

The Road Ahead: School District Insolvency or College and Career Readiness?

Michael J. Borges, Executive Director
New York State Association of
School Business Officials

• Pre-K is s
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Executive Budget Proposal

- Governor proposes an increase of \$807 million
 - \$603 million supports K-12 operation (2.9 percent increase)
 - \$100 million for pre-k expansion
 - \$25 million for Teacher Excellence Fund and P-TECH Grants
- GEA restoration is \$323 million (1.5 percent of school aid)
 - Outstanding Gap Elimination Adjustment reductions still total \$1.3 billion after the Executive proposal
- Foundation Aid is once again frozen
- Expense-based aid formula increases (Building, Transportation and BOCES) are included (an increase of \$281 million)
 - Building Aid interest rate recalculation will cost school districts another \$26 million
- Pre-K is a good investment. However, districts will be asked to expand pre-k when they can't afford K-12—we must invest in both
- \$74 million (1/3 of one percent of school aid) for Fiscal Stabilization Fund should be unrestricted aid. This was \$203 million in last year's proposal.

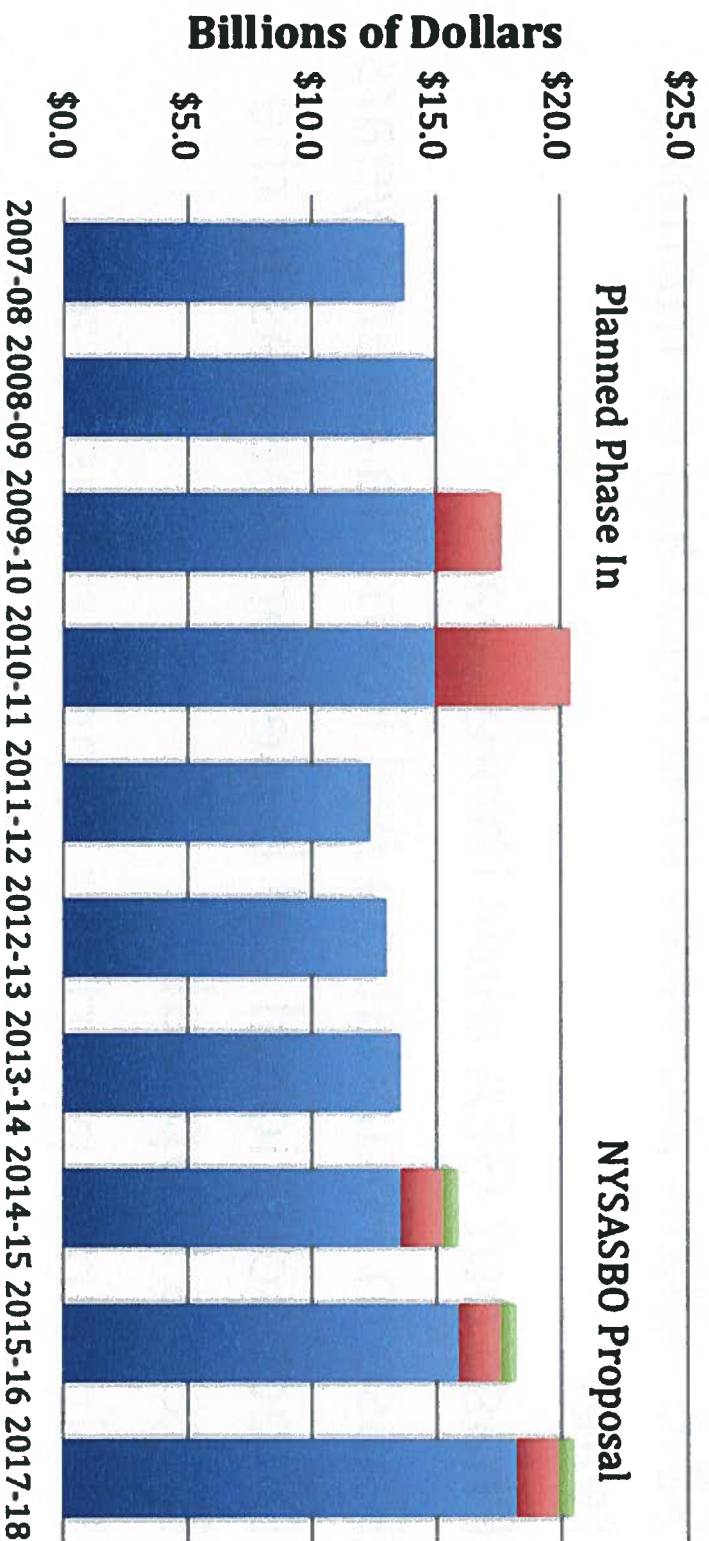


NYSASBO Proposal

- \$2.6 billion increase in school aid or mandate relief
- Phase out GEA over three years
- Phase in Foundation Aid Formula over 3 years
- Direct additional aid based on need as in the Regents Proposal
- Maintain support for expense-based aids
- Continue moratorium on recalculating interest rate on building aid – preventing \$26 million cut.



Restore Foundation Aid to 2010-11 Planned Level



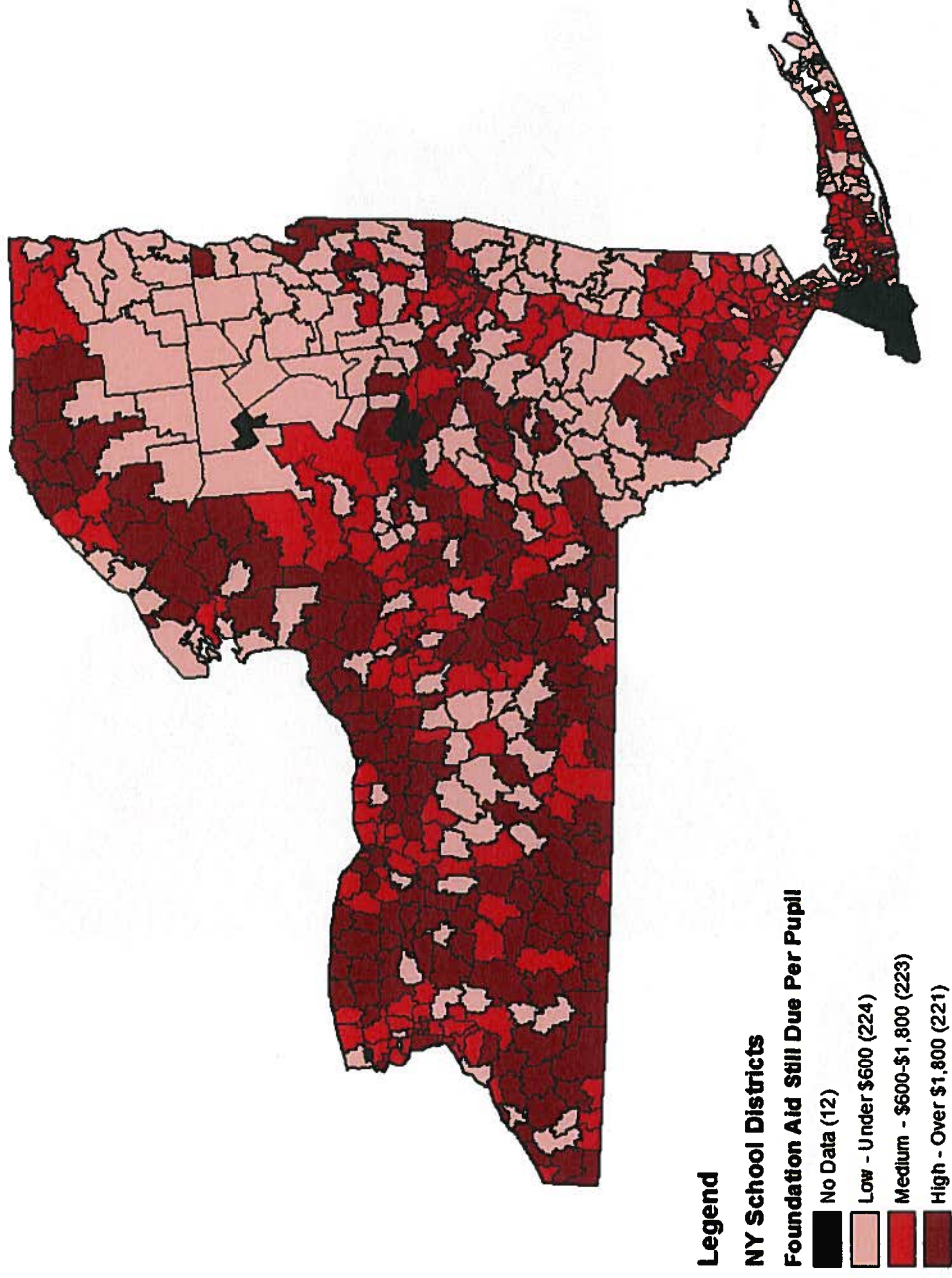
NB: The base for 2011-12, 2012-13 and 2013-14 is calculated as Foundation Aid less the Gap Elimination Adjustment

- Base
- Foundation Aid Phase In
- GEA Restoration



Two-thirds of NYS School Districts Are Still Due over \$600 per Pupil in Foundation Aid One-third are Still Due over \$1800 per Pupil

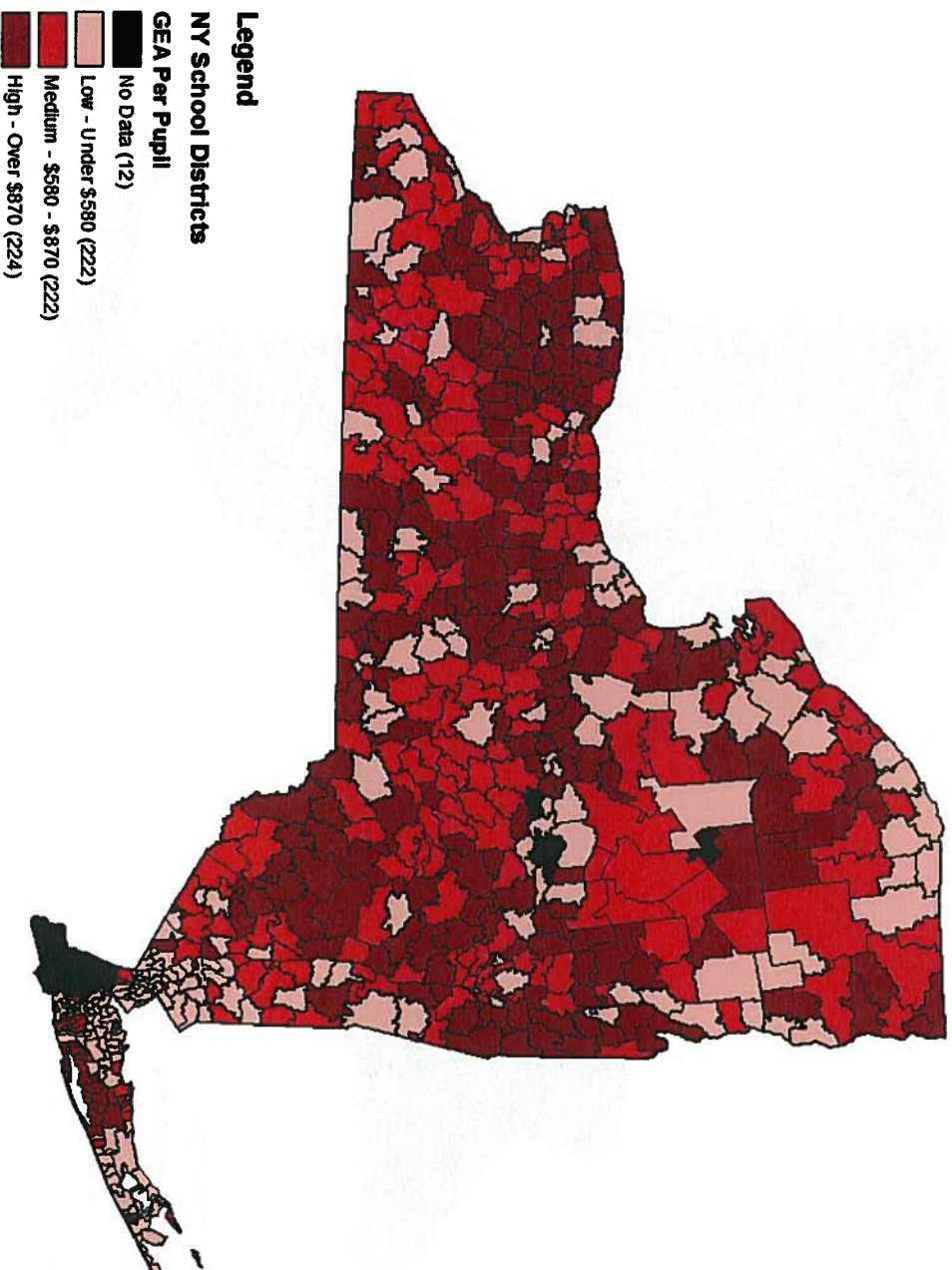
Foundation Aid Still Due Per Pupil for New York School Districts





