "appropriated fund balance" – in their budgets this year, districts would have had to ask voters to approve tax increases averaging 7 percent more than they actually proposed (9.2 percent instead of 2.2 percent). Or they would have needed to make cuts of corresponding magnitude.

Reliance on reserves was especially great in the poorest districts. Without the use of appropriated fund balance this year, the poorest 10 percent of districts would have need to ask voters for tax increases averaging 21 percent more than they actually proposed.

But the State Education Department reports that rainy day reserves for school districts shrank from $2.76 billion in 2009-10, to $1.21 billion this year. We found that half the state's districts



SOURCE: Council analysis of NYS Education Department Property Tax Report card data.

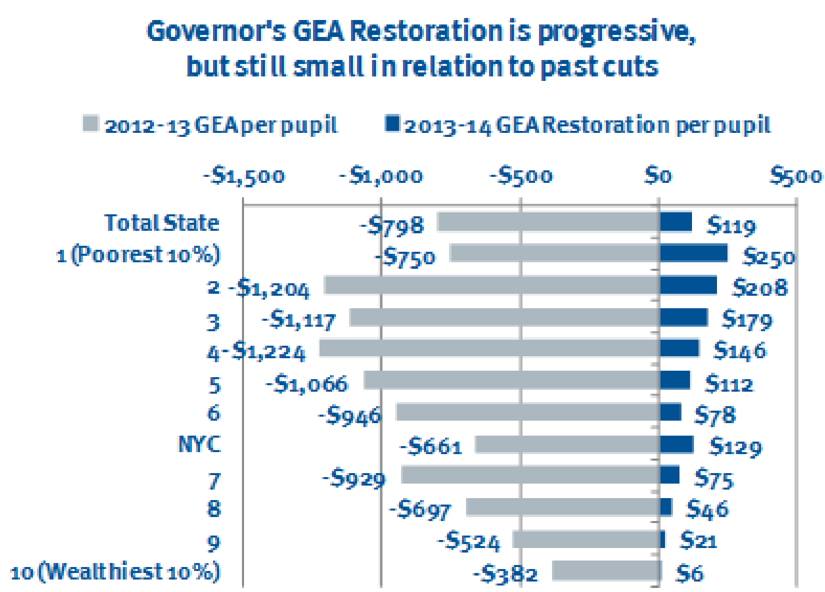
budgeted more from reserves this year than they have remaining as unrestricted fund balance for next year and beyond.

School Aid – Gap Elimination Adjustment, High Tax Aid, & Expense-Based Aids
So how would Governor Cuomo's budget proposals help schools with these first two challenges?

The Executive Budget would increase formula School Aid by $550 million, through a $322 million reduction in the Gap Elimination Adjustment, $289 million in net increases to expense-based and other aids funded according to current law formulas. These increases would be partly offset by a net $50 million cut to High Tax Aid.

The GEA Restorations generally would provide larger per pupil aid increases to districts with lower wealth and higher pupil needs, partly offsetting the regressive impact of past GEA cuts.

Still, the restorations would typically be small compared to what districts have lost. The average district would see 15 percent of its GEA restored.



NOTE: Districts are grouped by property wealth per pupil.
SOURCE: Council analysis of NYS Education Department data.

The Governor's proposed changes to High Tax Aid would increase funding to 62 mostly low wealth districts while cutting it for others, producing a net $50 million reduction. Some of the cuts are steep: 182 districts (more than a quarter) would lose more in High Tax Aid than they would gain from the GEA Restoration.

We are grateful that the Governor did not propose changes to the expense-based formulas that would deprive districts of reimbursement for costs they have already incurred.

Even with the overall $550 million increase in formula aids, 80 percent of districts would still be receiving less help from the state than they did in 2008-09, five years in the past.

For that reason, we commend the Governor for proposing an additional $203 million "Financial Stabilization Fund" to be allocated through negotiations with you and your colleagues.

That sum should be supplemented by re-targeting into further GEA reductions the $50 million increase the Governor recommends for competitive grant programs rewarding districts for management efficiency and performance improvement.

Third, pension contributions and health care premiums — two hard to control costs — have been surging.

Anecdotally, superintendents regularly cite pensions and health insurance as the primary cost threats to their districts' solvency. These expenses are hard to control: schools cannot reduce pension obligations except by cutting jobs and, like many employers, they struggle to keep up with health insurance premiums.

