TESTIMONY

The 2018-19 Executive Budget and the Public Schools

Senate Finance Committee
Assembly Ways and Means Committees
January 31, 2018

Chairwoman Young, Chairwoman Weinstein, other members of the Senate and Assembly:

Thank you for the opportunity to testify today and for your past support of our public schools. We know that education has fared better than most other areas in recent state budgets and we are grateful for all your efforts.

Your work has made a difference. Last week, State Comptroller DiNapoli reported that 26 school districts now meet his office's criteria for fiscal stress, down from 59 a year ago and from 82 in 2016.

The Comptroller's findings are broadly consistent with results from surveys we have conducted among superintendents each year since 2011. We shared our report on this year's survey results with your offices last week.

In each of the past three years, more superintendents have reported that their district's financial condition has improved rather than worsened. For contrast, back in 2011, 75 percent of superintendents reported a decline in financial condition and only 2 percent reported improvement.

But the gains are not universal and they remain fragile. Never in any of the seven years of our surveys have more than a third of superintendents reported their district's financial condition actually improved (the largest shares in recent years have reported no change).

Accordingly, we know there remain some districts which have made little or no progress in repairing damage their schools suffered during the Great Recession and its aftermath.

What was most striking in our most recent annual survey, however, is evidence of mounting concern among superintendents about the needs of the students served by their schools.

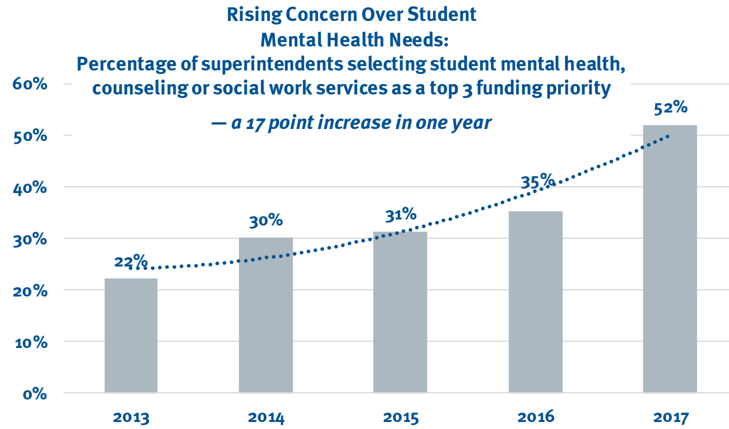
For example, we asked to what extent each of a list of circumstances is a problem for your schools. Most widely cited was "capacity to help students with non-academic needs, including health and mental health," named by 45 percent of superintendents.

"Increasing student needs" was the third most widely identified factor causing concern in thinking about future financial prospects, after adequacy of state and impact of the tax cap.

A Capital Region Superintendent: *We are still recovering from the 2008 economic downturn where staffing and programmatic cuts were extremely deep. We are trying to add back a little each year, but still well below where we were in 2008. This has created huge inequities in available student opportunities compared with our wealthier suburban neighbors. While we are getting by financially, we are not back to pre-2008 staffing levels, even ten years later with enrollment levels remaining roughly the same. This opportunity gap is a loss for our students and their futures.*

NEW YORK STATE COUNCIL OF SCHOOL SUPERINTENDENTS
7 Elk Street ♦ Albany, NY 12207-1002 www.nyscoss.org 518/449-1063 ♦ Fax 518/426-2229

Most dramatically, the share of superintendents choosing improving mental health-related services as a top funding priority surged by 17 points in one year – from 35 percent for 2016-17 to 52 percent this year – and, for the first time ever, displaced increasing extra academic help as the most widely cited priority.



