



The New York State Association of School Business Officials

Advancing the Business of Education

2013-14 Executive Budget Testimony
By Michael J. Borges, NYSASBO Executive Director

Good afternoon and thank you for allowing me to speak briefly with you today about the impact of the proposed 2013-14 Executive Budget on public school finances.

Given the ongoing sluggish growth of the economy and its impact on state finances, we are appreciative of the additional \$203 million in operating aid beyond the 3% or \$611 million increase tied to personal income growth. These additional funds should be allocated according to existing formulas in a fair, consistent and open manner.

In addition, the targeting of \$322 million towards the partial restoration of the Gap Elimination Adjustment (GEA), is a welcome recognition by state policymakers that the GEA unfairly penalizes high need school districts and should eventually be eliminated entirely or folded into a more equitable Foundation Aid formula. However, the \$50 million reduction in High Tax Aid to pay for this restoration, only robs from one school district to give to another. The priority for state policymakers should be the elimination of the GEA altogether while keeping all school districts hold-harmless at 2008 levels of funding.

Again, although we are appreciative that the Governor included in the proposed Executive Budget our request to eliminate the mandate for internal audits for school districts of less than 1,000 students, significant mandate relief was punted to either the Mandate Relief Council or SED well into next year.

The Executive Budget states that all reporting requirements would automatically expire by April 2014 unless the Mandate Relief Council approves continuing them. Although these are steps in the right direction, they postpone or miss entirely any significant mandate relief this year.

The Governor keeps pointing out how we expend \$18,618 per pupil, more than any other state, yet little substantive action has been done to reduce that per pupil cost. 75% of that cost is related to staff expenses like pensions, health insurance and salaries. Again, we appreciate the proposal to choose a fixed contribution rate to ERS and TRS that would be lower this year than currently projected. We would recommend offering several options to school districts similar to home mortgages, i.e. 15 year, 20 year or 25 year commitments, with the ability to refinance or payoff at any point, meaning they could change their term from 25 to 15 years, or revert to the current yearly adjustable rate, depending on their financial situation.

As you know, in addition to pension costs, the next two major costs to school districts, are health care and special education costs. Currently school districts band together, sometimes through their BOCES, to create health insurance consortiums or trusts to coordinate the purchase of health insurance at



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reduced costs. These regional health care consortiums have met with varying degrees of success depending on local expertise and the demographics of their subscriber populations.

The state should work with our association to assist these health care consortiums or trusts to share best practices, eliminate roadblocks to additional savings and encourage the creation of larger or statewide economies of scale that will further drive down costs.

In addition, we have proposed legislation which would set a minimum employee contribution rate of 15% towards health insurance costs. If this legislation was enacted this year, it would save school districts approximately \$400 million or about \$500,000 each. School districts currently spend approximately \$4 billion on health care, and this proposal could shave 10% off of this huge expenditure.

Special education expenses are the next big ticket item that school districts have very little control over due to all the state mandates that exceed federal requirements. Special Education costs approximately \$9 billion per year for a system that encourages overspending and waste.

The Governor included in the Executive Budget the ability for school districts to obtain waivers from SED from special education requirements, which can be a drawn out and time consuming process, instead of eliminating some of these costly mandates for all school districts. Plus it shifts the onus to school districts and SED to make these changes in a piece meal fashion that would cost school districts and SED millions of dollars in legal costs defending their decisions.

We have produced a list of manageable mandate relief suggestions with approximated cost savings based on a recent survey of our members. We encourage the Legislature to examine these recommendations and enact some of them this year to achieve some mandate relief for struggling school districts across the state. In addition, SED has identified over 200 instances where state regulations and laws on special education exceed those required by the Federal government. We urge the Legislature to take action on these suggestions as well.

The Executive Budget also fails to address anomalies or quirks in the Tax Cap Law that makes it difficult to both comply with the legislation and for school districts to develop fiscally prudent budgets. We have proposed legislation to address these flaws in the tax cap bill that deal with the following issues:

- Include budget transfer to capital funds under definition of capital local expenditures that would be excluded from tax cap. Current interpretation only allows exclusion for when capital funds are expended, thereby punishing school districts for prudently planning for a capital project by setting aside money on an annual basis.
- Allow the assessed value of PILOT properties to be phased into the tax base growth factor. Current interpretation does not add the value of these properties back onto the tax rolls thereby



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deflating the tax base growth factor and has lead school districts to oppose economic development efforts that include PILOTs.

- Prevent tax levy limits from being a negative number. About a dozen districts were saddled with negative tax levies due to anomalies in the tax cap calculation, resulting in school districts proposing budgets that raised less money than the year before.

The latest interpretation of the tax cap law regarding the amount of the tax levy they can carry over from one year to the next will cost school districts approximately **\$56 million** this year.

The Tax Cap Law states that districts under the tax levy limit in a given year can “carry-over” i.e. add that amount (limited to 1.5% for the previous year levy) to their tax levy limit in the coming year. Based on guidance and interpretations available to districts prior to finalizing and voting on their 2012-2013 budgets and levying their taxes, districts understood this “carry-over” provision to be based on the calculated maximum that districts were legally allowed to raise their local 2012-2013 levies without requiring a supermajority approval from their local voters.

However, based on further guidance from state agencies in the Fall, well beyond when districts could make decisions on the 2012-2013 budget and levy, districts will now be unable to “carry-over” the amount they were anticipating when they went out to the voters last Spring and levied taxes over the Summer. Because of this late interpretation, more than half the districts in the State will be denied nearly \$56 million in local taxing authority in 2013-2014. NYSASBO has consistently requested that state policy and its interpretations allow school districts to make accurate and credible financial planning decisions on behalf of its students, staff, and taxpayers. This did not happen in this case and we urge the Legislature to correct this prevailing interpretation prior to March 1, the 2013-2014 tax levy reporting date.

Another item that needs to be addressed is Building Aid. Recently, the State has decided to reset the amortization rate used in calculating building aid for capital projects in many school districts. As a result, these school districts will see a reduction in building aid starting in the current year, 2012-2013, and into the foreseeable future.