Growth in pension costs slowed some for the current school year. But the State Teachers Retirement System advised districts that employer contribution rates will need to increase from 11.84 percent to between 15.5 and 16.5 percent in 2013-14.

The contribution rate is applied against the payroll for employees in TRS, so the rate increase is equivalent to mandating districts to absorb a cost equal to giving all those employees 3.6 to 4.6 percent raises, whether or not districts provide any actual raises.

TRS cost increases alone would exceed what most districts would gain from either a 3 percent state aid increase or 2 percent increase in local property taxes. So absent other help, schools would need to cut other activities in order to absorb these costs, as most did by our analysis last year and the year before.

Stable Pension Rate Option

The Governor has proposed a creative option to enable school districts and local governments to lock-in a stable employer contribution rate for up to 25 years. The option could allow schools to reduce their TRS costs for the coming year by nearly 25 percent, paying a rate of 12.5 percent, instead of the 16.5 percent projected by TRS as the upper range.

We want to hear from TRS officials how they believe the plan would affect the soundness of the system they manage and its longer-term implications for district finances. But pension costs are a crushing problem for schools now. There may be other options that deserve consideration, but we acknowledge that the Governor's proposal would provide significant immediate help.

Health Insurance

We believe state government should also explore ways to help schools and local governments to lower or restrain health insurance costs. We support capping employer contributions toward health insurance premiums, partly as a way to increase leverage to negotiate changes that would lower total premium costs, for both employers and employees or retirees.

By joining consortia, many school districts have expanded their purchasing power and lowered their costs. But health benefits are collectively bargained and collective bargaining agreements expire at different times, making it hard to expand the purchasing power of consortia further.

We also support charging a joint statewide labor-management commission to recommend actions to lower health care costs for both sides. The recommendation from New York State United Teachers to explore bulk purchasing of prescription drugs should also be pursued.

Fourth, there has been limited action on mandate relief, and new mandates have been adopted.

Last year's "Tier VI" legislation will significantly reduce the school district share of pension contributions, but its impact will be felt over the long-term.

There have been some limited changes in special education mandates and district sharing opportunities through BOCES and joint purchasing have been expanded. But these are small steps.

Factors contributing to high costs

We have all heard that New York spends more per pupil on its schools than all or nearly all other states. We should ask why that is so.

One reason is that we are a high cost of living state in general, not just in education. Our neighboring states also rank high in per pupil spending.

Another reason is that we do provide more services, partly because outside the Big 5 Cities, school budgets are subject to voter approval. Parents supply most of the votes for those budgets, and parents want their children to be spared from crowded classes, to get extra help when they need it, and to have opportunities to learn through advanced classes and extracurricular activities.

We also have laws no other state has.

No other state has a Wicks Law requiring the use of multiple prime contractors on construction projects.

So far as we can determine, no other state has a Triborough Law. Several states have laws maintaining health care and other benefits when public sector collective bargaining agreements expire, and that is fair. But we have found no other state that guarantees annual step increases after a contract expires.

Roughly three-quarters of school spending goes into personnel. The implication is that when budget cuts are needed, about three-quarters will come out of personnel. There are two ways to reduce personnel costs: employ fewer people or spend less per employee.

Triborough's permanent guarantee of raises leaves little incentive for unions to agree to contract changes that would lower or just restrain per employee costs that could help schools save jobs.

If state officials wants to maintain these laws, you need to recognize there is a cost.

Special Education Mandate Relief

We also have more extensive special education mandates than most other states, and that contributes to more of our students with disabilities being placed in high cost, segregated settings. So we strongly support the Governor's proposal to allow schools to obtain waivers from specified special education mandates.

Paperwork Reduction

We also support the Governor's proposal to reduce paperwork demands on schools and local governments by repealing every existing reporting requirement effective April 1, 2014 unless the Mandate Relief Council concurs with an agency's request to maintain it.

The State Education Department lists over 140 plans, reports and applications schools may be required to complete – roughly three for every week of the year.

How do you want school leaders spending their time – filling out reports no one ever reads, or doing things that can make a real difference for students and taxpayers?

Consolidation and Regionalization

It's true we have more school districts than we would choose if we were starting an education system from scratch today. But so do states like Illinois and Texas, and they do not spend what we do. So the number of districts we have does not explain our higher costs.