Two-thirds of NYS School Districts Are Still Due over \$580 per Pupil in GEA One-third are Still Due over \$870/Pupil

Remaining GEA Per Pupil for New York School Districts





Symptoms of Insolvency

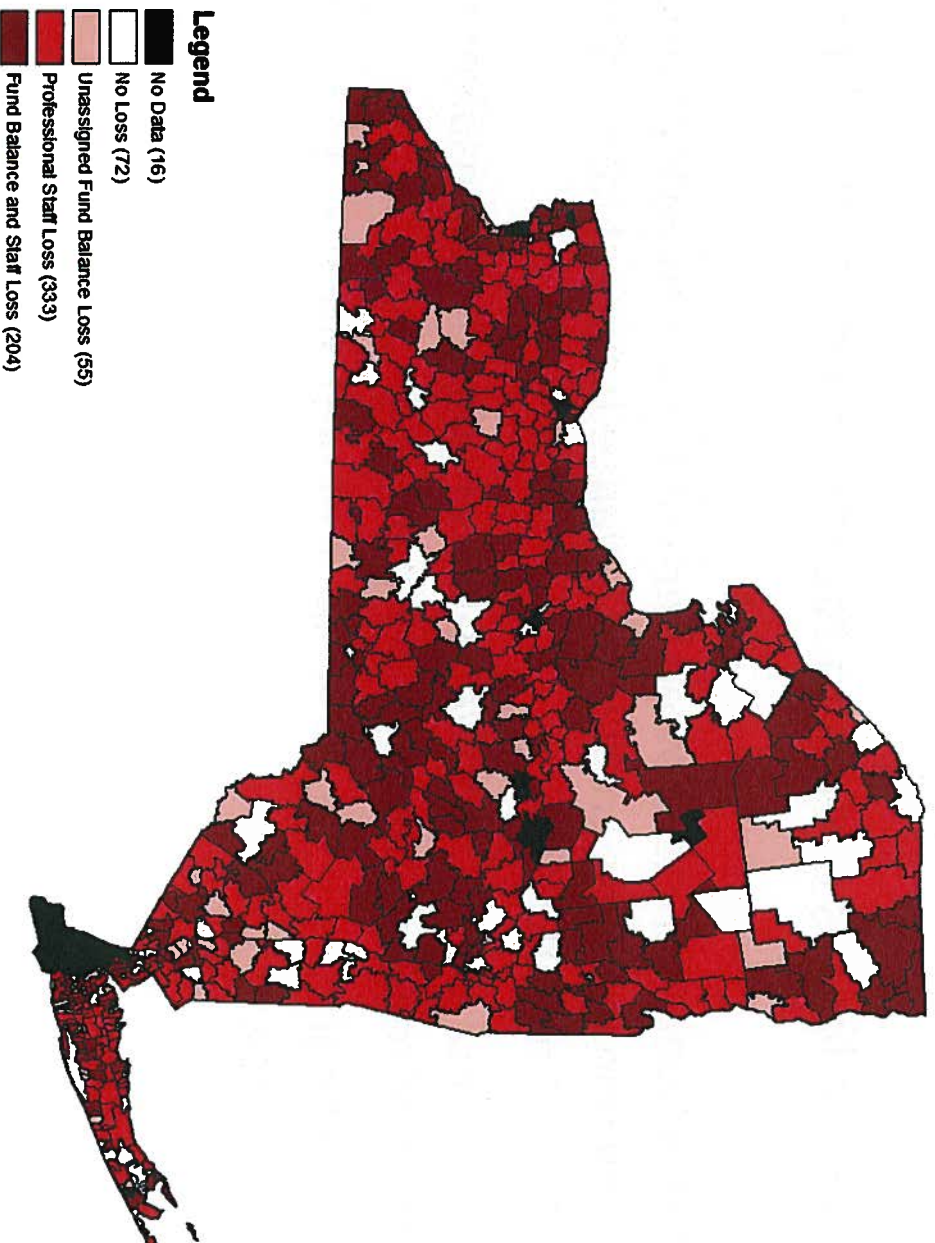
Most School Districts Lost Either Fund Balance or Staff

- Examining losses over two recent years (2010-11 to 2012-13),
 - **261 school districts** showed signs of fiscal insolvency through a reduction in Unassigned Fund Balance (savings) from school year 2010-11 to 2012-13,
 - **544 school districts** showed signs of educational insolvency as a result of reduced professional staff, and
 - **206 school districts** showed signs of both fiscal and educational insolvency.



Are School Districts Approaching Fiscal and Educational Insolvency?

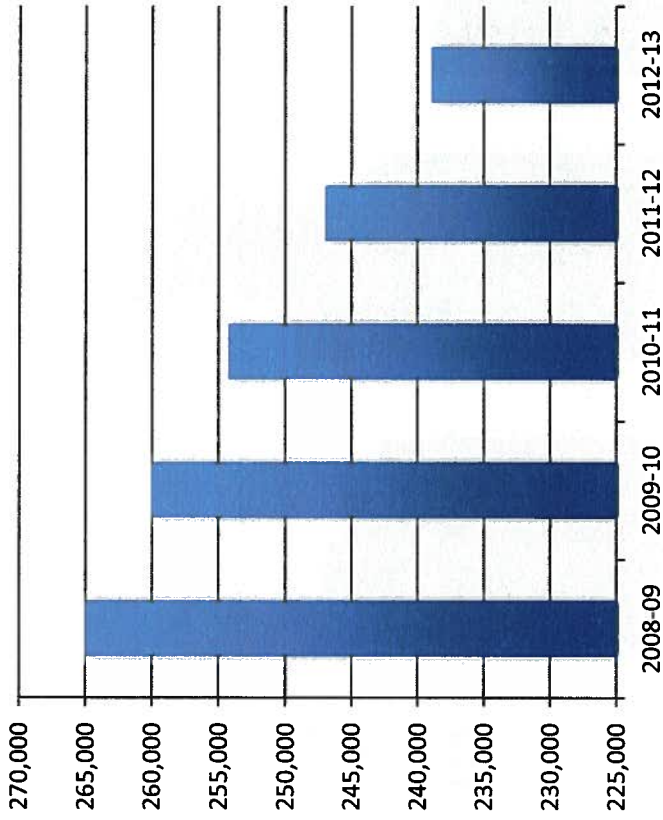
Fund Balance and Staff Loss for New York School Districts



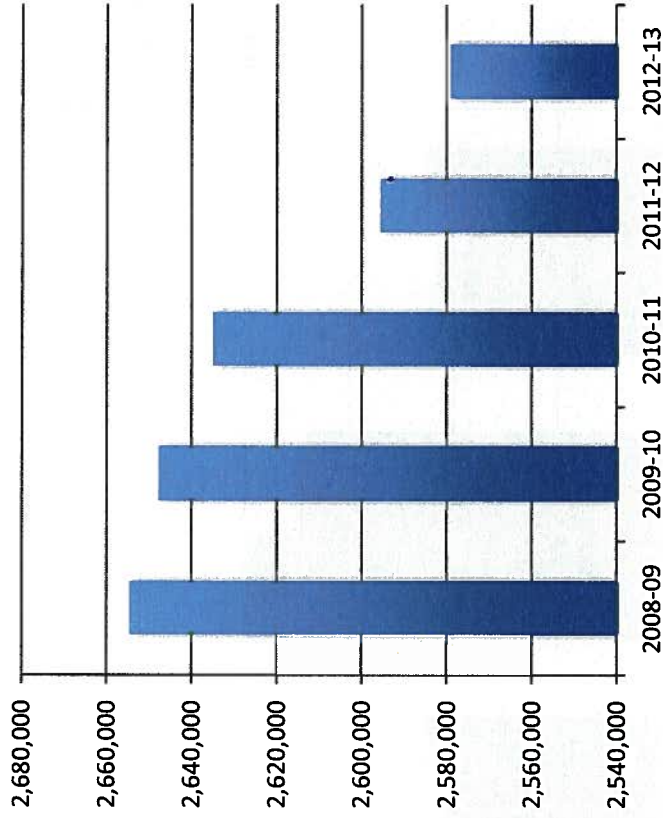


Since the Recession, Districts Lost Ten Percent of Staff and Three Percent of Pupils

