

***Budget Testimony Before
The New York State Legislative
Fiscal and Education Committees***



Presented January 23, 2012 by:

***Amber M. Dixon
Interim Superintendent
Buffalo Public Schools***

Distinguished legislators, thank you for your time and attention today. Given our brief time today, I would like to refer you to the attached BPS Financial Scorecard for additional information.

I am honored to have this opportunity to update you on both the successes and challenges we face in Buffalo.

Let me start with our successes.

I am happy to sit before you today and tell you that we are very close to reaching agreement with our Teachers and Administrators Unions on a new APPR that meets the requirements set in place by this body and the federal Race to the Top guidelines.

With sound financial practices, we have been able to overcome annual budget deficits with minimal impact on the classroom. Reductions have been made strategically and across all areas of the budget.

We were able to reach agreement, after 7 years with an expired contract, with our clerical and technical employees union on a new contract, which included the first active, non-exempt employee contribution to health care costs in the District.

We are currently in the fifth phase of our reconstruction program. When it is completed next year, 48 schools will have been reconstructed and energy performance improvements will have been made across the District. Additionally, there will be whiteboards in every classroom along with other technological improvements that will have greatly enhanced the learning for our children. We have you all to thank for this valuable reconstruction program. It has provided our children, wherever they may reside, with equitable access to a 21st Century learning environment. It has strengthened the Western New York economy with many construction and related service employment opportunities.

Academically, we are fully aware that we need to improve in certain areas; however, we have been following the lead of the NYS Education Department with the implementation of Network and Inquiry teams to use data more strategically in meeting individual students' needs and in infusing the college and career readiness standards into district curriculum.

In terms of partnerships, I am pleased to report to you that the WNY community has stepped forward to advocate for additional resources on behalf of our students. The Say Yes Foundation, in collaboration with local foundations and supporters has come to Buffalo with the promise of financial scholarships for all Buffalo graduates for the next 20 years. That's more than a 20 million dollar promise. Speaking of promises, the BPS was among the partners of the Westminster Foundation in the Buffalo Promise Neighborhood that was awarded a federal Promise neighborhood grant. The Buffalo Promise Neighborhood focuses on one zip code, three schools, and all the children within. It will serve to wrap services around children "from cradle to college". Additionally, the Buffalo Arts and Technology Center has been included in the Western New York Regional Economic Development funds provided this year. This is both a workforce development plan as well as an intervention for high risk teenagers. It has been quite a year.

Now I must share with you some of our greatest challenges.

Despite our sound financial record, we are at the end of our ability to strategically reduce expenditures without impacting the education of our children. The further increasing of class sizes, eliminating much needed programs and the laying off of teachers solely based on tenure will undoubtedly occur without additional revenues or the reduction of the major structural deficit drivers – health insurance for employees and retirees, current annual pension increases, annual salary (step) increases guaranteed by NYS law and charter tuition payments. On an annual basis these costs increase between \$24 and \$28 million. They are also costs beyond the District's immediate control. Couple this with the fact that the District has no ability to raise its own revenues, not even by 2%, and the outcome is a budget that does not support the needs of our students.

The collective bargaining agreements with our Teachers and Administrators have been expired for *seven* years. Despite the District's efforts to diminish some of the structural deficit drivers through collective bargaining, groups that continue to receive annual pay increases of approximately 2.5% (steps) and pay nothing towards health insurance due to the Taylor Law and Triborough Amendment have little desire or incentive to reach a new agreement.

The Governor's budget restored last year's Gap Elimination Adjustment by \$8.3 million. While this is appreciated, it will not cover the increases in health insurance of \$12.8 million next year. It barely covers the loss of the JOBS funds of \$7.9 million. The Governor boldly spoke of a "crisis in education". He was correct. There is such a crisis. It is in funding education. We want nothing more than to give our students the resources they need to learn, but we cannot do it without your action.

We are charged with educating 33,000 students, 89% of which are economically disadvantaged, 18% have disabilities and 11% have limited proficiency in English. On a daily basis, we proudly welcome students not only to our great City but to this *country*. We have a student population that needs *extra services* to be successful, *not less*.