It's true also, that past consolidations have most often produced limited savings, because reductions in administration get offset by leveling-up compensation and benefits for merged unionized workforces.

Still, we support streamlining procedures for voter approval of school district mergers. We also endorse authorizing districts to launch regional high schools, as a way to preserve the opportunity for students living in poor and shrinking communities to still get a comprehensive secondary education. The state should also make greater use of BOCES to promote the sharing of administrative and overhead functions.

New Evaluation Requirements

While progress in trimming mandates so far has been limited, schools are coping with daunting new requirements, including developing and adopting new teacher and principal evaluation procedures. In our survey, 70 percent of superintendents said the new procedures will require their districts to spend significantly more on evaluations than under prior practices.

All but six school districts met the state's January 17 deadline for State Education Department approval. In the weeks ahead, we will be asking what superintendents think about the quality of those plans, their impact on teaching and learning, and what had to be done to get approval.

At yesterday's local assistance hearing, Mayor Bloomberg disparaged evaluation plans submitted by other school districts. We dispute his characterization of the intentions and accomplishments of leaders in those other districts. But we concur with the Mayor's opposition to permanent and recurring aid penalties on school systems that cannot get agreements with their unions in time to meet approval deadlines.

If there is to be a deadline for the coming year, it needs to be pushed back later than the September 1 date the Governor proposes.

Districts will not receive teacher growth scores until mid-August at best; the impact of those scores on overall evaluations will a factor that districts and unions will want to consider in weighing changes to evaluation plans.

Fifth, the two major revenue sources for schools – local taxes and School Aid – are now subject to state-imposed growth limits. The largest remaining revenue item – federal aid – is now at increased risk under deficit reduction efforts in Washington.

Property Tax Cap & School Aid Growth Cap

The property tax levy cap makes it harder for school districts to gain voter approval for local tax increases, and imposes drastic consequences if voter approval is not obtained – districts are foreclosed from any increase in tax levy. Massachusetts' tax cap, cited as a model, allows communities to increase their tax levy by up to 2.5 percent without gaining voter approval.

The other major school revenue source – state aid – is also subject to a cap. Tied to yearly changes in the total personal income of state taxpayers, the cap provided for a 4.1 percent ($805 million) increase in School Aid this year supports a 3 percent or $611 million increase this year.

We concur with former Campaign for Fiscal Equity attorney Michael Rebell that both caps are obstructions to honoring the state constitution's promise of a sound basic education for every child. For most districts, the caps will not allow revenue growth to match costs they struggle to control.

Again, for most districts, just pension increases would absorb every cent they could gain from a 2 percent property tax increase or 3 percent state aid increase.

We recommend that the School Aid growth cap be calculated using a multi-year average, like the Medicaid cap. Continuing the current single-year measure of personal income growth assures wide swings in the cap from one year to the next. That will not be conducive to effective planning and management by the schools or the state.

"New NY Education Reform" Initiatives

Our survey report begins by explaining that although it is chiefly about the financing of education, "the real business of schools is teaching and learning – preparing young people to thrive in life beyond school."

Acting on recommendations from his New NY Education Reform Commission, Governor Cuomo proposes $75 million to support five new programmatic initiatives.

We are not prepared to endorse the specific proposals nor their recommended funding levels at this time. Concerns about maintaining *existing* services are rampant. Also, a common reservation among leaders in small, poor and rural school districts is that these grants may be prizes they just can't win – they don't have the administrative capacity to develop and complete the required applications.

Nonetheless, we should be striving toward the priorities raised by these initiatives:

- There is widespread agreement that expanding prekindergarten for disadvantaged children is the best learning investment we can make.
- Re-establishing Community Schools to link learning and other services would acknowledge our schools cannot succeed without support from families, but too many families need help that schools often can't provide.
- Students who fall behind need time to catch up. Extending learning time in their schools would help. But we should also end or amend archaic state mandates that prevent schools from making the most use of the time they have now.
- We need the best teachers and leaders we can get for our schools, but there may be better investments to be made than the $15,000 stipends for the handful of teachers the Governor recommends.
- Similarly, for all students, there should be stronger connections between high school and whatever comes after. But there are options we should support in addition to Early College High Schools.

Thank you for your time, for listening, and for all your past support of our schools.