**Total Professional Staff
New York State School Districts**



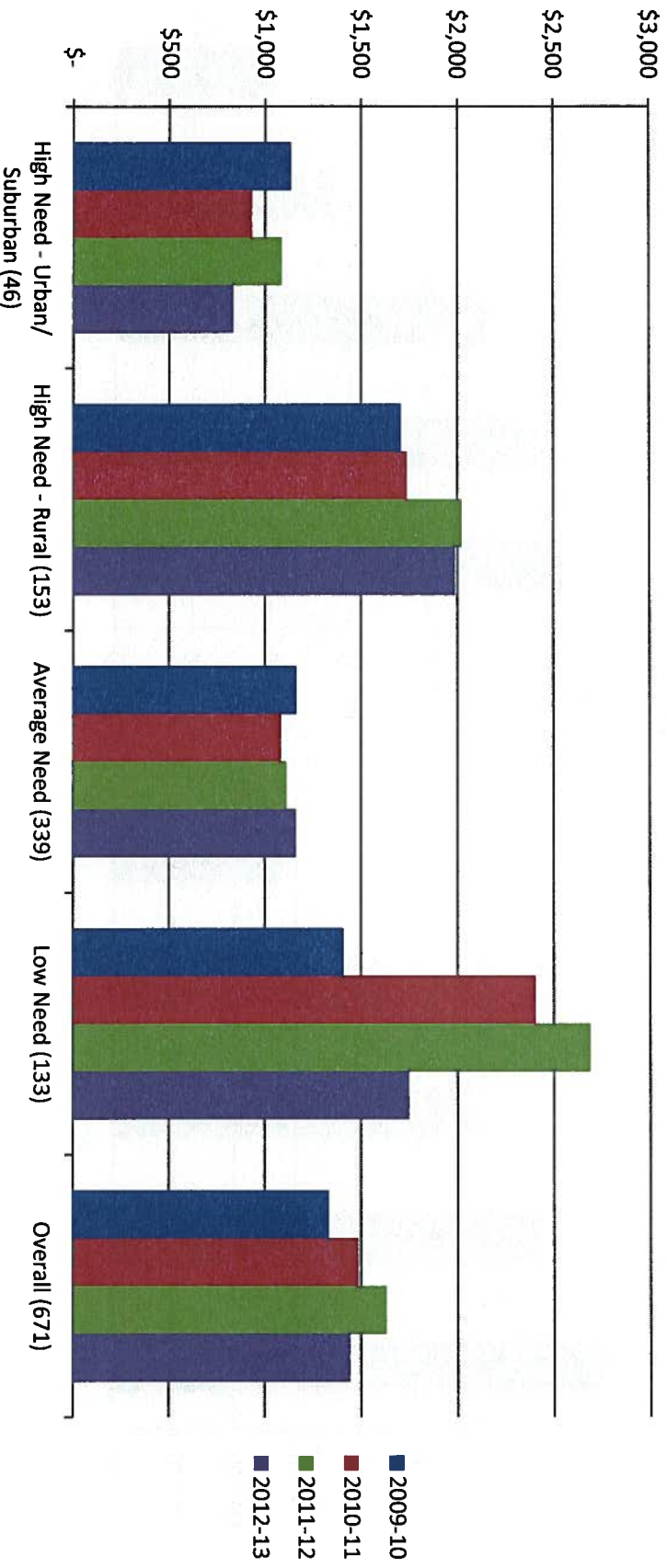
**K-12 Enrollment
New York State School Districts**





High Need Urban/Suburban and Average Need School Districts Had the Least Fund Balance Per Pupil

Average Unassigned
Fund Balance per Pupil
2009-10 through 2012-13



This pattern was similar for Restricted Fund Balance



Transparency and Accountability

- Require five-year financial plans shared with the public that increase communication and local planning by projecting:
 - revenues,
 - expenditures,
 - unassigned fund balance,
 - restricted fund balance,
 - capital project planning and the district's five-year facility plan, and
 - resources required to implement an instructional program necessary to insure that all students graduate college and career ready.



New York State Association of School Business Officials

Using Resources to Improve Student Achievement

For Further Information and Proposals,

See www.nysasbo.org

- The Road Ahead: School District Insolvency
- Educating Students To Be College and Career Ready - *Proposal on State Aid to School Districts For School Year 2014-15*
- NYSASBO 2014 Legislative Priorities



THE ROAD AHEAD:

School District
Insolvency

JANUARY 2014



New York State
Association of School
Business Officials

Advancing the Business of Education

Executive Summary

This study examined recent data to determine whether school districts are on the road to either educational or financial insolvency or both. The report focused on professional staffing losses and fund balances maintained by 671 New York State school districts excluding the Big Five city school districts.

Findings include:

- Two hundred sixty-one school districts showed signs of fiscal insolvency through a reduction in Unassigned Fund Balance (savings) from school year 2010-11 to 2012-13, 544 school districts showed signs of educational insolvency as a result of reduced professional staff, and 206 school districts showed signs of both fiscal and educational insolvency.
- School districts are balancing their budgets at the cost of educational programs, as evidenced by cuts in professional staff. School districts have reduced staff ten percent over the past five years, while pupil enrollment has declined only three percent.
- Of the approximately 40 percent of school districts that lost fund balance, high need urban/suburban school districts and average need school districts lost the most and low need school districts lost the least. High need urban/suburban school districts have approximately one-third the fund balance per pupil of low need school districts.
- Thirty-eight percent of school districts experienced loss in Restricted Fund Balance and this phenomenon was relatively uniform across all district types.



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Introduction

This study provides a status report on New York State school district finances. It follows a 2012 NYSASBO study on the same topic which examined the state of unrestricted fund balances in New York State school districts and found that high need school districts in rural, urban and suburban communities were exhausting their fund balance at an alarming rate, representing the cumulative impact of the Great Recession and state efforts to contain school expenditures. Almost a year and a half later, what is the status? This study seeks to review data provided by school districts in their annual financial reports to answer the following questions.

1. Do some types of school districts continue to have less fund balance than others?
2. Are school districts balancing their budgets at the cost of educational program, as evidenced by cuts in professional staff?
3. How many school districts are showing signs of (a) fiscal insolvency, (b) educational insolvency and (c) both fiscal and educational insolvency?
4. Are some types of school districts using up their fund balances faster than other districts?
5. What is the right amount of fund balance?
6. Does the use of school district reserves vary for groups of districts categorized by student poverty and fiscal capacity?
7. What are legislative proposals under consideration to help school districts to be solvent, both fiscally and educationally?

Background

The past six years have been characterized by many events that have affected school revenues: a new State funding formula promising to simplify aid distribution and provide additional funds to educate students who need extra time and help, a global economic collapse followed by short-term federal stimulus funds, state policymakers responses to balance the budget and contain the growth of school revenues including the Tax Cap, the Gap Elimination Adjustment, and a limit on the growth of State school aid. Each of these events has affected the actual and projected impact on sources of funding for schools. A report issued by the State Comptroller¹ says the bottom line, is:

Schools are facing fiscal challenges that are not likely to dissipate in the short term. Between a tax levy limit that restricts local funding, State and federal

aid cuts followed by capped growth administered in a complex and opaque manner, and a lack of other sources of funding, schools are in a period of low revenue growth.

What is school district insolvency?

Generally speaking, an insolvent school district lacks the ability to provide a sound basic education that prepares students for college and career readiness with a reasonable tax effort. The Board of Regents commissioned a study in 2003 led by Syracuse University's Bill Duncombe that described school district insolvency as lacking good financial condition. They defined it this way:

Financial condition of school districts is defined as the ability to finance adequate student performance over the long run with reasonable tax burdens and without temporary disruptions of service. Adequate student performance implies students reaching the academic standards set by the New York State Board of Regents.²

That is, financial condition has fiscal aspects and educational aspects. This concept underlies the common use of two terms: fiscal insolvency and educational insolvency. It is not enough for a district to pay its bills and open on a daily basis (that is, to be fiscally solvent); the district must also finance adequate student performance over the long term (that is, to be educationally solvent). A district that cannot offer all of the coursework to meet Board of Regents standards and achieve a level of success with student performance is not educationally solvent. Duncombe, Jump, Ammar and Wright (2003) proposed a financial indicator system that would assess both educational and fiscal solvency, but New York State did not adopt this. While other existing systems focus their efforts on assessing fiscal solvency, it is important to keep in mind that educational solvency is equally important.

Why should we be concerned?

New York's Constitution, Article XI, states: "The Legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of this state may be educated." If our schools are not solvent, children do not get educated and our society is weakened as a result. Young people are ultimately not prepared for success in the workforce and the independence required for a strong economy and healthy citizenry. Fiscal and educational solvency is

the foundation on which our education system functions and thrives.

There are several consequences of fiscal stress. Inequities in educational opportunity that exist in the current system cannot be ameliorated. Reforms, such as meeting higher standards to respond to increasing demands in the workforce, are difficult to accomplish, and inequities can be exacerbated. The number of dropouts and students not prepared for economic independence will grow, businesses will increasingly turn to other countries to fill high skilled jobs, and there will be a growing imbalance between those that are contributing to our economy and those that are taking from it.

Measures of Fiscal Stress

New York State Education Department and the Office of the State Comptroller have assessed school district fiscal stress.

The New York State Education Department. The State Education Department identifies two groups of districts: those in stress and those that demonstrate concern that they are headed for stress. The indicators used to assess the two groups are no or low fund balance and an imbalance between assets and liabilities:

- **High Risk Districts (Fiscal Stress)**
 - Negative fund balance
 - Unreserved, undesignated fund balance is negative and total fund balance is less than 2 percent of adopted budget
- **Medium Risk Districts (Fiscal Concern)**
 - Fund balance is less than 2 percent of adopted budget
 - Cumulative operating deficit is less than -6 percent of adopted budget and fund balance is less than 5 percent of adopted budget
 - Current ratio (assets to liabilities) is less than 1.25 and fund balance is less than 5 percent of adopted budget

NYSED's fiscal stress system has often been described as a system that measures short-term financial condition. It shows when districts are stressed but doesn't predict that they are headed to stress over the long term. Given the Department's separate extensive focus on school accountability, this approach may have been adequate for its purposes.

Comptroller assessment of fiscal stress. The Office of the State Comptroller has developed an Early Warning System that assesses the financial condition of local governments and school districts. It assesses both financial and environmental indicators and rates local

governments and school districts as "in fiscal stress, as well as those showing susceptibility to fiscal stress."³ Ratings for school districts were first released in January 2014. For school districts, financial indicators include:

- Unassigned General Fund Balance
- Total General Fund Balance
- Operating Deficits
- Cash Ratio (ability to pay current liabilities)
- Cash as a Percentage of Monthly Expenditures
- Short-Term Debt Issuance
- Short-Term Debt Issuance Trend (over the last three years)

A score is calculated for each of the seven financial indicators to arrive at an overall score for each school district. School districts are assigned to the following categories based on a composite score, which weights indicators based on their relative importance to school district financial condition:

- Significant fiscal stress
- Moderate fiscal stress
- Susceptible to fiscal stress
- Not in fiscal stress

The system also assesses and reports on environmental factors that affect school district financial condition. These include:

- Change in Property Value in the current fiscal year
- Change in Enrollment in the current fiscal year
- Trend in First Budget Vote Being Defeated over the last four fiscal years
- Change in Approval Percentage for the First Budget Vote for the most current fiscal year
- Graduation Rate Percentage for the most current fiscal year
- Free and Reduced Price Lunch Percentage for the most current fiscal year

Environmental factors are measured and compiled in a manner weighted for their relative importance for school district environment and are categorized in three levels of adverse environmental condition with a designation (###, ## or #) added to the school district's assessment of financial condition. Thus the Comptroller's assessment of school district financial condition includes measures of short-term financial condition, similar to the State Education Department's, and also includes an assessment of the environment in which the school district operates, which can have an impact on the short and long-term financial condition of a school district.

Financial condition indicator system. Professors from Syracuse University and LeMoyne College developed a blueprint for a Financial Indicator System for New York School Districts as part of the Board of Regents and State Education Department's Education Finance Research

Consortium.⁴ Although this financial condition indicator system was not funded or implemented beyond this initial blueprint, it was developed collaboratively with an advisory panel of school superintendents and school business officials and as such gives us a method to assess the Comptroller's and State Education Department's methods of assessing school district fiscal stress.

The financial condition indicator system developed by Duncombe et al. under the advice of school officials included four components:

- Short-term financial condition
- Long-term financial condition
- Economic condition and
- Student performance

As noted in the definition of financial condition on page 2 (taken from Duncombe et al., 2003), this concept of financial condition recognizes the importance of fiscal and educational insolvency. Whether a school district can pay its bills is important, but whether it can pay its bills and educate its students is even more important.