In closing, this year, Buffalo students are attending wonderfully reconstructed schools, and are making use of 21st century technology. The Buffalo workforce is responsibly sized for educating our students. My fear is that next year and the year after class size will continue to grow, art, music and athletics programs will diminish until they are non-existent, the whiteboards and building will be in need of repair and maintenance, and our least tenured teachers will have left the state of New York to seek employment elsewhere. To avoid that future the Buffalo schools need revenue increases that keep pace with major expenditures and legislative action to address the structural deficit drivers. We look forward to discussing the issues with you further.

I thank you for all you do to assist us in the education of Buffalo's children.

This page intentionally left blank.

BPS FINANCIAL SCORECARD

PK-12 District Enrollment: : 32,816
 Economically Disadvantaged Students: 29,129 (89%)
 Students with Disabilities: 5,889 (18%)
 Students with Limited English Proficiency: 3,606 (11%)
 K-12 Charter Enrollment as of Jan-2012 (16 schools): 7,256

2011-12 O&M Budget: \$756.8 million
 O&M Full Time Employees: 3,960
 (decrease of 302 from py)
 All Funds Full Time Employees: 5,186
 (decrease of 236 from py)

Funding:

State: 80%
 City: 9%
 County Sales Tax: 4%
 All other 7%

Noteworthy numbers:

2008-09

Was the last year BPS received an increase in Foundation Aid

Years of annual state aid decreases prior to 2012-13: 3

2006-07

Was the last year BPS received an increase from the City of Buffalo

BPS' ability to raise its own revenues: 0

Budgetary Deficits (in millions)	Current Year (2012)	2013	2014	2015
Structural Deficit (see chart)	\$25.2	\$24.9	\$27.8	\$24.5
Total Deficit	\$54.2 m	\$42.8	\$54.7	\$65.1

Structural Deficit Challenges

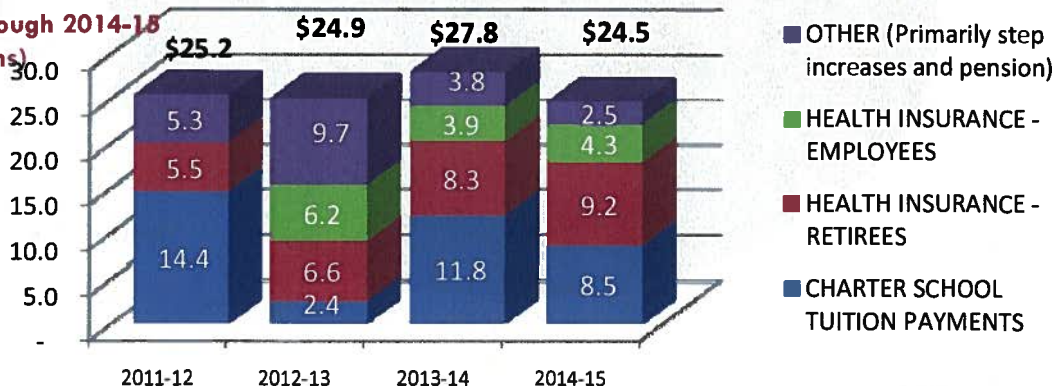
The District continues to face an annual structural deficit that ranges between \$24 and \$28 million. When this is coupled with either revenue decreases or only modest increases that do not keep pace with the major expenditures, large deficits result and the only way to close those deficits is through forced reductions (primarily staff) and the use of reserves, which eventually run out.

The three major structural deficit drivers are health care for both employees and retirees and charter tuition payments. While the District switched to a single carrier plan in 2006 to reduce costs, only half of all retirees contribute to their health care plans and currently no active employees contribute. Absent new collective bargaining agreements and/or a change in statute, significant cost containment is beyond the Districts immediate control.