In reducing building aid payments, the State is assuming that affected districts have the ability to refinance their serial bonds to ensure that reduced aid payments will match the decrease in debt service payments. This assumption is not always the case. In some circumstances, school districts refinanced with a net loss or refinanced earlier and used the achieved savings to maintain current educational programs and minimize tax increases to local taxpayers. In either circumstance, districts hit hardest by the State’s decision to change the amortization rate are low-wealth, high aid dependent districts. While there is a waiver process in place to prevent decreases in aid for school districts with restrictions on



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refinancing, the waiver process is insufficient to insure that all affected school districts are not negatively impacted by the State's decision to reset the amortization rate.

It should be also noted that the building aid numbers on the Governor's 2013-2014 school aid runs are overstated and do not reflect 2013-2014 decreases that will result from the resetting of the amortization rate. This inaccuracy is leading to unnecessary questioning and challenges to budget estimates currently being proposed by school administrators.

We urge the Legislature to work with the Governor and State Education Department to insure that no school district experience a net decrease in current and out-year year building aid.

I have also attached a report we issued in the Fall on school district insolvency and the lack of a plan for dealing with this unfortunate scenario that is facing many school districts in the near term. The options available to school districts facing fiscal insolvency is limited, the remedies require legislative approval and are time consuming, and do not address the root cause of the fiscal distress.

We urge SED and state policymakers to develop a response plan that prevents school districts from falling off their fiscal cliffs and jeopardizing the education of their students. This response plan should have elements that address both the expenses and revenues of a school district. Early warning systems, which we recommended in our report and OSC has proposed, are only helpful if school districts have the ability to take corrective measures to address the causes of their fiscal distress.

School districts are running out of time and options, the Legislature must take action to either provide additional revenue and/or reduce costs for school districts this year.



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For Immediate Release

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School Business Officials Provide Savings Estimates for Mandate Relief Proposals

The New York State Association of School Business Officials (NYSASBO) recently gathered information from school business officials across the state in an attempt to project the estimated cost savings that would be achieved by the implementation of several mandates relief suggestions identified by NYSASBO and other organizations.

These mandate relief items are:

- Advertising Construction Projects in Newspapers;
- Annual Professional Performance Reviews (APPR);
- BOCES Space Requirement (Special Education);
- Corporal Punishment Complaint Reporting;
- Home Tutoring of Suspended Students;
- Internal Audit Requirement;
- Leave for Prostate and Breast Cancer Screening;
- Mailing the School Budget Notice;
- Private School Health Services;
- Private School Textbooks and Library Materials;
- Triborough Amendment;
- Violent and Disruptive Incident Reports;
- Wicks Law.

Our initial analysis shows that these mandates drive about 3.29% of school districts' budgeted spending, or \$1,583,989 per School District on average. Statewide, this equates to approximately \$1.05 billion per year.

"NYSASBO realizes that achieving major cost savings is problematic, but we have put a price tag on some of the smaller and more achievable mandate relief suggestions that could be adopted this year and still provide savings to schools in next year's budgets," stated Michael J. Borges, NYSASBO Executive Director.



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As Table 1 shows, the major savings comes from the elimination of three high profile mandates - APPR, Triborough, and Wicks. We estimate the elimination of these mandates along account for 86.4% (\$908 million) of the total \$1.05 billion savings.

TABLE 1. Major Mandates

MAJOR SURVEYED MANDATES	Savings as Percent of School Spending	Average Savings Per District	Total Savings Statewide
TOTAL	2.82%	1,357,705	908,304,437
Annual Professional Performance Reviews	0.39%	187,768	125,616,571
Triborough Amendment	1.24%	597,005	399,396,277
Wicks Law	1.19%	572,932	383,291,589

The estimated savings for the remaining minor mandates is shown in Table 2. While only 14.4% (\$151.4 million) of the total, relief from these mandates would still provide much needed savings to resource-strapped school districts and is achievable in the short-term.

TABLE 2. Minor Mandates

MINOR SURVEYED MANDATES	Savings as Percent of School Spending	Average Savings Per School District	Total Savings Statewide
TOTAL	0.47%	226,284	151,384,073
Advertise Construction Projects in Newspapers	0.01%	4,815	3,220,938
BOCES Space Requirement (Special Ed)	0.01%	4,815	3,220,938
Corporal Punishment Complaint Reporting	0.01%	4,815	3,220,938
Home Tutoring of Suspended Students	0.08%	38,516	25,767,502



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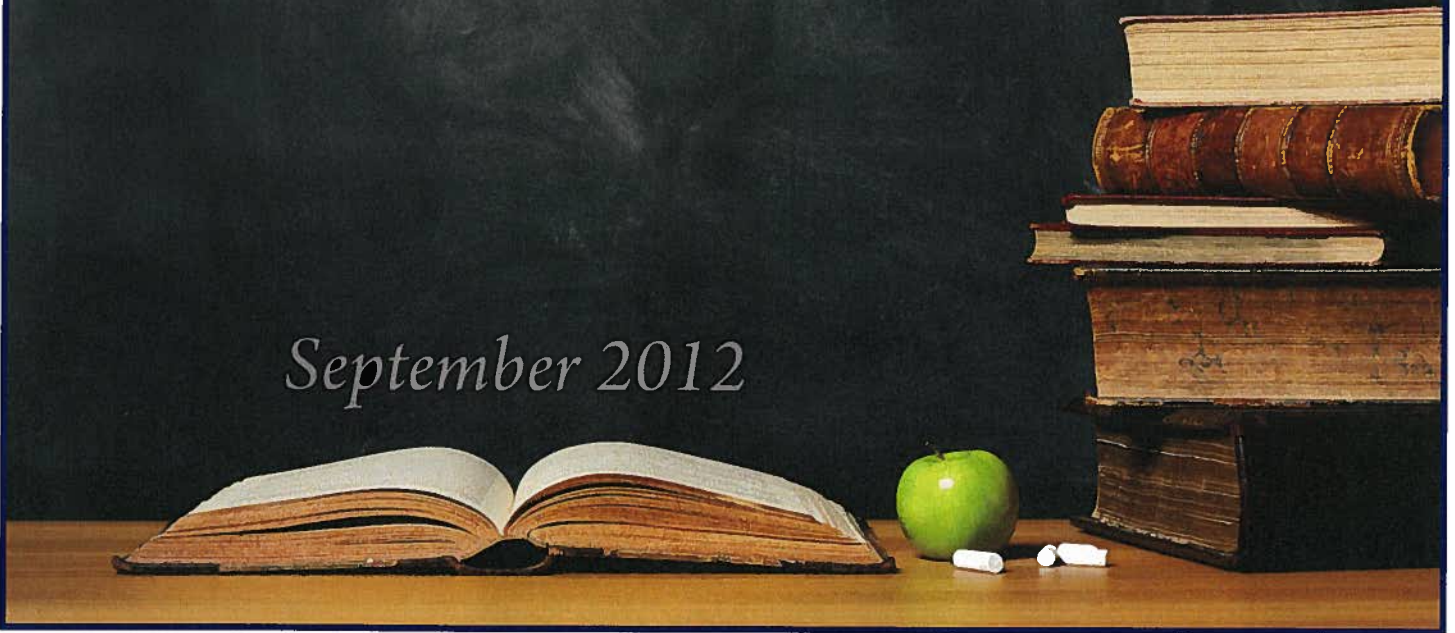
Internal Audit Requirement (an ASBO signature issue)	0.06%	28,887	19,325,626
Leave for Prostate and Breast Cancer Screening	0.03%	14,444	9,662,813
Mailed Budget Notice	0.02%	9,629	6,441,875
Private School Health Services	0.17%	81,847	54,755,941
Private School Textbooks and Library Materials	0.04%	19,258	12,883,751
Violent and Disruptive Incident Reports	0.04%	19,258	12,883,751