Furthermore, educating students can be measured and Duncombe et al. measure this as the school district's ability to meet learning standards imposed by the Board of Regents. How do the two systems fare in assessing fiscal and educational insolvency? As we have shown, the State Education Department assesses only fiscal solvency, and short-term fiscal solvency at that. There are no measures of long-term financial condition or the ability of the school district to educate its students, although the Department assesses this separately from finance with its school accountability system.

The Comptroller's fiscal stress monitoring system includes measures of short-term financial condition similar to SED's, such as most recent year fund balance, deficit and cash available to pay the district's bills. In addition, the system includes trend information over three and four years related to debt and budget vote approvals, which helps districts to assess long-term financial condition. The system also includes two measures which help to assess educational solvency: the assessment of student eligibility for Free and Reduced Price Lunch reflects the greater demand students have for additional educational services and graduation rate

assesses the extent to which the district is meeting its goal of educating all students. This broader assessment of school district financial condition provides a more accurate picture of school district financial condition.

NYSASBO has made a number of suggestions to improve indicators used in the Comptroller's assessment of school district fiscal stress.

- Reserve fund changes over the past 3 years provide a better picture of school districts' fiscal health than a one-year change.
- Assigned and unassigned fund balances should not be combined.
- Short-term borrowing varies based on regional tax collection deadlines (i.e. Suffolk County school taxes are not received until January) and therefore may not be a valid statewide indicator.
- Cash position can be misleading and timing plays a big role in this and therefore its relative importance should be reduced as a factor.
- Staffing reductions over the past three years should be included as an indicator.

NYSASBO emphasized that any data used in developing a Fiscal Stress Monitoring System should not impose additional record keeping or reporting requirements on school business offices and should be more than just a snapshot in time of the fiscal condition of a school district, taking into account both the circumstances preceding and projections going forward that put the picture into a proper context. The release of the fiscal stress report should first be vetted with the school district for inaccuracies or omissions and released in late January or early February before school districts finalize their budgets for the upcoming year. Finally, the recent release of the results of the Comptroller's Fiscal Stress Monitoring System identifying 13 percent of New York State school districts as fiscally stressed, emphasizes the point that fiscal indicators represent only part of the picture. Program stress, as evidenced by staff losses, shows district losses in educational programs that eventually will lead to educational insolvency. As our definition of financial condition has shown, fiscal and educational insolvency are two sides of the same coin and should both be considered in determining if a school district is fiscally stressed or not.



Fund Balance

Fund Balance is that which is left over at year-end because revenues were greater than estimated or expenditures were less than estimated. The Government Accounting Standards Board which sets fiscal guidelines followed by New York State school districts defines five categories of fund balance⁵:

1. Nonspendable –Inherently nonspendable in the current period due to form or must be maintained intact;
2. Restricted –Subject to legal purpose restrictions;
3. Committed –Constrained to a purpose by formal action of government's highest level of decision making authority;
4. Assigned –Constrained to a purpose of "intended use"; established by the board of education or designated official;
5. Unassigned –"Residual classification of General Fund"; could be Unassigned Fund Balance or deficit in General Fund

Restricted fund balance sets aside or encumbers funds to support legally allowable reserves such as for workman's compensation, unemployment, repair and capital expenditures, and their use is generally considered to be sound financial management practice. Assigned fund balance dedicates funds to reduce the following year's tax levy. Unassigned fund balance are those pure savings left over after all district commitments have been met and allowable reserves have been funded. Education Law section 1318 limits unassigned fund balance to be no more than four percent of the next year's budget.

What is the right amount of fund balance? We have seen two systems of school district financial condition that watch fund balance carefully and pronounce a school district in fiscal stress if fund balance is too small. This is because a school district, like any business, needs

some cushion to deal with emergencies and student growth, such as the education of additional students with disabilities that need extensive services in the middle of the school year. But the law also contains a limit on unassigned fund balance of four percent. Some have noted that different types of school districts need different levels of fund balance.⁶ A higher wealth school district can live with a lower fund balance because they have a greater capacity to raise additional revenues. A small school district with less capacity to raise revenue may need to have a higher fund balance to make ends meet. Regardless, it is clear that school districts need fund balance to operate and the ideal amount is probably close to the limit especially for small and low-wealth, high poverty school districts. Prudent oversight of the fund balance is also a critical part of the financial management of the district.

Role of the school business official in managing fund balance

Managing the school district's fund balance is a critical part of the role of the school business official. It has a direct impact on the ability of the district to provide continuing educational services and can directly affect the tax levy. Careful monitoring of fund balance is critical to prevent dramatic fluctuations that may anger taxpayers and threaten the stability of critical educational programs. Beginning in January and continuing each month until June, the business official should update estimates of fund balance to reflect updated information on expenditures and revenues and present an increasingly more accurate picture of whether the school district will end the year with an Unassigned Fund Balance or a deficit. The business official can also help to guide the Board of Education and public in making regular investments in reserves where the district expects considerable or continuing expenditures.



Analysis

We examined the latest available Annual Financial Report data⁷ on school district reserves and Unassigned Fund Balance for school years 2010-11, 2011-12 and 2012-13. All New York State school districts were included except special act school districts, non-operating school districts, minor (less than eight teacher) school districts and the Big 5 city school districts. Where appropriate we examined results for school districts categorized by four fiscal capacity and student need categories: high need rural school districts, high need urban and suburban school districts, average need school districts and low need school districts. Figure 1 shows the number of school districts in each category. For a detailed description of the calculation of need/resource capacity categories, see Reference 1, page 17.

In addition, we examined the loss in total professional staff by these districts from 2008-09 to 2012-13 to get a sense of how the Great Recession affected district programs.

Figure 1. School District Need/Resource Capacity Categories

School District Category	Number of Districts
High Need - Urban/ Suburban	46
High Need - Rural	153
Average Need	339
Low Need	133
Total	671

School districts in good financial condition retain healthy reserves to meet known obligations and to be able to respond to emergencies and other unknown financial circumstances so that educational services

continue uninterrupted and taxpayers are not subjected to burdensome tax hikes.

How did school districts do in 2012-13? Figure 2 shows that 61 percent of school districts maintained their financial condition with no change or gains to their Unassigned Fund Balance. Thirty-nine percent, however, exhibited varying degrees of fiscal stress through reductions in this Fund Balance. Examining Restricted Fund Balance, those reserves allowable by law for specific areas of school district spending, shows a similar picture: 62 percent of districts had no change or increases and 38 percent lost revenue in these reserves (see Figure 3).

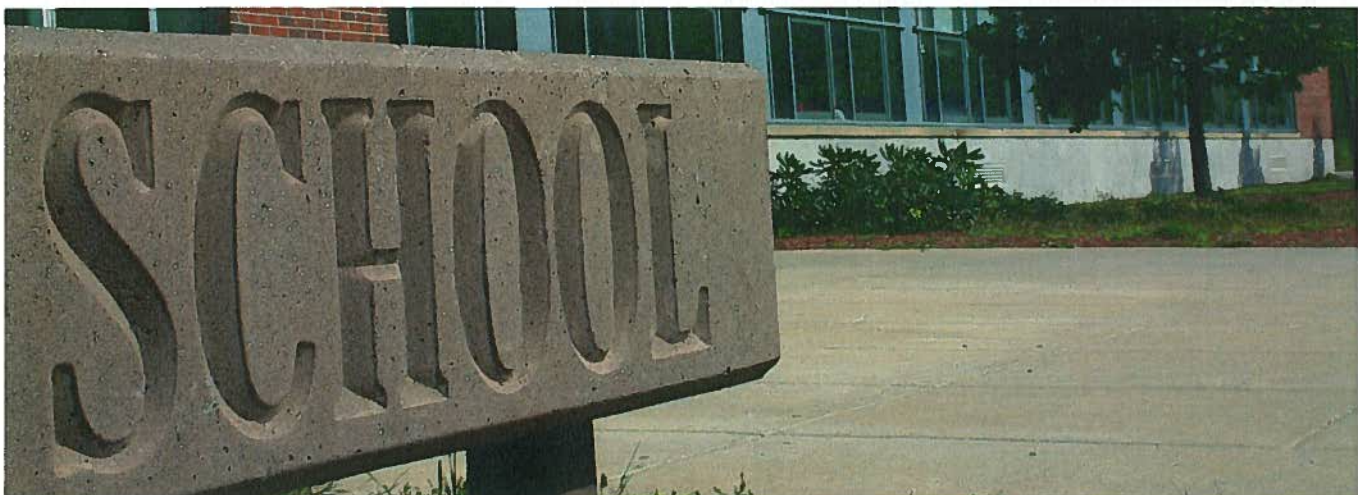
Figure 2. Unassigned Fund Balance Change 2011-2012 to 2012-13

	Loss	No Change or Gain	Total
Number	262	409	671
Percent	39.05%	60.95%	100%

Figure 3. Restricted Fund Balance Change 2011-2012 to 2012-13

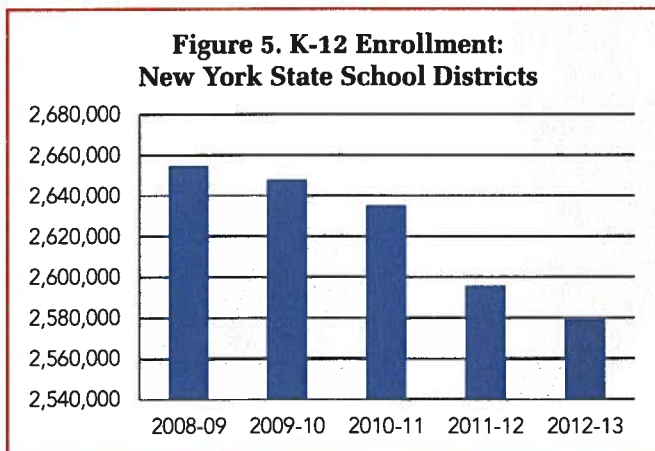
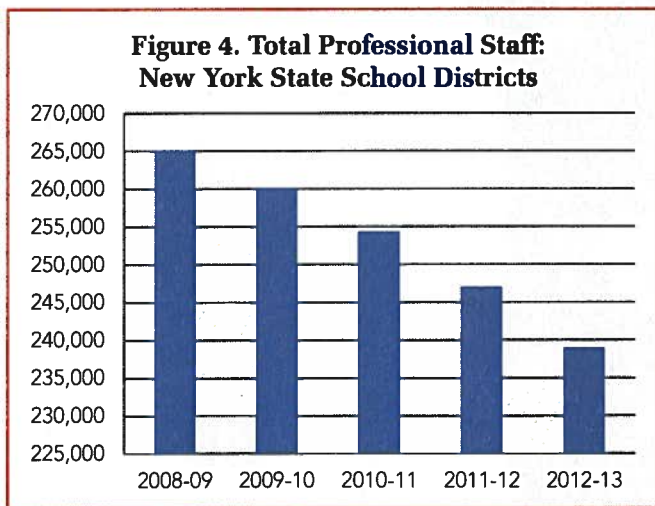
	Loss	No Change or Gain	Total
Number	258	413	671
Percent	38.45%	61.55%	100%

Caution is urged in interpreting the data. While roughly six out of ten school districts maintained or increased fund balance, this may have occurred at the cost of educational programs. The Education Conference