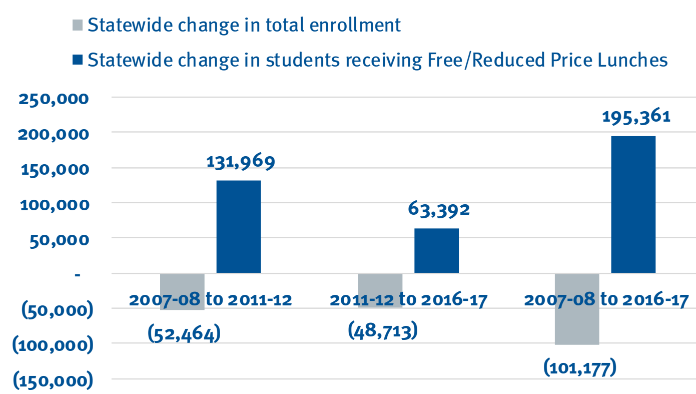
SOURCE: Council survey of NYS superintendents, summer 2017

The concern is echoed by our partners in leading schools, prompting the School Boards Association and School Administrators Association to convene conferences on responding to the mental crisis among students. It will be a theme for our next fall conference as well.

A North Country Superintendent: *We cut many positions during the recession and in the last few years, we have been able to restore some of the most critical. Last year when an elementary teacher resigned, we elected to not fill the position and instead allocate the resources to an additional counselor. Like many schools, we are seeing an alarming increase in mental health needs. If nothing changes we will be forced to look at cutting some of those positions again.*

The sentiments of superintendents are confirmed by hard data. While overall enrollment has declined, the number of low-income students qualifying for free or reduced price lunches has grown, with the result that many districts are now serving much higher concentrations of low-income students.

Poverty among schoolchildren has been increasing faster than total enrollment has been declining



SOURCES: Kids' Well-Being Indicator Clearinghouse, NYS Council on Children and Families (FRPL) and NYS Education Department School Aid data (enrollment)

All this provides a backdrop for understanding the financial prospects of our public schools and the potential impact of the next state budget.

New York's public schools need a state aid increase for the next school year that will enable them to protect and improve opportunities for students. Also necessary is an agenda to create a more financially sustainable future for our schools for next year and beyond.

Assure Adequate Funding for 2018-19

Given the extraordinary fiscal uncertainties facing our state, the Governor's School Aid proposal is a credible starting point. But the funding amounts that districts can now identify fall well short of what they will need to maintain current services.

Each year, the Educational Conference Board (ECB) attempts to project the state aid increase that schools would need to preserve existing services. For 2018-19, ECB's estimate comes to $1.5 billion. The estimate is not a wish list; its assumptions are drawn from independent sources. For example:

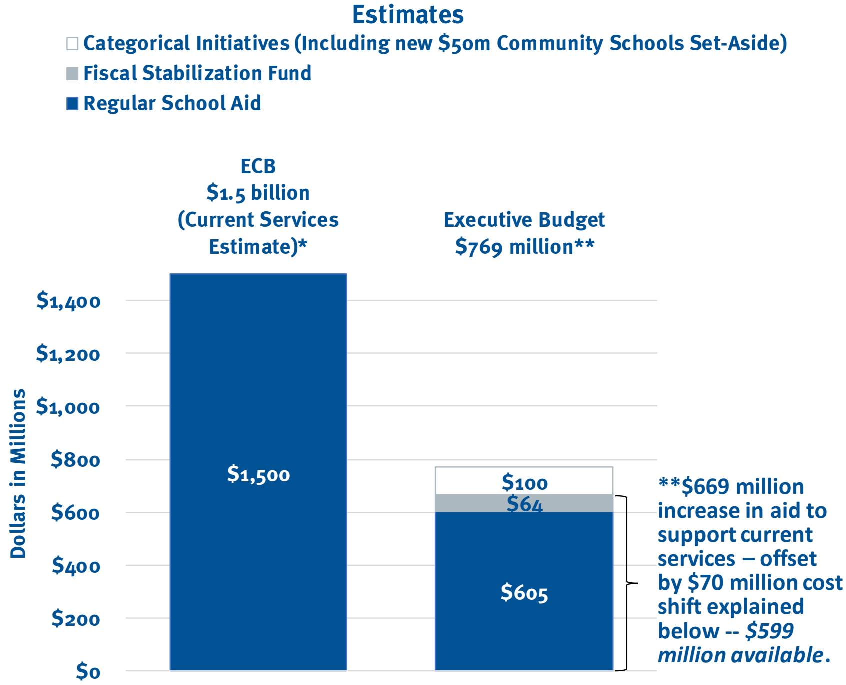
- A national survey of employers projects salaries for all types of workers will rise by 3 percent in 2018; ECB assumed a figure of 2.5 percent, accounting for some turnover savings as veteran employees retire.
- For health insurance and non-personnel costs, ECB uses the figures the Division of the Budget projected in its mid-year financial plan update for the state's health care premium increases in 2018-19 and the rise in the Consumer Price Index for 2017, respectively.
- The estimate assumes roughly a 10 percent increase in pension costs, due chiefly to an increase in the Employer Contribution Rate announced the State Teachers Retirement System in November.