“There have been ongoing stories in the media of school districts of all types (urban, suburban, and rural) with varying degrees of community wealth facing their own fiscal cliffs. These new findings confirm the prediction of the NYSASBO report “School District Fiscal Report: A Tale of Two Insolvencies,” released in September 2012, that almost a third of school districts will face either fiscal or educational insolvency or both by the 2015-2016 school year. State policymakers need to act this year to provide some mandate relief, however small, to cash-strapped school districts throughout the state”, concluded Mr. Borges.

School District Fiscal Report:

A Tale of Two Insolvencies

September 2012



New York State
Association of School
Business Officials

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Executive Summary

This report looks at the unrestricted fund balances (or “savings”) of School Districts throughout the state in order to provide a clear picture of the fiscal health of our educational system.

Although unrestricted fund balances are only one indicator of a School District’s financial health, it is a substantive indicator of the future capacity of School Districts to meet their fiscal and educational obligations, especially given the new restrictions on revenue from local sources (tax cap) and state aid (tied to personal income growth).

An analysis of data reported to the state Education Department (SED) suggests that lower-wealth School Districts in the state are more likely to have to dip into their unrestricted funds (“savings”) and, had to dip into savings to a greater degree, than have higher-wealth School Districts. This is an important matter to consider because savings represents a buffer zone between a School District’s being solvent, and having to choose between fiscal or educational insolvency, or in the worst cases simultaneously facing both. Further, based on a three-year review, the problem appears to be getting worse over time.

Finally, the data suggests that lower-wealth School Districts face the possibility of losing all of their unrestricted funds (“savings”) much sooner than do average-wealth or higher-wealth School Districts. If current trends in the use of unrestricted funds and restrictions on revenue (for example, the property tax and state aid caps) continue, the approximately 200 lower wealth School Districts could begin to lose all of their savings by 2015.

At that point, a choice between fiscal insolvency (a School District is unable to pay its bills) or educational insolvency (a School District can no longer provide a sound basic education) will be at hand. In the worst cases, a School District may face both kinds of insolvency.

The options available to school districts facing fiscal insolvency are limited and most require state intervention. Current options available are: 1) deficit financing – allows school district to borrow for ongoing operational expenses, 2) advance or “spin up” of state aid from future years, 3) bailout – extra state aid in current year to meet operational needs, and 4) SED take-over of school district (i.e. Roosevelt School District).

The state can approach this impending fiscal calamity in three ways: 1) prevent fiscal insolvency from happening in the first place by granting waivers to schools exempting them from regulations or laws that hamper their ability to stay solvent, 2) react to each crisis as they develop on a case by case basis as outlined above, or 3) develop a statewide approach with an early warning system and intervention process with corrective action plan (similar to SED’s academically failing schools approach).

Introduction: A Tale of Two Insolvencies

It is no secret that School Districts within New York State are facing myriad fiscal challenges. Some of these challenges are the result of the economy-driven fiscal stresses experienced by governments across the board, ranging from small and narrow special purpose districts, through School Districts and Counties, all the way up to state government. Some of these challenges were described in a report issued by the New York State Comptroller in August 2012 (New Fiscal Realities Challenge Local Governments).

Other challenges, however, result from certain public policy decisions made by New York State, including but not limited to the property tax cap, years of inconsistent (or declining) state aid payments, pension benefit enhancements enacted in the 1990's, special education mandates that exceed federal guidelines, and negotiating handicaps imposed by the Taylor Law.

Regardless of the cause of these fiscal stresses, the result has been that School Districts, to paraphrase statements made by New York State Education Commissioner John King before the State Legislature in January 2012, face a choice between fiscal insolvency and educational insolvency. Fiscally insolvent School Districts are unable to meet their financial obligations (unable to pay their bills), and are the public sector equivalent of a bankrupt business. Should fiscal insolvency occur, the insolvent School Districts, and New York State, will be pushed into hitherto-uncharted waters. Educationally insolvent School Districts meet their financial obligations, but are forced to do so in a

manner that compromises their ability to offer a sound basic education to their students.

Commissioner King's concerns were echoed by State Comptroller Thomas DiNapoli in the same report on local government finances that was cited earlier. "If a city is not facing budget solvency issues," wrote the Comptroller, "it is likely facing service delivery stress – that is, it is having a hard time maintaining the services its residents want and need" (New Fiscal Realities Challenge Local Governments, page 1). Though Comptroller DiNapoli's concern goes beyond School Districts to include all forms of local governments, Comptroller DiNapoli's concern with service delivery is more or less identical to Commissioner King's concern with educational insolvency. Facing educational insolvency is in effect the same thing as having service delivery problems, merely specific to an educational context.

One method School Districts have been using in order to stave off having to choose between fiscal and educational insolvency is to dip into what are called "unrestricted" or "unassigned" funds. Dipping into these funds is, for School Districts, basically equivalent to a family dipping into savings funds. Data and anecdotes both suggest that many School Districts are concurrently cutting back spending while spending down their savings. According to a recent survey conducted by NYSASBO and NYSSBA, 99% of School Districts utilized their savings funds, and 64% of School Districts cut staff, in order to balance their Fiscal Year 2012-2013 budgets.