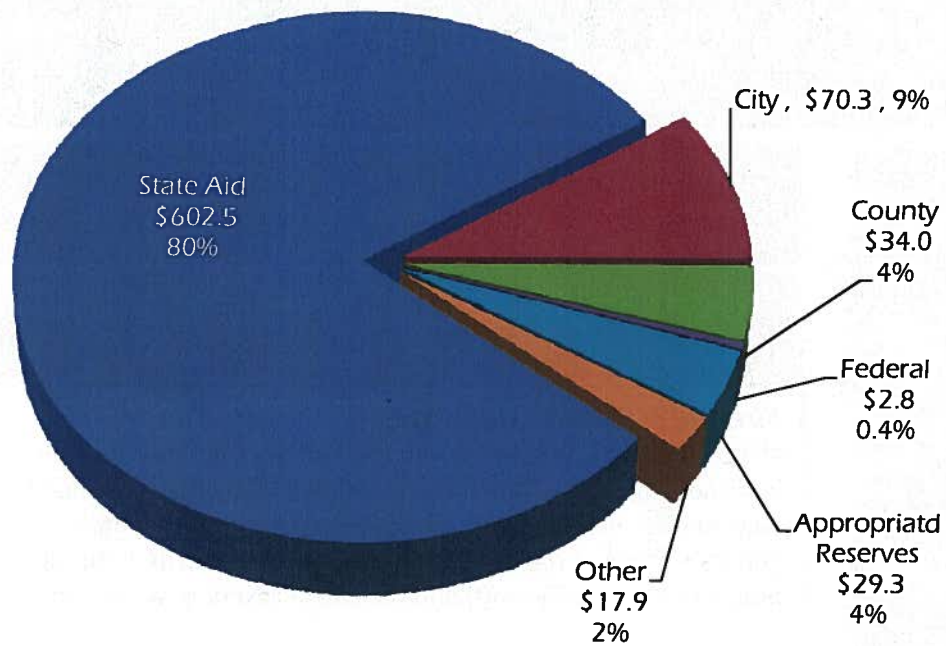
The State formula for charter school tuition payments is flawed in several ways. First and foremost is the assumption that District costs are variable in nature, when in fact 85% of our costs are fixed or mandated. When a student transfers to a charter school, the District must pay tuition of approximately \$12,590 in addition to almost all fixed costs remaining constant. As noted below, charter tuition payments have become the single largest deficit driver. State legislation is required to change the formula and is long past due.

LEADING DEFICIT DRIVERS

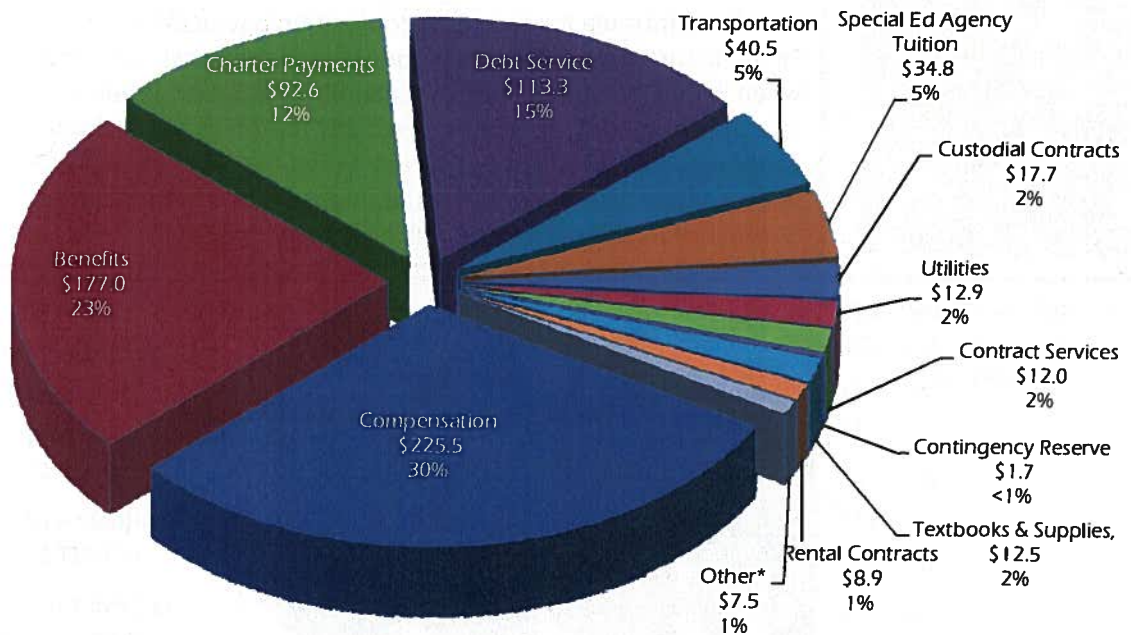
Annual Increases through 2014-15 (in millions)



2011-12 O&M Budget: Where our money comes from:



