



The 2016-17 Executive Budget and the Public Schools

Senate Finance Committee & Assembly Ways and Means Committee

January 27, 2016

Chairwoman Young, 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 speak on the financial outlook for our public schools and the potential impact of the next state budget in either strengthening or diminishing their capacity to improve opportunities and outcomes for the schoolchildren they serve.

Thank you also for your past efforts to support our schools. We know that every year in your budget decisions you say “no” to many people with worthy causes in order to say “yes” to help our public schools as much as you have. Your efforts have made a positive impact.

Superintendents, their boards and their business officials are still evaluating how the new state budget for schools would affect the actions their districts need to take in the budgets they ask their voters to consider in May. But the primary reaction we detect so far is discouragement, in part because some had been encouraged by progress over the last year.

Since 2011, we have annually surveyed superintendents across the state about the financial prospects for the schools they lead. Every year, we have asked, “How has the financial condition of your district or BOCES changed, in terms of its ability to fund services meeting expectations of parents in the community?”

In that first year, faced with a structural budget deficit of \$10 billion, the state budget cut School Aid by a record amount – \$1.3 billion. In that 2011 survey, 75 percent of superintendents told us that the financial condition of their schools had grown significantly or somewhat worse; only 3 percent reported any improvement.

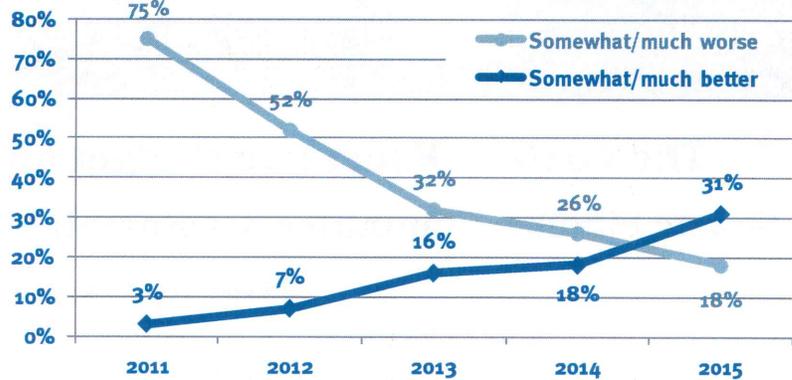
Every year thereafter –until this year – more superintendents said that the financial condition of their schools had worsened rather than improved. No doubt some were telling us that their financial outlook had deteriorated each year, annually compounding damage to their schools. A fear we heard

from many school leaders was that perhaps students in the future would never again have opportunities matching those of the past.

But our survey last summer told a different story, the beginnings of a more hopeful one.

For the first time, more superintendents told us that the financial condition of their schools had improved rather than worsened – by 31 percent to 18 percent (51 percent said their district financial condition was unchanged).

How has the financial condition of your district or BOCES changed over the past year?



SOURCE: Council surveys of superintendents

We also found modest improvement in the impact of budgets on specific programs and services.

Back in 2011, decisive majorities of superintendents reported a negative impact on every aspect of their districts’ operations from that year’s budget and no more than 7 percent of superintendents cited a positive impact on any aspect.

Even a year ago, a greater share of superintendents cited a positive impact for only two areas: school safety and core elementary instruction.

For the current school year, we again found a more hopeful outlook. In crucial areas, including core instruction at each grade level, there were significant declines in the shares of superintendents anticipating a negative impact and more superintendents anticipated a positive impact than negative.