Regardless of the cause of these fiscal stresses, the result has been that School Districts... face a choice between fiscal insolvency and educational insolvency.

As any household knows, savings is a buffer against insolvency, but savings do not last forever. A recent NYSASBO survey suggested that as many as 81% of School Districts anticipate spending down their savings within 5 years (by sometime in the calendar year 2017). That would be approximately 560 School Districts (extrapolating from responding districts to all districts). The same recent NYSASBO survey suggested that 31% of School Districts (or about 215 districts, extrapolating from responding School Districts to all School Districts) could face savings exhaustion within a year and a half (or sometime during Fiscal Year 2013-2014).

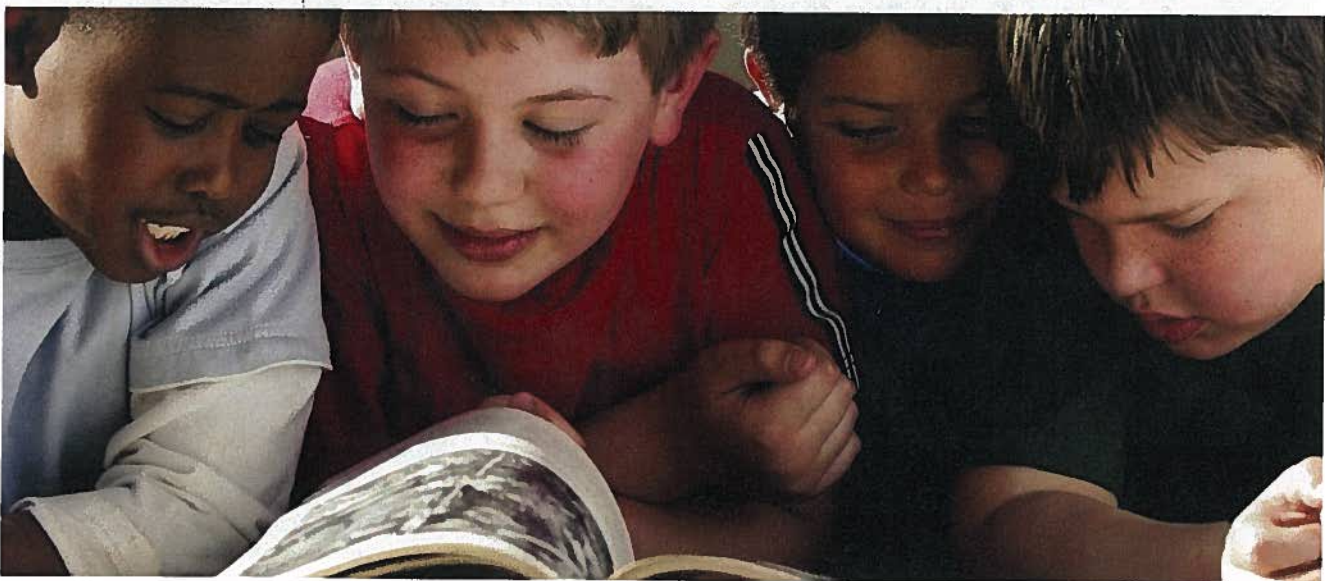
Again, the words of Comptroller DiNapoli are of particular note: “A local government’s cash position (liquidity) is vital to its fiscal health; it should have enough cash on hand to cover its existing liabilities. However, data indicates that the liquidity of local governments is deteriorating.” (New Fiscal Realities Challenge Local Governments, page 3.)

In addition to surveying School Business Officials, another source of School District financial information is data reported to the New York State Education Department (NYSED). While NYSED’s data is limited in that it is only a snapshot and does not account for as many variables as does a School Business Official’s judgment in how to respond to a survey, NYSED’s data is still useful as a kind of floor or best case scenario. It also affords us an opportunity to get a clearer picture of exactly what categories of

School Districts (using NYSED’s own categories) may sooner-face the dreadful choice between fiscal insolvency, educational insolvency, or both.

NYASBO’s analysis of data reported to NYSED confirms that lower-wealth School Districts in New York State are more-likely than higher-wealth districts to need to dip into their savings funds, and/or dip into these funds to a much-greater degree than are higher-wealth districts. Lower-wealth school districts, as their financial buffer zones become depleted, will much sooner face the choice between educational insolvency (severe problems in delivering appropriate services) and fiscal insolvency (being unable to pay bills). School Districts in the two High Need categories were much more likely to have dipped into their unrestricted funds, to one degree or another, than were Average or Low Need School Districts.

A multi-year analysis suggests that the problem is getting worse, and that the necessity of High Need districts to dip into savings is something of a trend. We also may notice that - while NYSED’s snapshot “best case” data might project a savings exhaustion year that is further off than the date projected by the NYSASBO survey, which by using the School Business Officials’ knowledge and judgment may well present a more accurate picture - savings exhaustion is still rather close at hand for High Need School Districts.



Need Categories

Though the term “low-wealth school district” is in fairly common use in education policy, no standard or universally agreed-upon definition of the concept appears to exist. One useful way to define it, however, is by reference to a NYSED metric called the “Need/Resource-Capacity Index.” The Index is, to quote an SED document, “a measure of a district’s ability to meet the needs of its students with local resources.” The Need/Resource-Capacity Index is calculated from a combination of student poverty (which itself is calculated by using a combination of US Census data and eligibility for free or reduced-price lunch programs), and the Combined Wealth Ratio (which measures a School District’s wealth per pupil against the New York State average).

Using the Need/Resource-Capacity Index, NYSED places each School District into the following categories:

- High Need/Resource Capacity Rural;
- High Need/Resource Capacity Urban or Suburban;
- Low Need/Resource Capacity;
- Average Need;
- New York City;
- Other Big Urban Districts.

The last two categories on that list together include the Big Five School Districts (New York City, of course, is in the “New York City” category, and the other four are in the “Other Big Urban Districts” category). Those five districts are not required to report financial data to NYSED for the “Report Card” from which the unrestricted fund data was obtained from for this report. The Big Five School Districts, and the two need categories dedicated to them, were thus excluded from the analysis performed for this report.