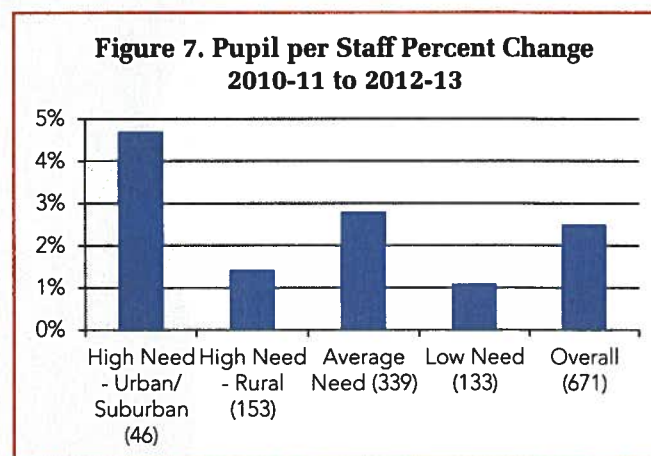
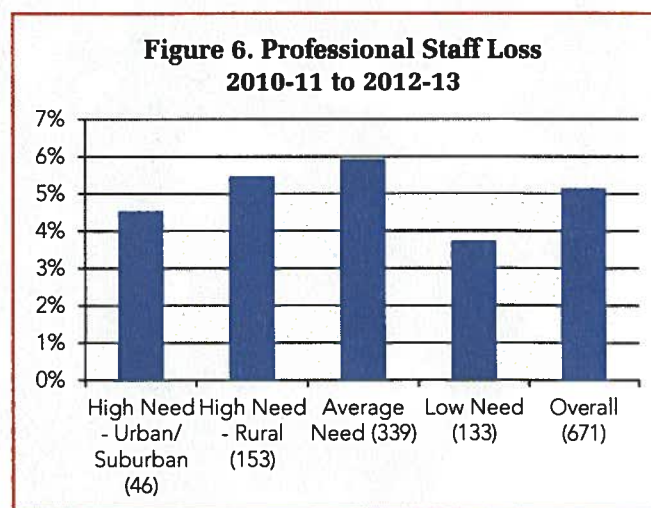
Board has reported that New York State school "districts have shed more than 30,000 staff members since 2009 in response to reduced funding."⁸ A district that maintains its fiscal integrity in the face of economic distress is to be commended, but given cuts to staffing and educational programs vital to student success, how many school districts are ensuring "adequate student performance" as our definition of financial condition requires?

To get at this question, we examined the change in total professional staff for New York State school districts and found that staff numbers have declined consistently since 2008-09. Figure 4 shows this trend. Examining trends in enrollment and professional staff over the last five years, NYSED data show that New York State school districts lost approximately ten percent of its staff and three percent of its students (see Figure 5). The State lost 26,117 (9.85 percent) professional staff and 75,556 (2.93 percent) public school pupils. That is, New York State school districts reduced one professional staff member for about every 3 students that left the public school system. Looking at historical data, we observe that the number of professional staff in New York State school districts in school year 2012-13 was less than in 1999-2000, 13 years earlier.



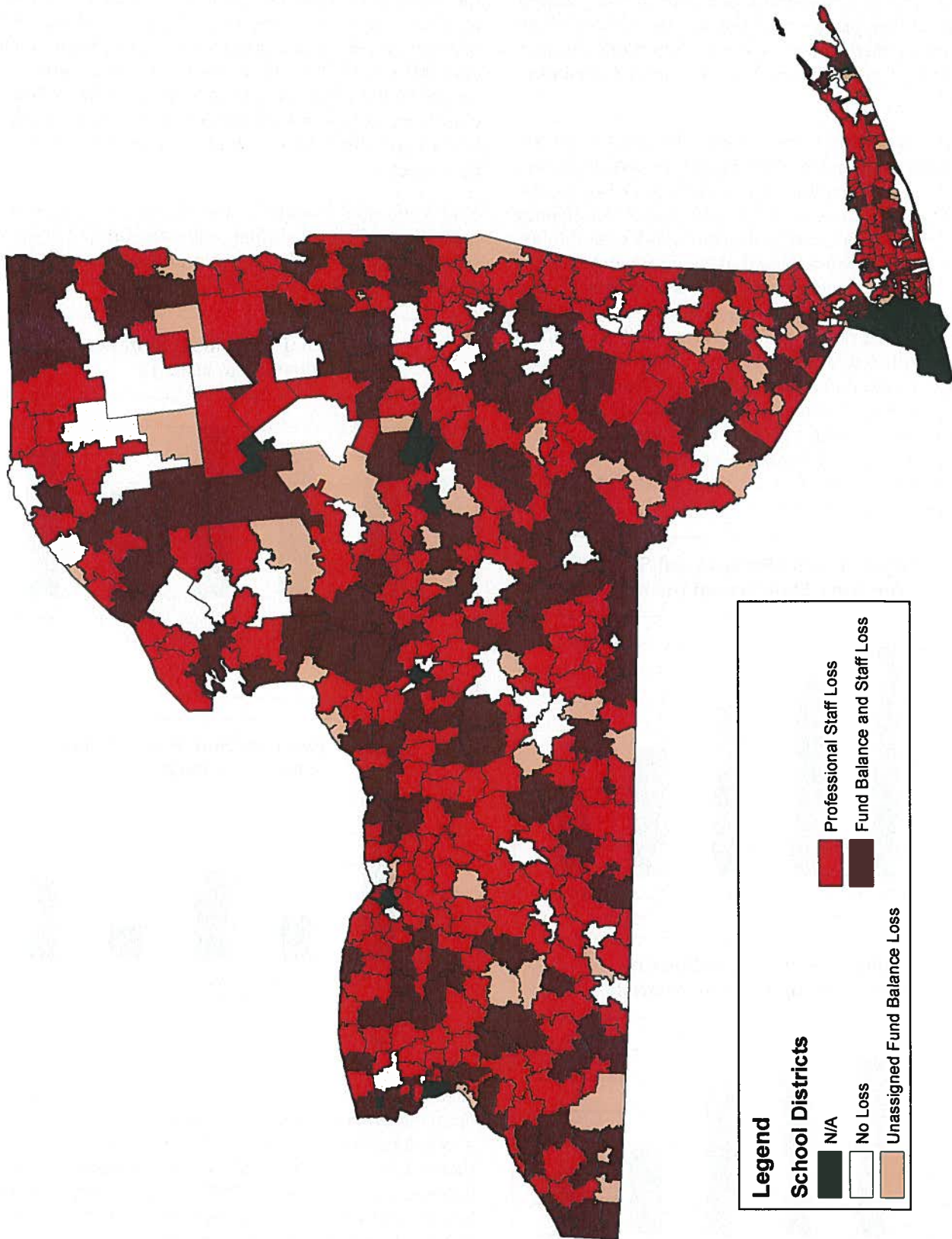
Staff loss has occurred at more than three times the rate of enrollment loss. Has this been different for different groups of districts? To get at this question, we examined staff lost by school districts grouped according to the State Education Department's student need and resource capacity categories. Figure 6 shows that examining loss across groups of districts from school year 2010-11 to 2012-13, average and high need rural school districts had the greatest loss in staff, followed closely by high need urban/suburban school districts. Low need school districts had the least loss, as would be expected.

Examining the change in the percent of pupils per staff, Figure 7 shows us that high need urban/suburban school districts had the highest pupil to staff ratios of all the district groups.



How many school districts are experiencing signs of fiscal insolvency, educational insolvency and both fiscal and educational insolvency? Figure 8 shows a map of these data: 261 school districts lost Unassigned Fund Balance from 2010-11 to 2012-13; 544 school districts lost professional staff over this period and 206 school districts lost both fund balance and staff.

**Figure 8. School Districts that Lost Fund Balance and Staff
2010-11 to 2012-13**



Adding to this dismal picture of staff cuts that disproportionately affects high and average need school districts, roughly four out of 10 school districts in New York State are also losing Unassigned Fund Balance and Restricted Fund Balance. The balance of this study examines details related to these losses.

Figure 9 shows the percent of school districts in each category that lost Unassigned Fund Balance. More than 50 percent of high need rural school districts lost Unassigned Fund Balance; more than 40 percent of high need urban/suburban school districts and more than 30 percent of average need school districts lost Unassigned Fund Balance.

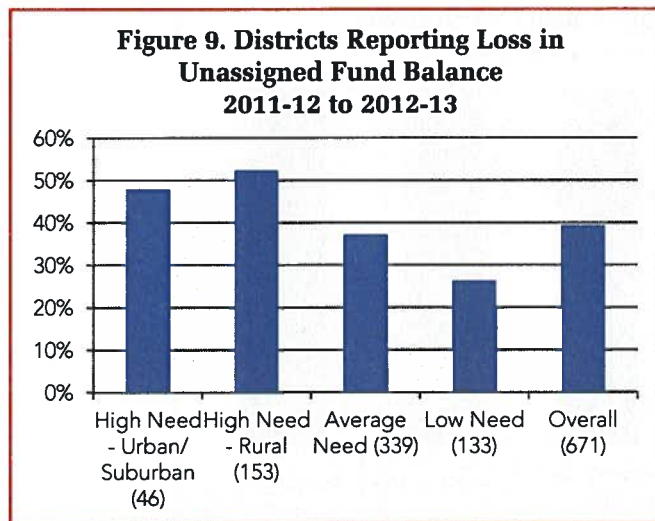


Figure 10 examines the percent of school districts in each category that lost restricted fund balance. An average of 38 percent of all school districts lost restricted fund balance and this was felt uniformly around the state. In contrast to other patterns, a larger percentage of average need school districts, followed by low need school districts, lost restricted fund balance although 30 percent or more of all categories of districts reported a loss in restricted fund balance.