What was the impact of budget decisions on each of the following areas of school operations?				
Program Area	Positive Impact		Negative Impact	
	2014	2015	2014	2015
Core instruction in elementary grades	21%	36%	41%	13%
Instruction in English, math, science, and social studies in the middle level grades	17%	29%	42%	11%
Instruction in English, math, science, and social studies in high school	17%	31%	41%	12%
Extra help for students who need it -- any level	11%	34%	57%	26%
Advanced or enrichment classes	11%	21%	50%	21%
Student counseling, social work, mental health or similar support services	9%	23%	43%	18%

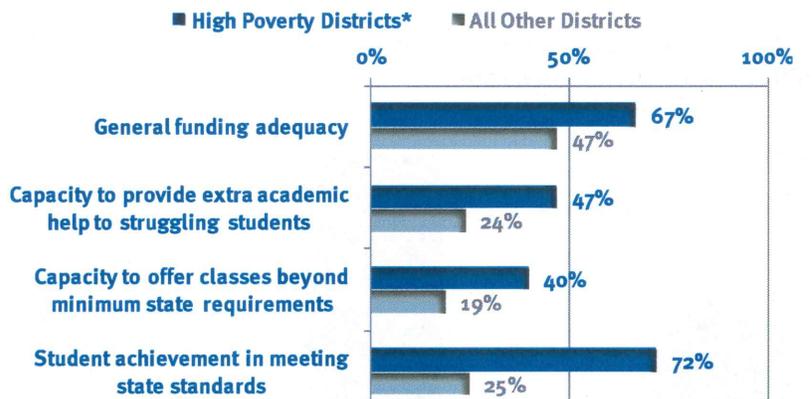
SOURCE: Council surveys of superintendents, 2014 and 2015

Make no mistake, however, widespread worries do persist:

- Ninety-one percent of superintendents responding to our survey last summer said that general funding adequacy is a problem.
- 69 percent professed concern about their district’s reliance upon reserves to pay recurring costs.
- Without the use of fund balance this year, districts would have needed to raise local taxes by nearly 5 percent more than they did propose to voters, or make spending reductions of corresponding magnitude. Districts in the lowest 10 percent of property wealth per pupil would have needed tax increases of nearly 15 percent, or corresponding cuts.

We find, also, that superintendents serving the poorest school-children are still apt to have the bleakest outlook. They are much more likely to cite as significant problems general funding adequacy, assuring extra academic help for students who need it, providing classes beyond state minimum requirements, and student achievement in meeting current standards.

Percentage of superintendents identifying conditions as "significant" problems for their districts (2015)



* Districts with at least 60% of students eligible for the federal Free or Reduced Price Lunch program

SOURCE: Council survey of superintendents, 2015

The gains have been small and remain fragile, in part because the damage brought on by the cuts during the depths of the Great Recession was so deep. Also, while districts have been managing the restrictions of the property tax cap, growth in state aid was slow for a time. Even after last year’s budget, 31 percent of districts are still receiving less state aid than in 2009-10.

But there have been improvements in school finances and your efforts have made a difference.

The Tax Cap and Maintaining Current School Services

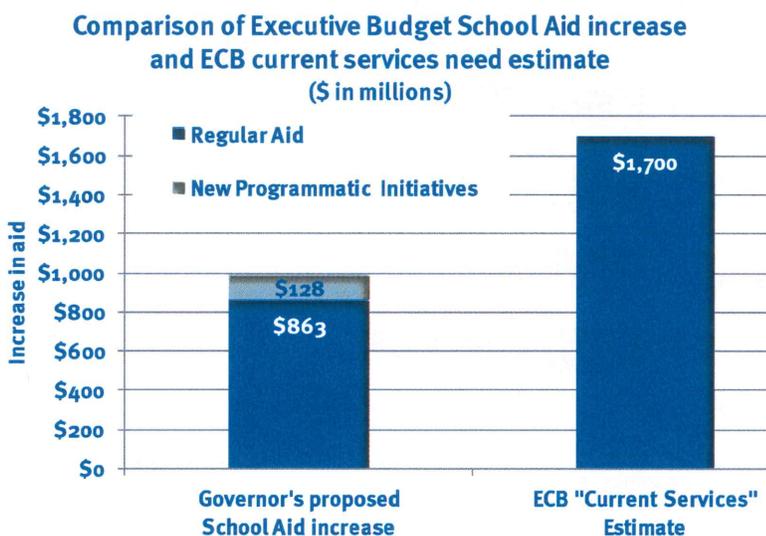
With the news of the past two weeks, however, we are hearing from many superintendents that any progress attained in the past year is threatened, and some foresee a need for local actions that would

again throw their district finances in the wrong direction, diminishing services and opportunities for students once more.