Fund Balance Categories

Various financial data are submitted by School Districts to NYSED for the state agency's "Property Tax Report Card" publication. While the snapshot presented in NYSED's Property Tax Report Card may not account for as many factors as NYSASBO's membership surveys, using NYSED financial data affords us the chance to lay NYSED financial data against NYSED School District needs data.

Information reported by school districts on their "unrestricted fund" balances were used as the basis for this report. Unrestricted fund balances for purposes of the Property Tax Report Card are analogous to the "unassigned" fund balances reported to auditors pursuant to new protocols propagated by the Government Accounting Standards Board in their Bulletin 54.

While for accounting purposes unrestricted funds can refer to various categories, some of which are subject to legal limits, what is important for purposes of this report is their colloquial definition. And colloquially, by way of analogy to household finances, the unrestricted funds may be considered "savings." These are the funds dipped into when the other monies are exhausted, and spending cutbacks are problematic or are not a realistic option.

School Districts are permitted to set aside up to 4% of their budgets annually into the unrestricted fund, which can be used to cover any gaps in funding that may occur throughout the year or unanticipated expenses that may arise, i.e. tax certiorari cases, special education costs, etc. Local governments have no restrictions on how much they are allowed to set aside in their rainy day or unrestricted funds. The financial firm BlackRock reports (in State of the States and Local Governments: Municipal Bond Market Report) that the bond-rating firm Moody's suggests a "good medium" savings rate for local governments is 15.5%. Obviously, this figure is considerably over the legal and practical limits on School Districts' savings.

The data from the Property Tax Report Card reflects information submitted to NYSED in the Spring,

prior to the school budget votes. Since 96% of school budgets passed, it can be reasonably assumed that for most School Districts the Report Card represents an accurate picture of the present and an accurate prediction for the immediate future. Actual amounts are subject to change based on end-of-the-year (June 30, 2012) adjustments, and are reported to the SED in September, 2012, and are likely to be publicly known sometime in 2013.

School Districts reported their unrestricted fund balances to the SED for the 2011-2012 Fiscal Year, and their anticipated unrestricted fund balances for the 2012-2013 Fiscal Year. For analytical purposes, the reported changes to unrestricted fund balances from the 2011-2012 Fiscal Year to the 2012-2013 Fiscal Year were placed into the following categories:

- Spent half to all;
- Spent 1% to 49%;
- No appreciable change;
- Fund gained.

Some sections of this report also incorporate the reported (actual) balances for the 2010-2011 Fiscal Year, and the change between that year and the 2011-2012 Fiscal Year were placed into the same categories.

Because the data reported by School Districts to NYSED is a snapshot and does not tell us anything particularly useful about what is actually happening to a School District's money on any given day, it should not be inferred that a district which adds to its unrestricted funds is necessarily doing well. Many things could still be going on. The fund balance is, nevertheless, a useful metric for analytical purposes.

The Big Five districts - which as noted above do not report their financial data to NYSED in the same way other School Districts do, as well as four other districts who, it would seem, did not report an unrestricted fund balance for the 2011-2012 Fiscal Year (thus rendering useless any attempt to compare that Fiscal Year to the 2012-2013 Fiscal Year) - were excluded from the analysis.

The Analysis

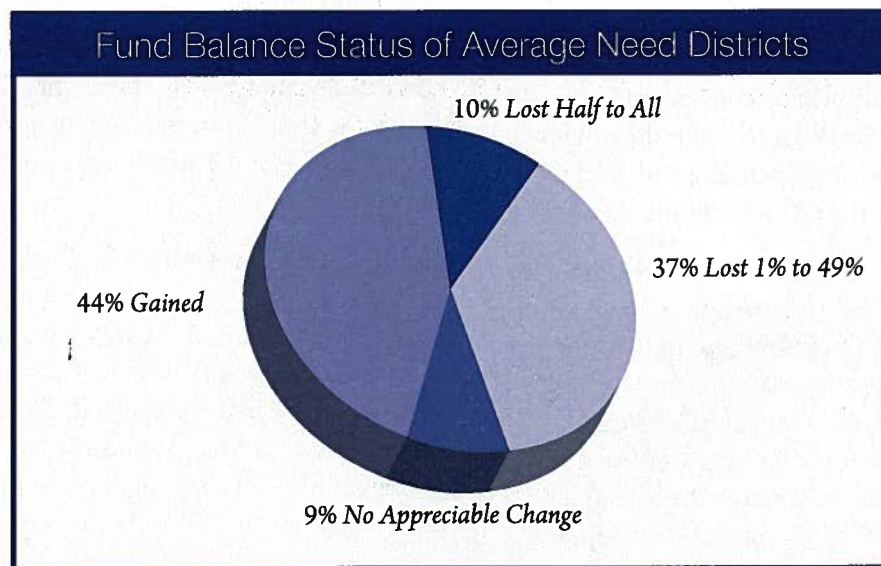
For this report, Needs categories and Fund Balance categories were cross-tabbed against each other, in order to see to what degree School Districts in the various Need categories have already been spending their unrestricted funds. An additional analysis was performed on High Need School Districts' data for Fiscal Year 2010-2011 to see if the declining savings balances noted were a multi-year trend. Finally, an attempt was made to extrapolate an average potential exhaustion year for School Districts in the various Need categories.

For various reasons 9 School Districts were excluded from the analysis. As noted above, the "Big Five" Districts do not report financial data to NYSED in a comparable manner, and 4 School Districts for

whatever reason did not report unrestricted fund balances on the Report Card.

Unsurprisingly, and worryingly, High Need School Districts were found to be more-likely to have to dip into their savings balances, and spend more of their savings, than have School Districts in other Need categories. It was also found that declining savings or unrestricted fund balances in recent years have become a worsening problem for High Need School Districts. Finally, it was found that High Need School Districts will on-average face savings fund exhaustions much sooner than will Average Need districts or Low Need districts. In other words, they will much-sooner face the choice between educational insolvency, fiscal insolvency, or both.