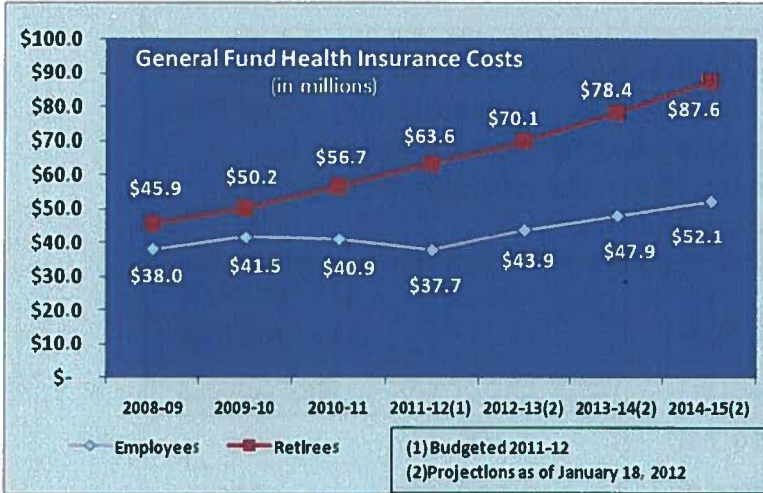
2011-12 O&M Budget: Where our money is invested:



Structural Deficit Drivers

Alarming Trends

Health insurance costs for retirees has exceeded that of employees for several years and the disparity is expected to grow:



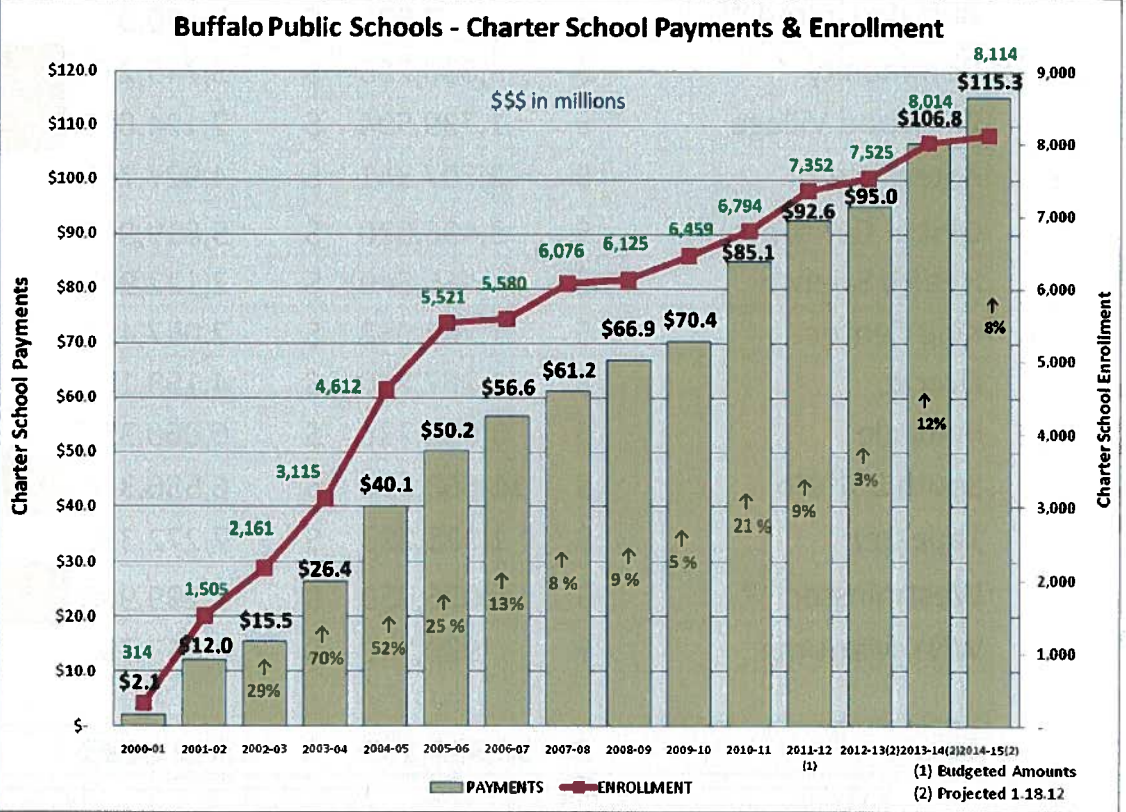
Employee & Retiree Counts by Fiscal Year

Year	General Fund Employees	Retirees
2008-09	4,602	3,426
2009-10	4,562	3,494
2010-11	4,132	3,773
2011-12 (Budget)	3,960	3,854

Charter enrollment has grown to over 7,300 students with tuition payments approaching \$100 million in 2013 and \$115 million by 2015.