Last week it became official: the “allowable tax levy growth factor,” the base for the school property tax cap, will be 0.12 percent. That level of increase would generate less than \$25,000 for over half the state’s school districts.

Here is another way to understand the impact of the near zero tax cap: A typical salary for an early career teacher in the Capital Region is about \$40,000. The mandated school district pension contribution against that salary next year would be about \$4,700. Add \$10,000 as an estimate of the employer cost for individual health insurance and that brings the total compensation cost to \$54,700. *Less than one-quarter of the state’s school districts would raise enough money with a 0.12 percent tax increase to preserve that one teacher’s job.*

Last fall, the Educational Conference Board projected that schools would need a state aid increase of \$1.7 billion to maintain current services based on a set of moderate assumptions about costs and the prospect of a near zero tax cap. With a true 2 percent tax cap, the Governor’s School Aid proposal would comprise a strong starting point. But as it is, the recommended increase would support only about one-half the cost of maintaining current services.



Educational Conference Board assumptions:

- 2.7% increase in salaries (national survey of all types of employers)
- 6.6% increase for health insurance (DOB projection for state workforce)
- Reduction in employer contribution rate for teacher pensions
- 2.3% increase for non-personnel costs (DOB projection of increase in CPI, summer 2015)
- No increase in local revenue due to near zero tax cap

SOURCES: Division of the Budget, Teachers Retirement System, Society for Human Resource Management

The Governor’s School Aid proposal can be thought of as consisting of four major parts:

- A \$189 million reduction in the Gap Elimination Adjustment
- A \$266 million increase in Foundation Aid
- A net \$408 million increase in expense-based and other aid categories, funded according to current law formulas.
- A new \$100 million Community Schools Aid formula

These components total \$961 million. The proposal also includes grant funding of \$24 million for prekindergarten initiatives and \$4 million for Early College High Schools; this money is not yet allocated and does not appear on aid runs.

The distribution of the increase in total aid appears somewhat random, at when least measured as percentage increases in aid. For example, high need rural districts would receive total aid increases averaging 3.4 percent, while more affluent low need districts would benefit from total aid increases averaging 4.6 percent.

The “Big Four” cities of Buffalo, Rochester, Syracuse, and Yonkers would gain total aid at an average of 5.0 percent, greater than any of the other Need/Resource Capacity categories defined by the State Education Department. But the largest part of their increase would come from the new Community Schools Aid formula, a categorical program intended to support expanded services to help students and families overcome out-of-school impediments to in-school success. Exclude Community Schools Aid and Building Aid, and these districts would receive the lowest proposed increase, 2.4 percent.

Percent change in School Aid under the 2016-17 Executive Budget



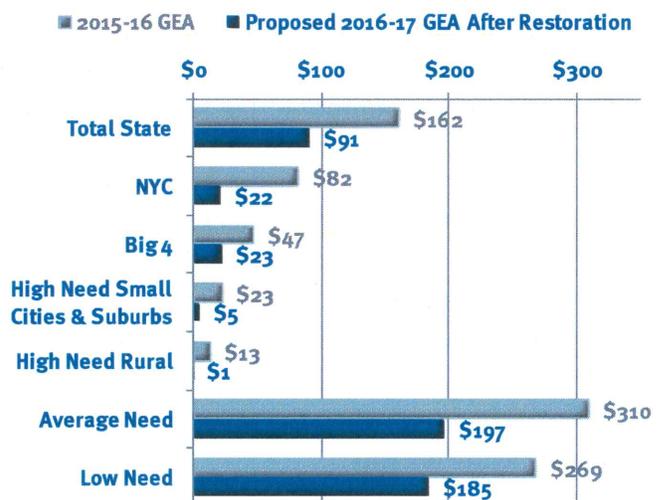
SOURCE: Council analysis of NYSED School Aid data