Average Need Districts

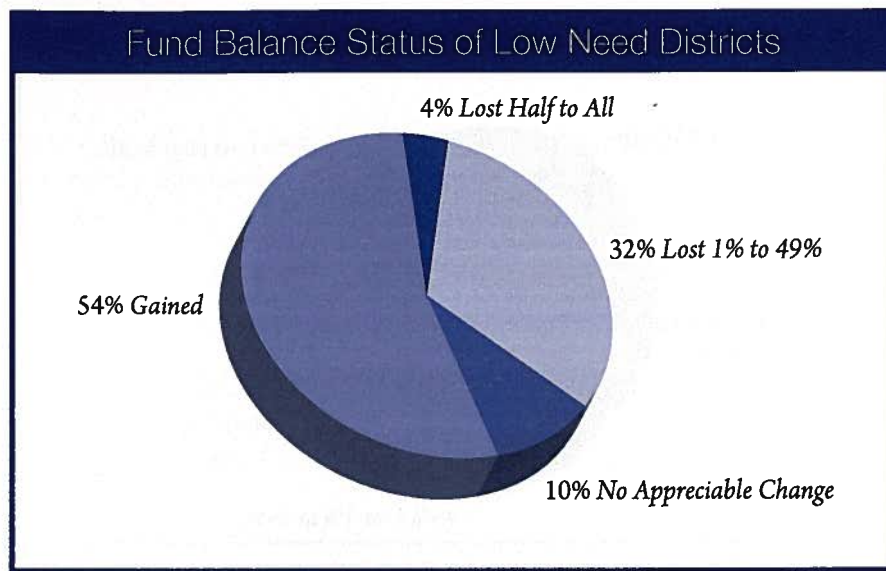


A plurality of Average Need School Districts (44%) were able to increase their savings, and a clear majority (53%) were able to either add to their savings or hold firm with it. Only 1 out of every 10 Average Need district lost half to all of its savings.

It can be reasonably concluded that School Districts in the Average Need category have, for the most

part, a greater buffer between solvency and the two insolvencies than do the High Need School Districts. However, 47% of Average Need districts still project their savings to decline, to one degree or another, from the 2011-2012 and 2012-2013 Fiscal Year. Being in the Average Need category is not a shield against having to pick between the risk of educational insolvency or fiscal insolvency, or facing both.

Low Need Districts



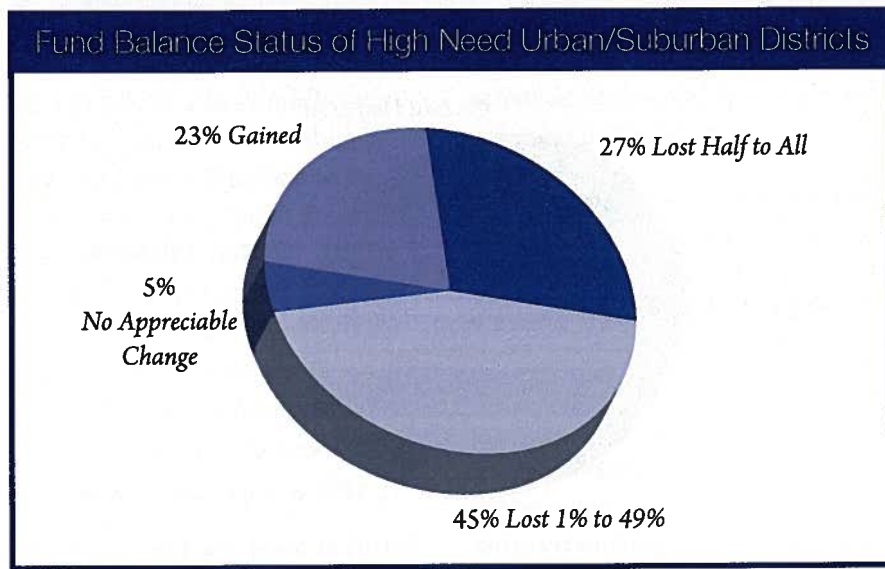
It should come as no surprise that, with regard to savings, Low Need districts appear to be doing better than their High Need colleagues, and indeed better even than their Average Need colleagues. A clear majority (54%) of Low Need districts saw their savings increase, as opposed to the plurality (44%) of Average Need districts. Sixty-four percent of Low Need districts either gained savings or stood firm. Hardly any (4%) lost half to all of their unrestricted

fund balances. As can be predicted, the buffer zone between solvency and the two insolvencies is on average much-greater when a School District is in the Low Need category.

Even among the Low Need School Districts, however, the buffer will not hold up forever. Thirty-six percent of even Low Need School Districts project a savings decline.



High Need Urban/Suburban Districts



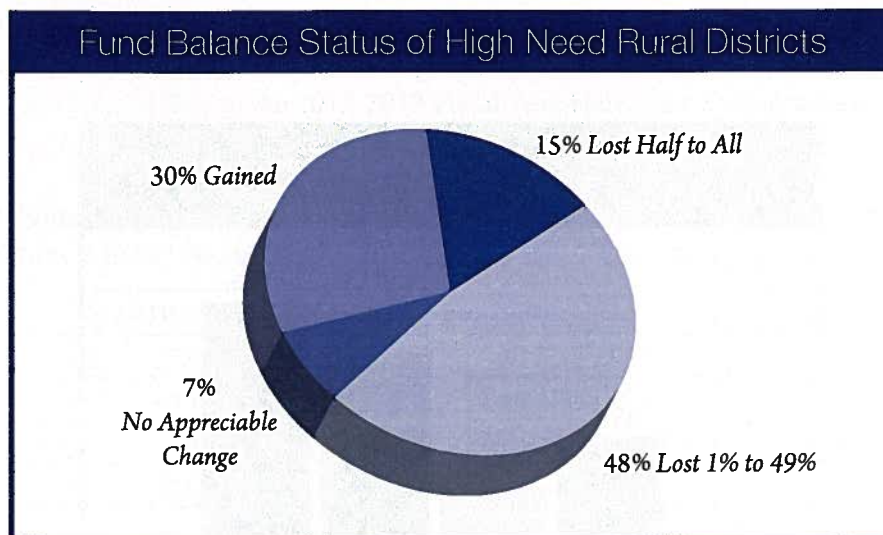
The financial condition of High Need Urban or Suburban districts, especially relative to the Average Need districts, is cast into a stark light by the above pie graph.

A full 72% of districts in this needs category saw their savings decline to some degree. Under a quarter (23%) of districts in this needs category were able to add to their savings, and only one out of every twenty (5%) were able to stand firm.