Added together, ECB projects that school costs will rise by $1.9 billion, or 2.8 percent. This sum would be partly offset by approximately $400 million in local revenue increases consistent with 2.00 percent allowable levy growth factor in the school property tax cap for the year ahead, resulting in the $1.5 billion state aid need, if current school services are to be preserved.

The announced School Aid increase in the Executive Budget is $769 million. This includes $100 million in new categorical funding, all for worthy purposes, but thus not available to support ongoing current operations. The remaining total of $669 million would be offset by a proposed $70 million shift of summer special education costs to school districts, leaving $599 million to help schools fund current services.

Even if reasonable people challenge some of the ECB's assumptions, the bottom-line total is not off by a factor of two-and-a-half (i.e., $1.5 billion vs. $599 million). Accordingly, we know some districts will find it necessary cut services if no further School Aid is provided, and few will be able to provide additional educational opportunities that students deserve.

The Executive Budget and Educational Conference Board Estimates

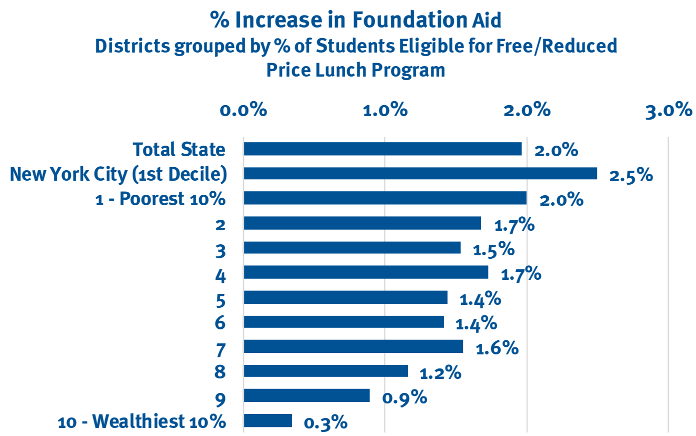


ECB Assumptions:
- 2.5% increase in salaries per national survey, less possible turnover savings
- 5.9% increase in health insurance costs (same as state workforce)
- 9.7% in pension costs per TRS rates
- 2.1% increase in non-personnel costs per Budget Division CPI forecast
- 2.0% increase in local revenues per tax cap

*The ECB recommendations also include $500 million for specified programmatic priorities.

SOURCE: Compiled by the Council from ECB and Division of the Budget publications

The portion of School Aid funded through formulas appearing on aid runs totals $651 million, with $338 coming through a 2.0 percent statewide increase in Foundation Aid and $313 million from a net increase in expense-based and other aids. Consistent with ECB recommendations, these other aids would essentially be funded according current law formulas, with no district receiving less aid than it would under the formulas now in law.



SOURCE: Council analysis of NYSED School Aid data

The increase in Foundation Aid is distributed in a generally progressive fashion, as the accompanying chart illustrates. But the sum provided for the increase is not adequate to help schools protect current services and keep pace with growing needs among the students they serve.