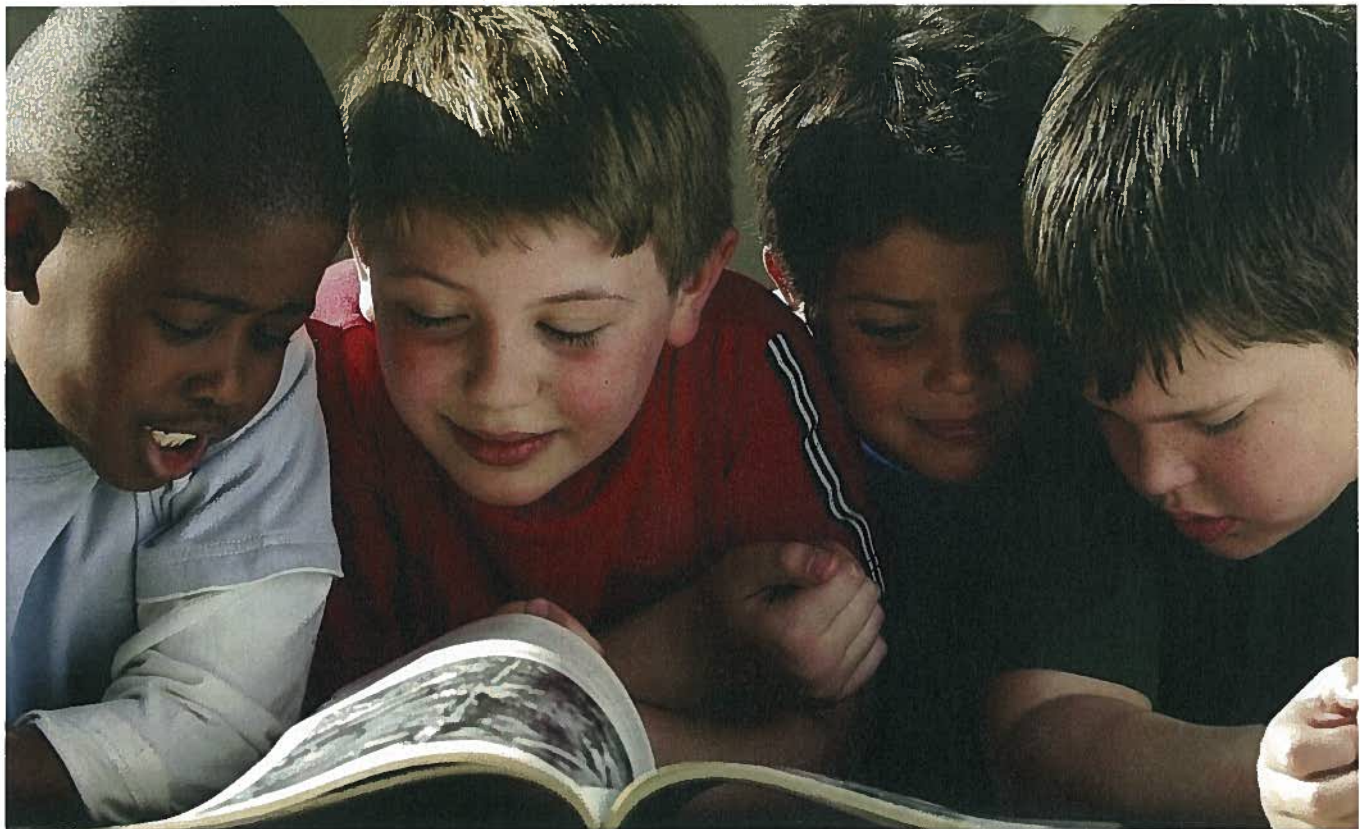
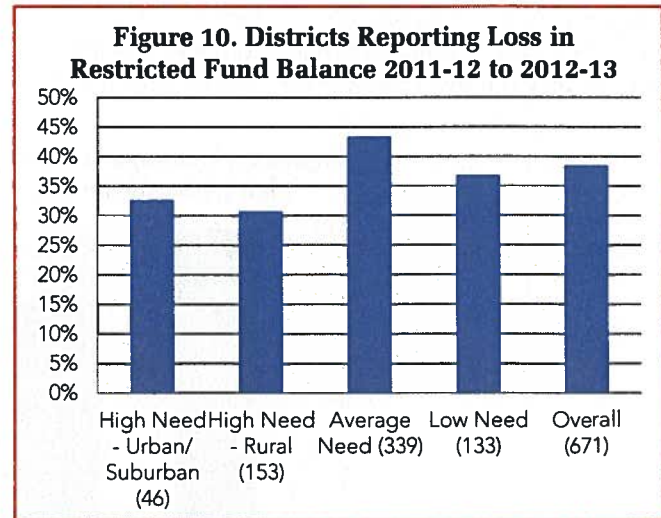


Figure 11 provides more detail on 262 school districts whose Unassigned Fund Balance decreased from 2011-12 to 2012-13. Of these, seven school districts depleted their fund balance. Forty-three school districts lost more than 50 percent of their Unassigned Fund Balance and 148 school districts lost up to 25 percent. High need urban/suburban school districts were the most stressed followed closely by high need rural school districts and average need school districts. For example, of those 22 high need urban/suburban school districts that lost Unassigned Fund Balance, 59 percent lost more than 50 percent, and 18 percent exhausted their Unassigned Fund Balance entirely. Low need school districts that lost

fund balance were the least affected with three quarters losing no more than 25 percent of fund balance.

Many of these school districts also reduced funding in their Restricted Fund Balance from school year 2011-12 to 2012-13. Figure 12 shows that 258 school districts reduced funding in Restricted Fund Balance statewide. Of these, six exhausted their reserves completely and 207 school districts lost up to 25 percent. High need urban/suburban school districts and average need school districts were the hardest hit, followed closely by high need rural school districts.

Figure 11. Unassigned Fund Balance Change for Districts that Reduced Fund Balance 2011-12 to 2012-13

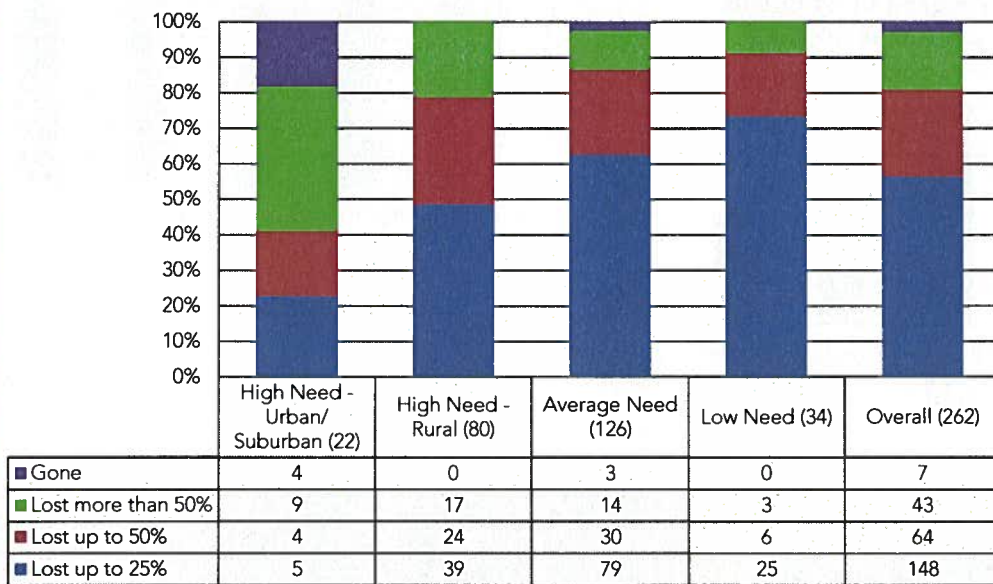
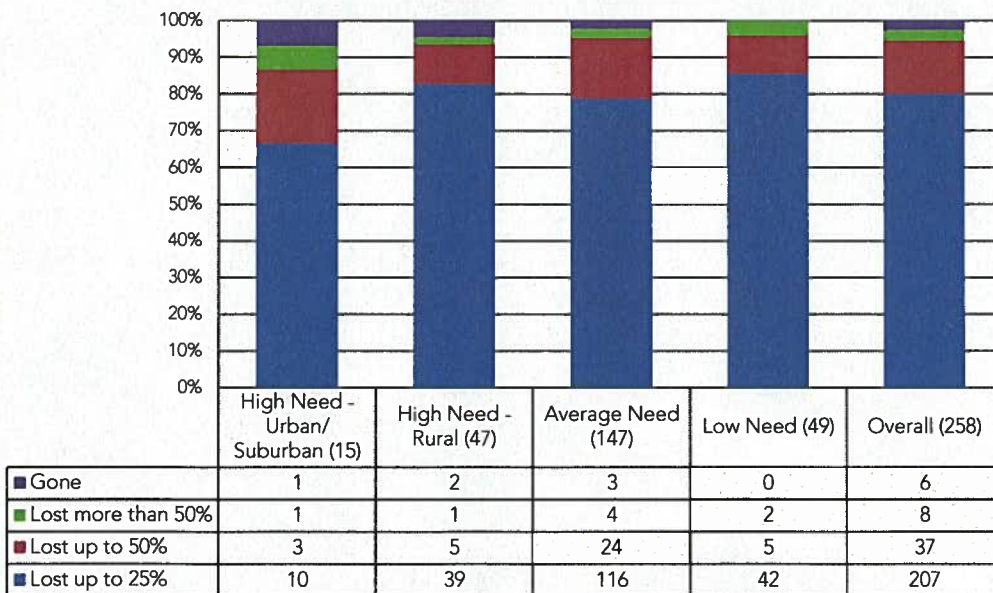
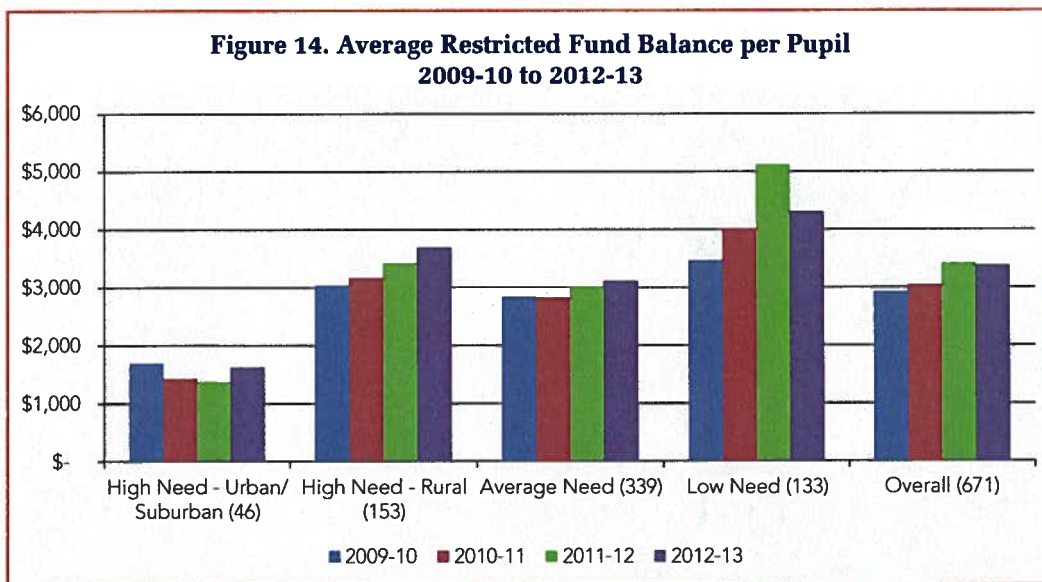
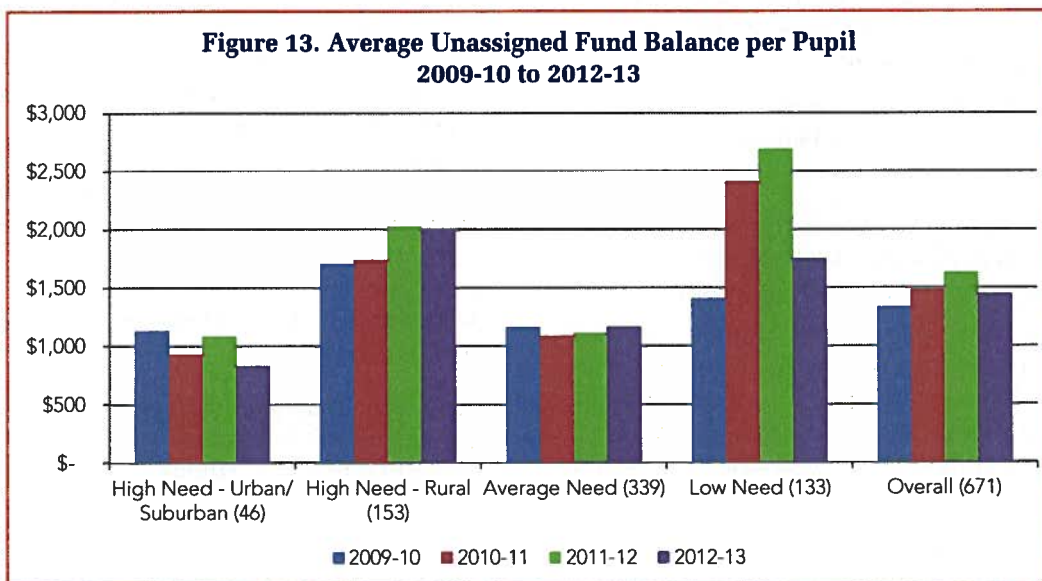


Figure 12. Restricted Fund Balance Change for Districts that Reduced Fund Balance 2011-12 to 2012-13



Balance per pupil for each of the four need/resource capacity categories of school districts. It shows that high need urban/suburban school districts and average need school districts have the least amount of unassigned fund balance per pupil and low need school districts the greatest. Given that low need school districts, as a group, have the greatest capacity for raising additional funds and high need school districts (especially high need urban and suburban school districts) have the least capacity for raising additional funds, these findings suggest that the low level of fund balance for high and average need school districts may be a serious problem for maintaining educational programs.