High Need School Districts have had to dip into their savings at a noticeably higher rate and to a greater degree than have either Low Need or Average Need Districts. In other words, High Need School Districts have had to reduce their buffer zones between solvency and the two kinds of insolvency to a much-greater degree than have School Districts in the other Need categories.



High Need Rural Districts



The plight of High Need rural districts with regard to their savings is similar in many respects to those of High Need urban or suburban districts. A full 63% of High Need rural districts saw their savings decline during the considered time period. Only 7% were able to stand firm. Proportionally more (30% vs. 23%) of High Need rural districts than High Need urban/suburban districts were able to add to their savings.

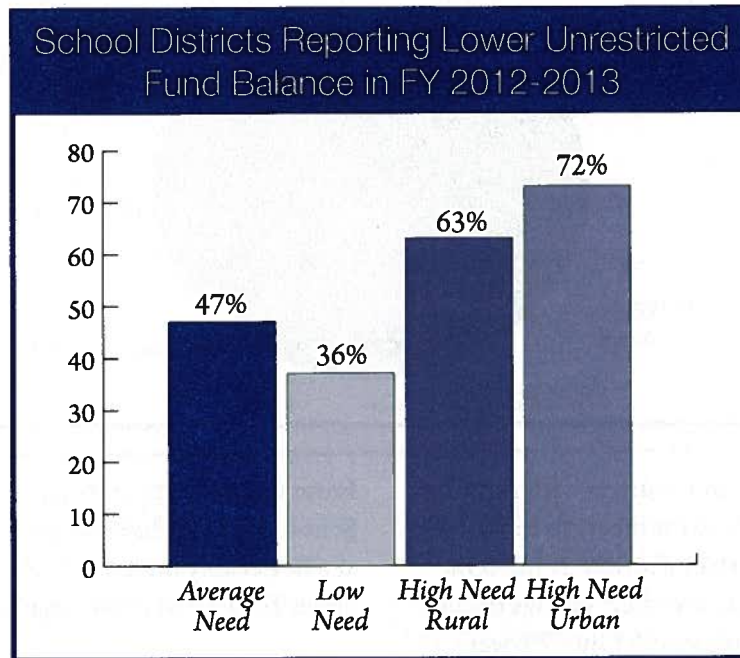
From these charts, it should be clear that High Need School Districts have had to dip into their savings at a noticeably higher rate, and far deeper, than have either Low Need or Average Need Districts.

In other words, High Need School Districts have a buffer zone against insolvency that is getting noticeably smaller noticeably faster than are the buffer zones of the Low or Average need districts.



Some Comparisons

It would seem to be useful to compare the percentage of School Districts in each Need category that spent at least some of their savings balances. The contrast is quite stark and difficult to deny.



The High Need School Districts, be they rural or urban/suburban, are clearly more-likely to be dipping into their savings than are the Low or Average Need School Districts.

Unfortunately, it seems beyond doubt that lower-wealth School Districts in New York State (as operationalized by the Need categories used by NYSED) indeed appear to be more-likely than are higher-wealth districts to need to dip into their savings (for our purposes operationalized by the “unrestricted” fund balances reported to the SED for the Property Tax Report Card) in order to cope with the tax cap and various other mandates, without either cutting programs, or engaging in such destructive actions as layoffs, or both. The High Need School Districts are seeing their buffer zones between solvency and the two insolvencies erode noticeably faster and noticeably deeper than are Average or Low Need School Districts.

Another important question to ask is if the declining savings balances in High Need districts are part of a trend. In order to examine this secondary question, an additional analysis was performed, adding the Fiscal Year 2010-2011 into the mix.

The Three-Year Analysis

First we shall review some data about what percentages of School Districts in the two High Need categories fit into the various fund categories (percentage of savings spent). This same data was presented above, in pie graph form, for the 2011-2012 Fiscal Year to the 2012-2013 Fiscal Year. Here, data for that time interval is presented alongside data for the 2010-2011 Fiscal Year to the 2011-2012 Fiscal Year.

High Need Rural Districts
Unrestricted Fund Balances

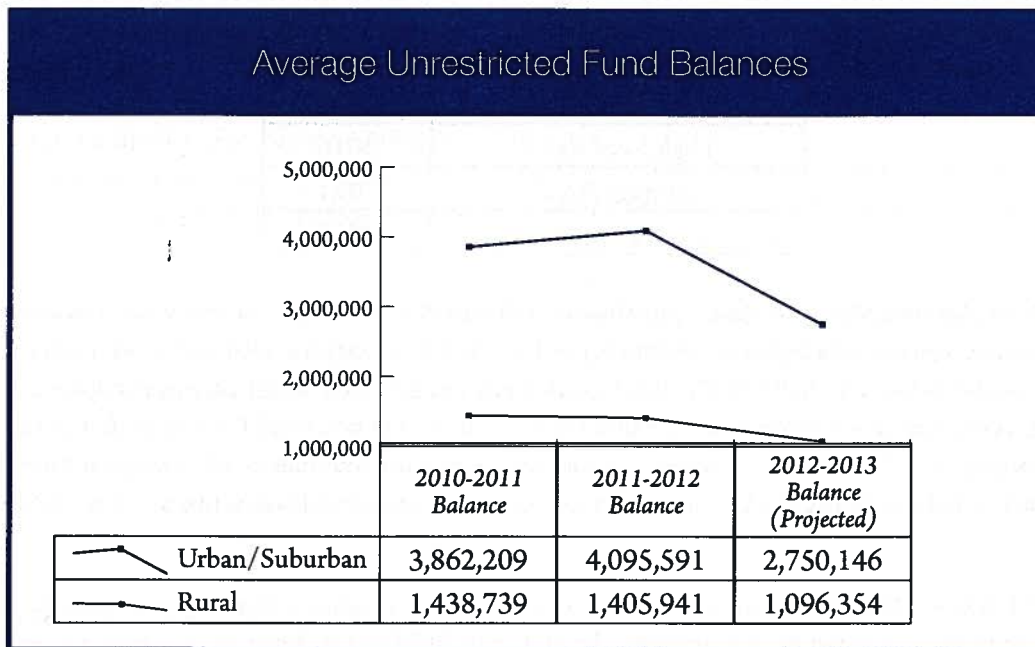
	2010-2011	2011-2012
<i>Lost Half to All</i>	7%	15%
<i>Lost 1% to 49%</i>	44%	48%
<i>No Appreciable Change</i>	5%	7%
<i>Gained</i>	45%	30%

High Need Urban/Suburban Districts
Unrestricted Fund Balances

	2010-2011	2011-2012
<i>Lost Half to All</i>	9%	27%
<i>Lost 1% to 49%</i>	48%	45%
<i>No Appreciable Change</i>	0%	5%
<i>Gained</i>	43%	23%

It can easily be seen, when the earlier time period is considered, that things have gotten worse. Three times as many High Need urban/suburban School Districts, and over double the number of High Need rural School Districts (in percentage terms) have lost more than half of their savings. For both High Need categories, notably fewer were able to add to their savings during the recent time period as opposed to the earlier one. Indeed, for the urban/suburban districts, the percentage was cut almost in half. During both time periods, the percentage of districts in both of the High Need categories losing under half of their savings (but still losing something) was comparable.