The Gap Elimination Adjustment

We support ending the Gap Elimination Adjustment this year, not a year from now, as the Governor recommends. The GEA was born in the deepest trough of the Great Recession, when the state was facing huge budget gaps. Now those gaps are gone, surpluses are projected for the foreseeable future, and it is time for the GEA to be gone as well.

At its start, the GEA was especially damaging to very poor districts. Over the years, the state targeted restorations to those districts and the Governor’s budget would end the GEA for 200

Gap Elimination Adjustment per Pupil



SOURCE: Council analysis of NYSED School Aid data

districts in the coming year. But as the accompanying chart indicates, average need districts are suffering the greatest aid loss per pupil from the GEA in 2015-16, and would again next year.

Foundation Aid

Schools need more than ending the GEA, however. High need school districts in particular need an increase in Foundation Aid, beyond what the Governor has proposed. Excluding Building Aid and the new categorical Community Schools Aid, the Big Four cities, high need small cities and suburbs and rural districts receive the smallest percentage increases in aid to support their current operations, as the first chart on the preceding page indicates. They would also receive the smallest benefit if the only additional aid is to end the GEA. For example, as the chart directly above indicates, ending the GEA would give high need rural districts only \$1 per pupil more above what the Governor proposes.

Community Schools Aid

A new \$100 million Community Schools Aid formula is the third major component of the Governor's School Aid proposal. \$75 million would be allocated to districts with schools designated as struggling or persistently struggling under the receivership law enacted a year ago. The balance would go to districts designated as "high need" by the State Education Department in either 2003 or 2008.

As we said in our testimony at the Assembly's receivership hearing in October: Schools cannot succeed on their own; they need help from families and some families need help that schools have not customarily provided – health care, mental health services, child care, and employment assistance, for example. Community Schools are one vehicle for delivering that help.

We appreciate that this proposal avoids creating another competitive grant process that for many poor districts feels like a game they are fated to lose. But with the near zero tax cap and insufficient general aid, these districts and others face the prospect of needing to cut back basic instructional services and even family supports that were initiated prior to the advent of this new funding stream. We want to be sure schools have adequate funding to preserve essential current services.

Expense-based aids and other School Aid issues

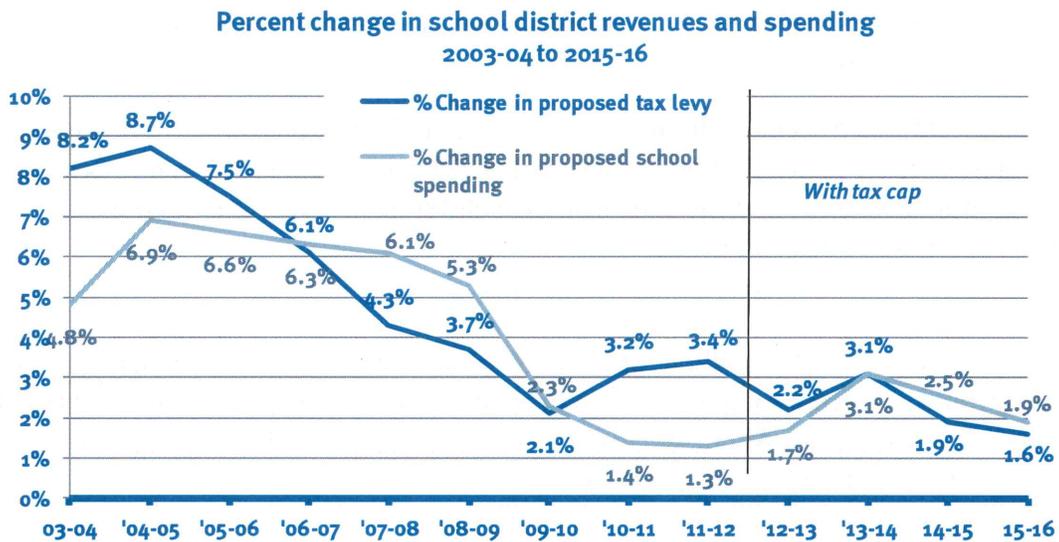
The final major component of the Governor's School Aid proposal is to maintain current law formulas for expense-based aids such as Building Aid, Transportation Aid, BOCES Aid, and other formulas. We commend this decision which assures districts receive reimbursement for costs they incurred in good faith with the presumption that state aid would follow.