Figure 14 shows Restricted Fund Balance per pupil for these groups of school districts. The pattern we saw for unassigned fund balance holds up for Restricted Fund Balance. High need urban/suburban school districts have the least Restricted Fund Balance per pupil, followed by average need and high need rural school districts. Low need school districts have almost three times the amount of fund balance per pupil as high need urban/suburban school districts.



Conclusion

This report answers the following questions:

1. *Do some types of school districts continue to have less fund balance than others?*

Yes. High need school districts have less restricted and unassigned fund balances. This is worse for high need urban/suburban school districts who have approximately one-third the fund balance of low need school districts.

2. *Are school districts balancing their budgets at the cost of educational programs, as evidenced by cuts in professional staff?*

Yes. School districts have reduced staff ten percent over the past five years, while enrollment has declined three percent.

3. *How many school districts are showing signs of (a) fiscal insolvency, (b) educational insolvency and (c) both fiscal and educational insolvency?*

Two hundred sixty-one school districts showed signs of fiscal insolvency through a reduction in Unassigned Fund Balance, 544 school districts showed signs of educational insolvency in reduced professional staff, and 206 school districts showed signs of both fiscal and educational insolvency.

4. *Are some types of school districts using fund balances faster than other districts?*

Yes. Of the approximately 40 percent of school districts that lost fund balance, high need urban/

suburban school district and average need school districts lost the most and low need school districts lost the least.

5. *What is the right amount of fund balance?*

Good financial practice and fiscal stress monitoring emphasize the importance of fund balance to maintain uninterrupted service, which from an educational point of view is critical to solving our most challenging educational problems, such as success with students from poverty backgrounds and students with disabilities or meeting college and career ready standards. New York law limits Unassigned Fund Balance to four percent of the school district budget. Research suggests that the need for fund balance is greater in school districts that have less fiscal capacity or are small in pupil enrollment. Given a one-size-fits-all limit on Unassigned Fund Balance, a level very close to the limit is desirable.

6. *Does the use of school district reserves vary for groups of districts categorized by student poverty and fiscal capacity?*

No. Thirty-eight percent of school districts experienced loss in restricted fund balance and this phenomenon was relatively uniform across all district types.



Legislative Proposals to Improve School District Solvency

School district solvency, both fiscal and educational solvency, is a state concern, one that is central to the constitutional mandate to “provide a system of free common schools wherein all the children will be educated (Article XI).” What are legislative proposals under consideration to help school districts to be solvent, both fiscally and educationally?

Increase State Aid to school districts in an educationally responsible manner

First, school districts need adequate, equitable, stable and flexible funding in order to educate students without interruptions or unduly burdening the taxpayer. There is a need for more state aid and/or mandate relief to minimally satisfy the constitutional requirement that all schools provide a sound basic education. Educationally oriented proposals are available and should be seriously considered: NYSASBO (\$2.6 billion), Education Conference Board (\$1.5 billion) and the Board of Regents (\$1.3 billion). All recommend eliminating the Gap Elimination Adjustment reductions imposed on school districts during the Great Recession and providing adequate funding for schools to implement the Common Core State Standards, targeting resources to high need school districts.

Strengthen school district fiscal accountability

Second, additional school district fiscal accountability will serve to strengthen fiscal management in school districts and ensure that new resources are used in the most efficient and effective manner possible. School district finances are complex and multi-faceted and require a high level of expertise in fiscal management to insure that taxpayer funds are properly safeguarded, managed and allocated for maximum student benefit. Appropriately managed school finances are critical to insuring that school districts have the resources necessary to provide a sound basic education that prepares students to be career and college ready. School district finances should be transparent and accessible to the public so citizens have a clear picture of the fiscal condition and results of school districts they are funding. Long range financial planning will help to achieve better fiscal management, and will help boards of education and their communities to make decisions that respond to student needs in a timely manner. The school business official plays a critical role in implementing long range planning to allocate resources to achieve the school district’s instructional mission. NYSASBO recommends that the state require all school districts to prepare long-range financial plans and that these be posted on the school district’s website each year.



Endnotes

¹ Office of the State Comptroller. Revenue Challenges Facing School Districts. Local Government Snapshot, January 2014. <http://www.osc.state.ny.us/localgov/pubs/research/snapshot/RevenueChallengesSchools0114.pdf>

² Duncombe, W., Jump, B., Ammar, S., Wright, R. Developing A Financial Condition Indicator System For New York School Districts, prepared for the Board of Regents Education Finance Research Consortium, 2003, p. i.

³ Office of the State Comptroller. Division of Local Government and School Accountability. Fiscal Stress Monitoring System. January 2013. <http://www.osc.state.ny.us/localgov/pubs/fiscalmonitoring/pdf/fiscalstressmonitoring2013.pdf>

⁴ Duncombe, W., Jump, B, Ammar, S., and Wright, R. Developing A Financial Condition Indicator System For New York School Districts. Prepared for the Education Finance Research Consortium, May 2003. <http://www.albany.edu/edfin/CR03.WD.etal.FCIS.Schools.pdf>

⁵ NYSED, Contingency Budgets and Other Budget Issues, 2011. http://www.p12.nysed.gov/mgtserv/budgeting/docs/Contingency_Budgets_and_Other_Budget_Issues-March-2011-Fin.pdf

⁶ Boyd, D., Lankford, H. and Wyckoff, J. School District Expenditures and Fiscal Stress. Prepared for the New York State Education Department's Education Finance Research Consortium, 2003. <http://www.albany.edu/edfin/CR02.BLW.ReportWeb.pdf>

⁷ We examined Annual Financial Report (ST3) data that school districts reported to the New York State Education Department for the November 15, 2013 database.

⁸ Education Conference Board, Financing Public Education In New York State: Restoring a Functional State Aid System. Proposal on State Aid to School Districts to Maintain Existing Programs, January 2014.

Reference 1

Source: <http://www.p12.nysed.gov/stateaidworkgroup/2012-13RSAP/RSAP1213final.pdf> (page 30)

Definitions of Need/Resource-Capacity Categories of New York State School Districts—January 2012

The need/resource-capacity index, a measure of a district's ability to meet the needs of its students with local resources, is the ratio of the estimated poverty percentage⁷ (expressed in standard score form) to the Combined Wealth Ratio⁸ (expressed in standard score form). A district with both estimated poverty and Combined Wealth Ratio equal to the State average would have a need/resource-capacity index of 1.0. Need/Resource-Capacity (N/RC) categories are determined from this index using the definitions in the table below.

Need/Resource Capacity Category	Definition
High N/RC Districts	
New York City	New York City
Large City Districts	Buffalo, Rochester, Syracuse, Yonkers
Urban- Suburban	All districts at or above the 70th percentile (1.188) which meet one of the following conditions: 1) at least 100 students per square mile; or 2) have an enrollment greater than 2,500 and more than 50 students per square mile.
Rural	All districts at or above the 70th percentile (1.188) which meet one of two conditions: 1) fewer than 50 students per square mile; or 2) fewer than 100 students per square mile and an enrollment of less than 2,500.
Average N/RC Districts	All districts between the 20th (0.7706) and 70th (1.188) percentile on the index.
Low N/RC Districts	All districts below the 20th percentile (0.7706) on the index.

⁷ **Estimated Poverty Percentage:** A weighted average of the 2000-01 and 2001-02 kindergarten through grade 6 free- and reduced-price lunch percentage and the 2000 Census poverty percentage. (An average was used to mitigate errors in each measure.) The result is a measure that approximates the percentage of children eligible for free- or reduced-price lunches.

⁸ **Combined Wealth Ratio:** The ratio of district wealth per pupil to State average wealth per pupil, used for 2000-01 aid.

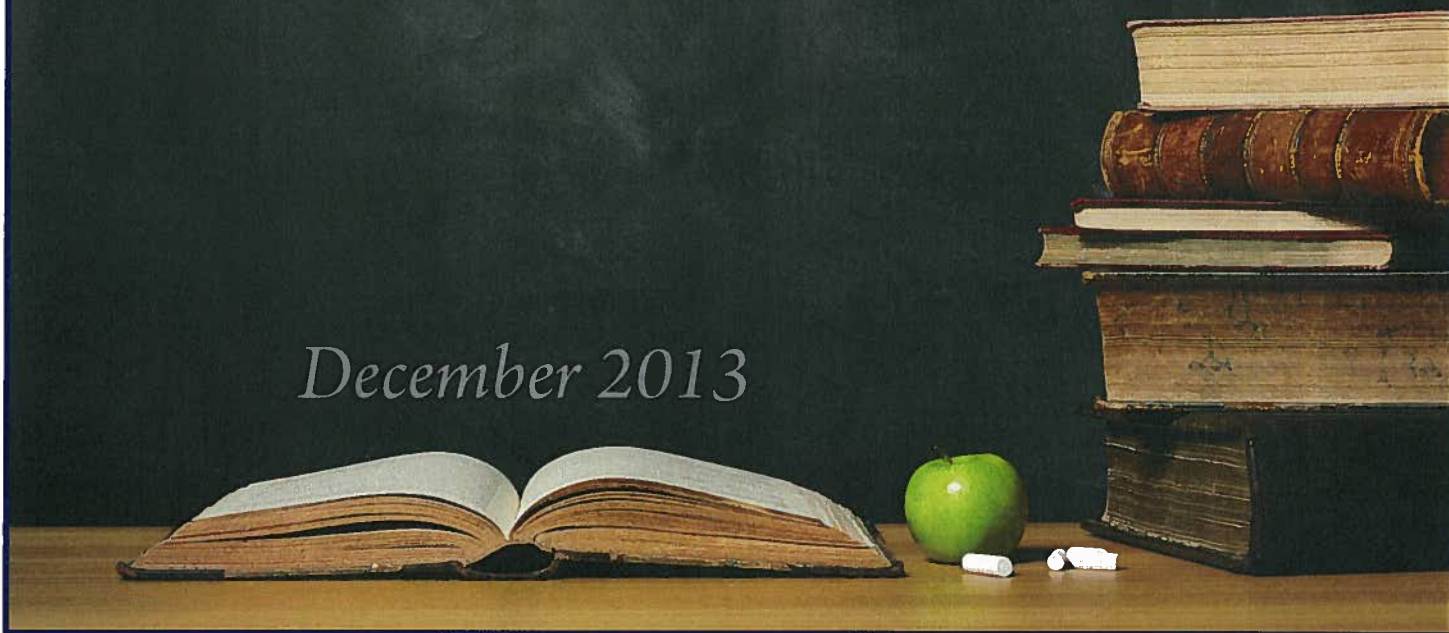
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Educating Students to be College and Career Ready