The financial impact in 2013 is minimized due to the tuition freeze. Once the freeze is lifted, significant and unsustainable increases are again projected.

BPS cannot absorb the increase in total costs that occur when a student transfers to a charter school due to the fact that the majority of the District's costs are fixed in nature.



CHARTER SCHOOLS

NET ASSET BALANCES AS OF 6.30.11

One of the many flaws with the charter tuition formula is that it is based on the resident district's Approved Operating Expenses (AOE) which includes costs charter schools are fortunate to not have to pay, such as retiree health insurance. The earliest of NYS charters has only been in existence since 2001 and the majority do not have union benefits. Retiree health insurance and lower average teacher salaries alone add approximately \$1,900 per pupil to the payment. Since charter schools receive a per pupil tuition amount that includes dollars for expenses they do not have to pay, they have accumulated significant balances of net assets. All of this has occurred while public districts have been forced to make program cuts that could irreparably harm the long term education its students.

Charter School	Unrestricted Net Assets	Total Expenses	Percent of Accumulated Net Assets
Academy of Science	\$ 544,740	\$ 4,404,273	12%
Aloma ⁽¹⁾	\$ (324,483)	\$ 2,570,473	-13%
Applied Technology	\$ 10,915,245	\$ 20,376,869	54%
Buffalo United ⁽²⁾	\$ 7,525	\$ 8,580,074	0%
Community	\$ 3,830,783	\$ 3,745,277	102%
Elmwood Village	\$ 1,739,594	\$ 2,124,818	82%
Enterprise	\$ 2,707,341	\$ 4,927,760	55%
Global Concepts ⁽¹⁾	\$ 3,496,620	\$ 5,819,860	60%
Health Science	\$ (65,840)	\$ 2,122,935	-3%
King Center	\$ 1,204,958	\$ 2,057,453	59%
Oracle	\$ 1,267,790	\$ 4,153,189	31%
Pinnacle	\$ 3,062,236	\$ 6,066,317	50%
South Buffalo	\$ 11,663,556	\$ 6,556,349	178%
Tapestry	\$ 1,325,293	\$ 7,272,310	18%
Westminster ⁽³⁾	\$ 8,026,253	\$ 7,299,968	110%
WNY Maritime	\$ 920,542	\$ 4,043,760	23%
Total	\$ 50,322,153	\$ 92,121,685	55%

(1) Figures are from 2009-10; 2010-11 figures have not been provided to the District

(2) All profits are annually sent to National Heritage

(3) Net Assets include \$5.5m of Property, Equip & Leasehold Improvements

LEGISLATIVE SOLUTIONS

Change the Charter Tuition Formula

- Article 56 of the laws of New York were adopted in 1998 “to authorize a system of charter schools to provide opportunities for teachers, parents, and community members to establish and maintain schools that operate independently of existing schools and school districts ...”
- Law established the funding formula based on Approved Operating Expenditures of the resident district from two years prior times a statewide inflation factor
- The major funding formulas to school districts have changed four times in nine years.
- Charter tuition formula has not been revisited even once in 12 years

Facts:

- The tuition formula creates inequities and animosity
- We ALL want good schools for children
- We need the financial wherewithal to provide the best education possible to all students
- Consider the estimated financial impact for 2012 based on existing tuition formula and aid cuts:

Foundation Aid , less GEA, received per pupil, (weighted pupil count and includes Charter School Enrollment)	\$8,559
Estimated Charter Tuition per pupil (weighted)	\$12,595
Difference	\$4,036
Estimated Charter Enrollment for 2012	7,352
Total tuition paid, above aid received	\$30 million

Options:

1. At a minimum, any GEA should be applied to aid to charter schools.
2. Revisit legislative request we made 4 years ago and remove the categorical grants that were added to AOE in 2007-08. **Savings ranges between \$3.7-\$4.5 million annually**
3. Change the entire formula , remove charter pupils from our student counts and the State can fund them separately. **Estimated savings for 2012: \$20 to \$31 million (range depends on treatment of Sales Tax and phase out of Transition Aid)**