We also welcome the Governor's decision not to repeat last year's exercise of withholding aid runs illustrating the allocation of his proposed state aid increase. The school district budget process is exemplary in its transparency and openness to public input. Culminating outside the Big 5 cities with voter approval, district leaders continually engage local stakeholders in formulating the decisions to be presented to the voters. The availability of School Aid figures from an authoritative state source adds realism to the options stakeholders are asked to weigh. A baseline state aid estimate is especially essential in a year when the other major school revenue source – the property tax levy – is effectively frozen by the tax cap.

We are disappointed that the budget would not accelerate the pay-down of over \$300 million in prior year adjustments in state aid owed to school districts. The budget would appropriate only \$18.6 million toward those obligations. At that rate, a district could wait over 15 years for payment. In contrast, when a correction favors the state, the money is recouped from the district within three years. We urge that a portion of the financial settlements won by the state be used to reduce this backlog in School Aid adjustments. When you receive a windfall, it is honorable to pay your debts.

A Longer-Term View: The Tax Cap and Foundation Aid

New York’s public schools went through a difficult stretch: one year in which most state aid was frozen, two years in which aid was actually cut, implementation of a restrictive tax cap, and periodic surges in pension and health care costs. District leaders have worked hard to hold down spending and tax increases while protecting opportunities for students. The outlook improved somewhat, helped by a strong state aid increase in the current state budget and a decline in mandated pension contributions. But more deliberate action is needed to create a sustainable future for New York’s public schools.



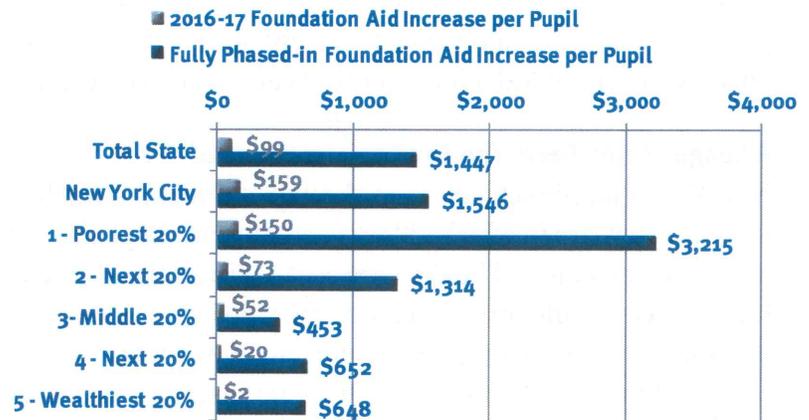
SOURCE: Council analysis of Property Tax Report Card data. Big 5 city school districts not included (not directly subject to property tax cap).

One step would be to amend the tax cap. It’s commonly understood to be a 2 percent cap; the simplest option for change would be to make the cap 2 percent, not the lesser of 2 percent or inflation over the prior year. Districts staying under 2 percent would then be allowed gain budget approval with a simple majority of voters; 60 percent over-ride votes would be required only for tax increases above that threshold. We doubt anyone contemplated the near zero percent tax cap schools are now facing.