It also seems useful to compare the average savings across all three years in both High Need categories.



The drop from the 2011-2012 Fiscal Year to the 2012-2013 Fiscal Year is noticeable in both needs categories, but is particularly so in the urban/suburban category, where there was a slight upswing from the 2010-2011 Fiscal Year to the 2011-2012 Fiscal Year, followed by a steep decline. Importantly, the decline would have

been almost as precipitous had the slight incline in the previous year not happened at all. The slight upward trend during the first time period, therefore, was quickly erased, and one might question if it was real at all, as opposed to merely being a statistical artifact.

The rural School Districts in this Need category saw their savings decline slightly during the first time period, then decline more-sharply in the next period, potentially setting up further and steeper declines in the future.

It must also be pointed out and acknowledged that it is not as though the numbers being described were huge to begin with. One major project undertaken by a School District, due to mere necessity, can easily sweep away the savings levels we're talking about. The costs of computers, blackboards, and heating are not-often dependent upon the financial resources (or lack thereof) of the School District. Or, for that matter, its size.

Exhaustion Years

It is possible to project, assuming a consistent level of loss, in what year School Districts in each category, on average, will potentially face exhaustion of their unrestricted fund balances. While relying upon data reported to NYSED only represents a snapshot, and excludes the School Business Officials' best judgment about what the future holds (a data limitation not present in the NYSASBO surveys previously reported), NYSED data is still useful to consider as a potential best case scenario.

Unfortunately, and predictably, even the best case scenario is not a good scenario, especially for High Need districts.

With current average savings balances, and assuming a constant rate of loss, High Need districts will begin exhausting their savings sometime in 2015. By contrast, Low Need districts will not begin exhausting their savings until 2032.

Average Potential Exhaustion Year, by Need Category

<i>High Need Urban/Suburban</i>	2015
<i>High Need Rural</i>	2016
<i>Average Need</i>	2021
<i>Low Need</i>	2032

Exhaustion of savings balances, and thus total erosion of the buffer zone with the two insolvencies, is a future worry for Low and Average Need School Districts, but for High Need School Districts is an immediate concern. And, as has been stated, NYSED's data may present the best case scenario, assuming that savings are dipped into at a constant rate. Should that rate differ it is considerably more-likely to be higher, rather than smaller, than is predicted. NYSASBO's surveys conducted during the first half of 2012 suggest that the School Business Officials themselves consider exhaustion to be considerably closer than even NYSED data suggests it is.

There were 153 School Districts classified as High Need rural, and 45 School Districts classified as High Need urban/suburban, included in this analysis. Those nearly 200 School Districts, not even accounting for School Business Officials' best judgments but merely using "snapshot" data reported to NYSED, will have their buffer zones with the two insolvencies totally erased starting in 2015. Further, this does not include School Districts in the Average or Low need categories whose individual circumstances do not match other similarly categorized districts.

Conclusions: A Tale of Two Insolvencies

As stated earlier, School Districts are being forced to choose between fiscal insolvency and educational insolvency. Neither option is desirable or realistic, yet some districts may potentially face both at the same time.

Unrestricted funds, more or less analogous to the colloquial term “savings” in reference to household finances, in essence represent a buffer zone, for School Districts often a rather small one, between solvency, and having to pick between fiscal or educational insolvency, or in the worst cases facing both simultaneously. To recast the issue using Comptroller DiNapoli’s terminology rather than Commissioner King’s, for a School District the savings funds represent a buffer between facing service delivery issues, or having not enough money to meet its financial obligations, or both. NYSASBO’s surveys suggest, unsurprisingly, that savings is indeed being used in just this manner by School Districts throughout New York State.

That buffer zone is being eroded, much faster than we would like to think, by recent policy decisions, and the erosion is much faster in the High Need districts than in the other Need categories. The High Need School Districts are likely to face service delivery issues sooner, and face worse service delivery issues, than are School Districts in the other Need categories.

Unlike private sector entities or even municipalities, School Districts, according to several legal authorities, cannot declare bankruptcy as a means of avoiding fiscal insolvency. NYSED suggests that a School District facing one or both types of insolvency could: seek deficit financing legislation, seek state aid advances, seek bailout legislation, send students elsewhere, pursue aid recovery or wealth adjustments, or seek centralization or consolidation

or annexation. Most of these suggestions are either short-term remedies that do little to address long-term cost factors or revenue deficiencies, or require structural changes that need external approvals that are lengthy and not guaranteed to bear fruit.

Harter, Secret, and Emery captured something of the flavor of the dilemma in a document posted to their Internet site in October 2011: “Obviously, these suggestions by the state Education Department may not be practical, available in time, or desired by districts. Many of these state Education Department recommendations require the New York State legislature to pass special legislation, and drastic measures such as consolidation of districts would take time, and increased borrowing only shifts operating costs to the future.”

Additionally, none of these suggestions really gets to the core of the problem, which is the unique combination of state mandates on School Districts and state limits on how School Districts can raise funds. None of these suggestions, for example, addresses Special Education mandates, the property tax cap, or the negotiating handicaps imposed by the Triborough Amendment.

The options available to state to address this impending fiscal crisis falls into three categories: 1) prevent fiscal insolvency from happening in the first place by granting waivers to schools exempting them from regulations or laws that hamper their ability to stay solvent, 2) react to each crisis as they develop on a case by case basis as outlined above, or 3) develop a statewide approach with an early warning system and intervention process with corrective action plan (similar to SED’s academically failing schools approach).

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