A Finger Lakes Region Superintendent: *As a superintendent for a high need rural school district the proposed Governor's budget does not help… It is bad enough that our district has a bare bones educational program unlike wealthier districts in the state but now must cope with possible cutbacks do to the Governor's proposal not addressing high need districts. Take., for example, 4 new students with disabilities for the 2018-19 school year that will increase expenses by $254,000. State aid in the amount of $61,000 will not be received until the 2019-20 fiscal year. The net fiscal impact on our district is $193,000 for just these students. If the district chooses to raise taxes at the 2% cap limit that would equate to an extra $88,000. Of course this is just one expense increase and doesn't represent the 11% mandated teacher retirement increase or the 7% health insurance increase or any contractual salary increases. High need districts need a true foundation aid formula funding mechanism in order to properly serve their students.*

Again, the budget seeks increased funding for an assortment of categorical programs. The largest is a proposed $50 million increase in set-asides within Foundation Aid for Community Schools. Given our survey findings about growing concern over non-academic needs of schoolchildren, we recognize the value of Community Schools. But we dislike expanding the precedent of directing use of Foundation Aid, which is intended to be unrestricted operating aid.

Like the increase in Community Schools funding, a $10 million increase in funding for after-school programs would help fund out-of-school supports that can make in-school success more attainable. Again, however, schools must also receive adequate funding to maintain ongoing operations.

New York and perhaps all states need to develop more coherent transitions for young people from high school to whatever follows, whether college, vocational training, or a job. The Governor proposes initiatives supporting that purpose, including an expansion of early college high schools and funding of Advanced Placement and International Baccalaureate opportunities for disadvantaged students.

Another component should be to enhance BOCES and Special Services Aids to promote expansion of Career and Technical Education programs. The aidable salary cap for BOCES Aid has not been increased since 1990.

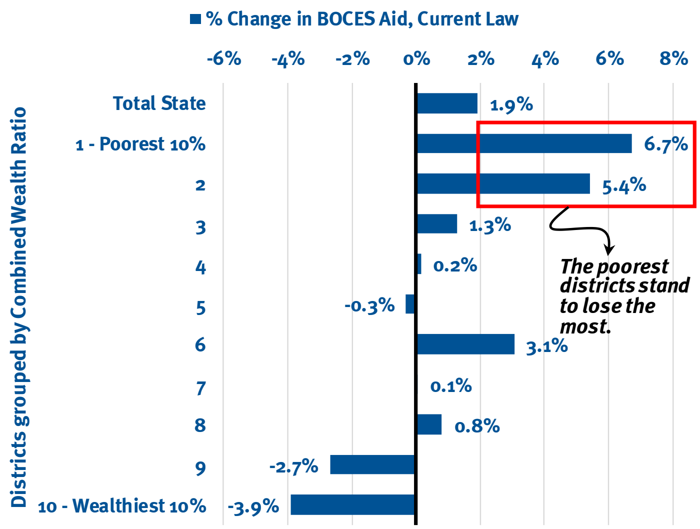
We support the proposals of the Board of Regents to provide more financial stability for special act school districts, by creating a statutory growth index for tuition rates and authorizing the districts to establish a general reserve fund.

Reject Caps on Expense-Based Aids

The budget includes an alarming proposal to cap increases in certain expense-based aids, beginning with aid payable in the 2019-20 school year. If these caps were in place for 2018-19, we estimate that they would cost districts roughly $200 million in lost reimbursements.

Increases in BOCES and Transportation Aids would be capped at 2 percent for each district. BOCES are the primary vehicle for school districts to share services and poorer districts have become especially reliant upon them to provide opportunities for their students which they could not afford on their own and to carry out administrative mandates imposed by the state. The poorest districts are thus most likely to be hurt by the BOCES Aid cap, as the accompanying chart illustrates.

Impact of Proposed Cap on BOCES Aid, if in Place for 2018-19 Aid ($51 million loss)



The Combined Wealth Ratio measures district ability to fund schools from local sources.

SOURCE: Council analysis of NYSED School Aid data.

The cap on Building Aid would ultimately hurt all districts. To the extent Building Aid statewide increases by more than 2 percent in a year, districts would have their Building Aid pro-rated downward. (New York City would be exempt from reductions for projects approved prior to July 1, 2018).

The tax cap has made it even more crucial for district leaders to plan their capital costs and attempt to even-out annual capital spending. But if Building Aid reimbursement becomes subject to reduction because of actions by other districts, that would become vastly harder, perhaps impossible. Also, with the change, district leaders would no longer be able to give voters any assurance that the state would reimburse a consistent share of a proposed project's cost, making it harder to gain approval from those voters.