Some of you have learned that legislation enacted last session authorizing tax cap exclusions for BOCES capital expenses and tax base growth tied to PILOT payments has not been implemented. Please call upon the Department of Taxation and Finance to adopt the necessary regulations.

A second necessary action is to commit to re-starting the Foundation Aid formula. Foundation Aid was enacted in 2007 as part of the effort to resolve the Campaign for Fiscal Equity’s challenge to the constitutionality of the state’s school finance system. It was an under-appreciated achievement in public policy. It provided the greatest aid per pupil to the neediest districts. It used factors that could be understood, evaluated and debated, strengthening transparency and accountability in state funding decisions. It promised all districts greater predictability in state funding going forward.

Foundation Aid: Proposed increase per pupil and phase-in amount remaining after increase
Districts grouped by student poverty*



*% of students qualifying for federal Free & Reduced Price Lunch program,
SOURCE: Council analysis of NYSED School Aid data

But Foundation Aid was frozen for three years, then endured a few years with only minimal increases. The state is now over \$4 billion behind in phasing in the formula and it now requires some modification. But schools serving the state’s poorest children stand to gain the most by a renewed commitment to funding Foundation Aid.

Prekindergarten

The budget proposes a new \$22 million initiative to expand prekindergarten programs to serve three year-olds. It would also create a new three member board comprised of appointees of the Governor, Assembly Speaker, and Senate Majority Leader to make funding decisions. The board would be staffed by the Office of Children and family Services.

We support expanding access to prekindergarten. The state should also consolidate and synchronize the six funding streams now supporting pre-k programs. But we strongly oppose reassigning program administration. Education programs should be administered by the State Education Department, the constitutionally responsible agency.

Struggling Schools and Receivership

A year ago, you enacted legislation to authorize more forceful state intervention in chronically struggling schools. State government has a duty to assure all students are given access to our constitution’s promise of a sound basic education. But the legislation imposed unrealistic timelines for planning and for improvement. We will join with other public school groups to recommend changes to the law and to support the funding the targeted schools need to have a fair chance to succeed.

SED State Operations

We commend you for appropriating \$8.4 million to support improvements in the State Education Department's testing operations last year and commend the Governor for continuing that funding in his proposed budget for next year. But the Department requires more support to carry out all the responsibilities assigned to it by the Common Core Task Force. A study by the Center for American Progress ranked New York 46th among the states in per pupil funding of its state education agency.

Education Tax Credits

We again oppose proposals to create income tax credits for school tuition, donations to education organizations, and for teacher purchases of classroom supplies. At a time when the GEA is reducing state aid by \$434 million, the 2007 Foundation Aid formula is underfunded by over \$4 billion, and the property tax cap forecloses almost any increase in local revenue, these proposals would diminish the state's capacity to support its public schools which educate 85 percent of students now, and are obliged by our constitution to educate all children, whatever their circumstances, wherever they come from, whenever they arrive.

Legislation

Given the need to prioritize funding concerns, we are encouraged that this budget does not present new reform initiatives for us to debate and for local leaders to implement. We are encouraged too by our interactions with Commissioner Elia and the team she is assembling. They should be given time and support to implement administrative and regulatory improvements in our state education policies.

The Governor does recommend a series of proposals addressing school safety. Some we have advocated, such as providing that some of the now required 12 annual fire drills be used for other safety exercises. Some would assign deadlines that would be hard for all schools to meet, such as requiring all employees receive safety training by September 15 and new employees receive training within 10 days of hiring.

Conclusion

Superintendents play the leading role in translating new state policies into local practices that can make sense for the communities they serve. Like you, they are expected to balance what schoolchildren need with what taxpayers can afford. Please seek their perspectives on the state of their schools, the impact of state policies to date, and the implications of the choices you face in the budget will enact for the year ahead.