We urge you to reject all the proposals to cap the expense-based as proposed in the Executive Budget.

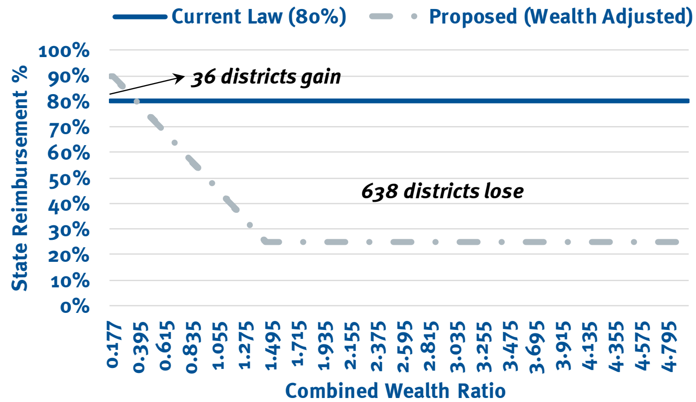
A Central New York Superintendent: *While I was pleased to see the Foundation Aid increased, the proposed 2% cap on Building Aid and Transportation Aid would only serve to further perpetuate the inequity of opportunity between schools of wealth and those serving impoverished communities.*

What is the long term impact on school facilities and bus fleets under that proposal? It seems likely that safety will become a serious concern. The executive proposal serves to tie the hands of locally elected boards, leading to inefficiencies in expenditures, while preventing boards from responding to local priorities.

Reject Shifting Special Education Costs on to School Districts

The budget recommends shifting $70 million in costs for summer special education services from the state on to school districts. Currently, school districts fund 20 percent of these costs. The budget proposes to instead use reimbursement rate used for high cost public special education placements. These rates vary based on district wealth, from a maximum of 90 percent to a minimum of 25 percent, with average wealth districts receiving 49 percent reimbursement.

Proposed Change in State Reimbursement Rate for School-Age Summer Special Education



SOURCE: Compiled by the Council

Under this proposal, nearly 95 percent of districts would be expected to absorb increased costs within their budgets and tax caps. With few districts attempting to over-ride the tax cap, the probability is that most would need to cut other spending to accommodate this new state-imposed cost.

Oppose Requiring State Approval of Local Funding Allocations

The budget would also require the Big 5 cities and 10 other school districts to obtain state approval for their methodologies for allocating funds among school buildings. This strikes us as applying a blunt instrument to a complex task. It would substitute abstract judgments of officials in Albany for the more informed understanding of locally chosen leaders. School funding allocations can be affected by grade configurations, geography, and collective bargaining agreements, and other factors.

At best the proposal is premature. The new federal Every Student Succeeds Act will require every school district to report funding allocations for each school building. This will begin to illuminate the allocation decisions districts are making and the complexities they encounter in doing so.

Other Issues

The Executive Budget includes legislative proposals addressing many other issues, including combatting student hunger, preventing sexual assault, and improving school bus safety, as well as anticipated measures to protect New York taxpayers from harm arising from the federal tax legislation. We will provide you with commentary on these in the weeks ahead.

A Financial Sustainability Agenda for Our Schools

We detect as much concern among our members about long-term financial prospects as about the year immediately ahead. Earlier this month, our organization shared with your offices our four-part financial sustainability agenda. We will summarize it here.

1. Update and Phase-in Foundation Aid

A financial sustainability agenda should begin with a commitment to update and phase-in the Foundation Aid formula.

The 2007 formula was a significant accomplishment in public policy. It generally drove the greatest aid per pupil to the neediest districts – and still does. It promised more predictability in aid for all districts going forward. It used elements with a basis in facts – a per pupil amount tied to the cost of providing general education in successful schools, for example. That makes state funding decisions more transparent and decision-makers more accountable.

Even leaving aside arguments over what the state does or does not "owe" as a result of CFE litigation, something like the Foundation Aid formula is desirable in its own right as a cornerstone in building a school finance system that supports more effective multi-year planning. Schools in other states have this and ours once did.

We support the ECB's call for the state to commit to fully phase-in the Foundation Aid formula over three-years and to embark on studies to update elements of the formula, including the weightings used to account for pupil needs and the per pupil amount needed to prepare students for success. The formula as it stands now does not work for too many districts, including the 48 percent of average need districts and 44 percent of high need rural districts now on save-harmless.

2. Adjust the Tax Cap

Advertised as a "2 percent tax cap," the base for New York's tax cap was below 2 percent for four straight years. If districts do not obtain voter approval, they may not increase taxes at all – in effect a zero percent tax cap every year. In contrast, Massachusetts – cited as a model for our law – allows communities to raise their tax levy by up to 2.5 percent *without requesting voter approval.*

Adjusting the tax cap is the second component in a fiscal sustainability agenda. The allowable levy growth factor should be set at 2 percent, not the lesser of 2 percent or the change in the Consumer Price Index over the prior calendar year. Most forecasts predict that inflation will be greater than 2 percent for the next several years, so this adjustment would not immediately affect anyone's tax bill. This should be coupled with a more workable carry-over provision which would give districts an incentive to hold levy increases below 2 percent in years when they can manage, allowing them to reserve the savings for use in a tougher year.

We are grateful for your efforts in passing two common sense adjustments to the cap which were vetoed by the Governor – treating properties covered by payments in lieu of taxes (PILOTs) in the same manner as regular taxable property in the tax base growth factor and allowing districts to exclude from their tax cap expenses for shared Board of Cooperative Educational Services (BOCES) capital costs, just as they exclude district capital costs. We must continue to pursue remedies to the problems those bills sought to fix.

3. Help Schools with Costs and Maximizing Resources

Repeatedly, we are told that New York spends more per pupil on its public schools than any other state. Why do New York schools spend as they do? There are multiple reasons. We are high cost in many things, not just education. We are part of a high cost region, along with our northeastern neighbors. We have some of the absolute best public schools in the nation and the opportunities they provide their students are expensive. We more fully fund our pension obligations than most other states.

Another factor is that New York schools operate under rules not found in other states, like extensive special education requirements and the Triborough law which mandates that salary "step increases" continue even under an expired contract (other states do have laws requiring that benefits continue).

Debates over mandate relief are nearly always contentious and usually futile. Frankly, we have no expectation that significant help for schools in reducing or controlling costs and maximizing resources will be forthcoming in the near term. But to criticize school spending while taking no action on mandates that drive those costs is like tying a runner's shoes together and then complaining he or she doesn't run fast enough.

If the state is *not* going change the rules that drive-up costs while constraining the ability raise local revenues to meet those costs, *then it must fund the rules* – by committing to phasing-in and updating the Foundation Aid formula.

Our agenda offers ideas for smaller scale assistance, including, for example, a voluntary moratorium on new unfunded mandates, authorizing transportation "piggy-backing" by allowing private bus contracts to serve multiple districts, and permitting the creation of regional high schools. We also recommend steps which might yield greater pay-off in the future, such as establishing a joint labor-management committee to explore strategies to achieve savings in health insurance costs for both school districts and their employees and retirees.

4. Give Schools Access to Reserves Available to Municipalities

The final component in a financial sustainability agenda is to give school districts access to reserves like those available to the state's municipalities, starting with a reserve for Teachers Retirement System obligations.

Municipalities may set aside funds for pension obligations on behalf of all their employees. Schools may do so only for the roughly 20 percent who are covered by the Employees Retirement System (ERS), but not for teachers and certified administrators in the Teachers Retirement System. Yet schools are subject to more disclosure requirements and a tougher tax cap. Twice in recent years, statewide increases in TRS costs exceeded overall increases in spending, meaning that districts had to cut other expenses, on balance, to accommodate rising pension costs.

The tax cap has changed how school district leaders think about reserves – they are one remaining tool for exerting some control over future financial prospects for their schools.

Conclusion

We emphasize thinking about a sustainability agenda because we recognize the challenges all public enterprises will face in matching resources and needs in the years ahead. We will join with you and other allies to oppose further damaging actions by our federal government, as we fought to preserve state and local tax deductions. We are grateful for your past support and will work with you once again to construct a state budget which can preserve and improve the opportunities all our students need and deserve.