*Proposal on State Aid to
School Districts
for School Year 2014-15*

December 2013



New York State
Association of School
Business Officials

Advancing the Business of Education

**Educating Students To Be
College and Career Ready**
*Proposal on State Aid to School Districts
for School Year 2014-15*

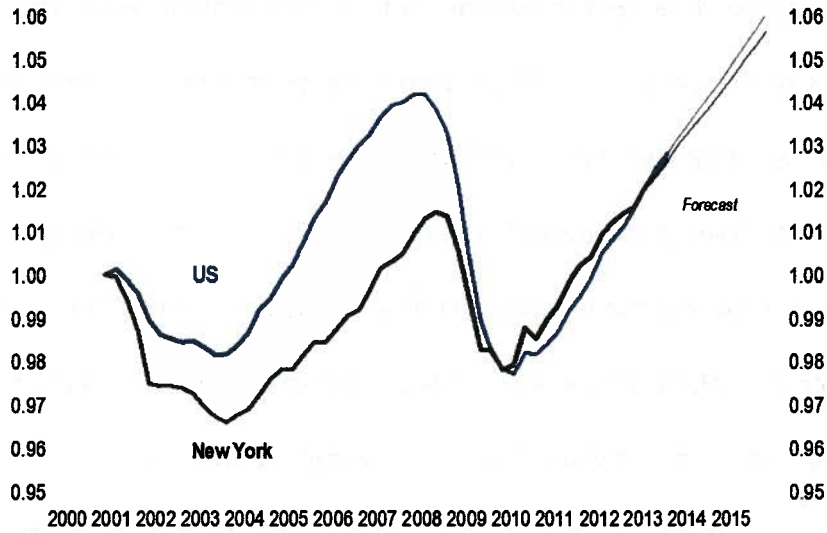
This proposal makes recommendations to support the critical path of school district leaders, including boards of education, superintendents, business officials and instructional leadership, to prepare students to be college and career ready.

Why is this important? Globalization makes it crucial in two ways. Global markets affect our market economy as seen in the recent global hiccup that occurred when European markets faltered (Glassman, 2013). And although economists predict a restoration of jobs to prior levels (see Figure 1), the United States faces a serious job crisis. High school and college graduates are not prepared for many highly technical jobs and machines are increasingly doing jobs that in the past were done by low-wage workers. Businesses have turned to other countries to fill the jobs. Some have estimated that we are educating up to 70 percent of our young people to a level that does not allow them to be self-sufficient, a number that is increasing at a rate of one percent a year (Daggett, 2013). Thirty percent do not graduate from high school, 28 percent of those that graduate fail a basic literacy test required for entrance in the military, and another 12 percent are not eligible for the military as a result of obesity, drugs or incarceration (Daggett, 2013). Our markets are connected globally and our students are competing globally for jobs. It is imperative that elementary and secondary education prepare young people for the

jobs businesses need to fill, and this means embracing change. To fail to prepare students for success in college and careers is to propel the country into a fiscally unsustainable situation in which there is not enough work or output to cover our needs and expenses.

Figure 1. New York is leading the pack

Nonfarm employment in selected areas (ratio to 2000 Q4 level)



Source: US Department of Labor. Updated through July 2013.

Economic Outlook Issues, New York ASBO Webinar, November 15, 2013

Why are school business officials concerned?

School districts are big business with budgets in the millions of dollars. The complexity of the laws and professional standards have increased as budgets have grown. Budgets reported in early 2013 for all but New York’s five largest city districts range from \$2.3 million to \$340 million. Half of these school district budgets are over \$30 million and 94 school districts (14 percent) have budgets over

\$100 million. Not only does the future of our children and nation depend on education but there is a lot of public funds at stake.

In addition, school business officials are charged with management and fiscal oversight—the resources and business of education. Their job is to ensure that funds are available to accomplish the school district’s mission and to provide continuing educational services to students. They have a unique knowledge of finance and program and how to use resources to achieve the best return on investment to meet their community’s education goals.

Methods

Data used to support this proposal are data from the 2013-14 enacted state budget. Increases for expense-based aids were calculated using percentage increases experience in the 2013-14 budget. For descriptive purposes, data are displayed by six school district need/resource capacity categories. Need/resource capacity categories are based on a measure developed by the New York State Education Department to help describe the needs and circumstances of school districts. It is a measure of educational need based on student poverty in relation to school district fiscal capacity, or the ability of the district to raise revenues locally. A need/resource capacity index is computed and districts are ranked in order. The Big Five city school districts make up the first two categories of high need school districts. Of the remaining school districts, the top 30 percent are additional high need school districts, the bottom 20 percent are low need school districts and the middle 50 percent are average need school districts. The high need school districts

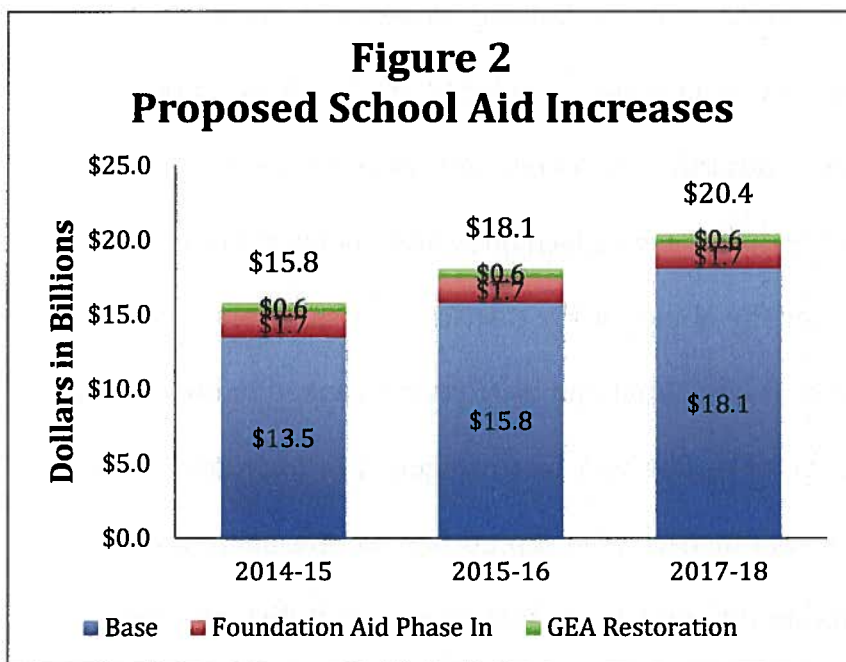
are further categorized as high need urban or suburban school districts and high need rural school districts. Additional description is provided at:

<http://www.p12.nysed.gov/stateaidworkgroup/2012-13RSAP/RSAP1213final.pdf>

(see page 30).

Recommendations

NYSASBO recommends an increase of \$7.7 billion over three years in either increased aid or mandate relief. This includes \$680 million to support increases in expense-based aids¹ at a level comparable to the increase experienced in the 2013-14 budget. This amounts to approximately \$2.6 billion a year that would phase out the Gap Elimination Adjustment (GEA) and phase in the Foundation Aid formula proposed in 2007 as well provide an increase for expense-based aids consistent with the most recent year. Figure 2 shows the increases for Foundation Aid and the

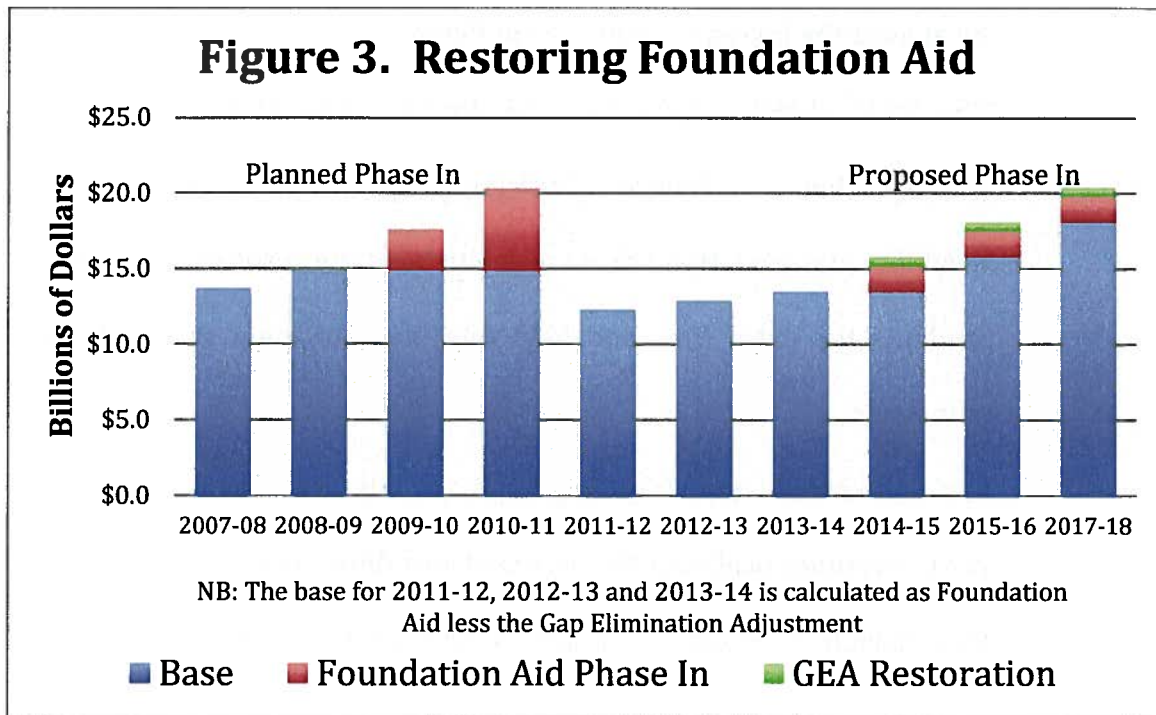


Gap Elimination Adjustment over this period.

These aid increases can be compared with aid increases enacted into law in 2007 to phase in

¹ Increases were calculated for Public Excess High Cost Aid, Private Excess Cost Aid, BOCES Aid, Special Services Aid, Textbook, Library Materials, Computer Software and Hardware aids, Building Aid and Transportation Aid.

the Foundation Formula, a phase in that was derailed by the economic recession beginning in 2009. The proposed phase in would provide the funds to school districts that the Legislature and Governor agreed to in these earlier years. See Figure 3.



A number of features of the Foundation Formula enacted in 2007 are important and should be preserved. First, connecting aid to student outcomes is a first critical step in knowing how much money is needed to meet state educational objectives. The foundation amount, one of four moving parts in the formula, was based on the cost to meet state learning standards in successful school districts, as calculated in a study of costs in successful school districts conducted by the New York State Education Department. This element of the formula preserves the important link to student learning standards.

Second, the basic funding formula should include key features to ensure the sufficiency and equity of State aid. These include:

- The cost study mentioned above should be repeated at regular intervals. In between studies, The State should increase basic funding by at least the increase in the cost of living;
- The State should adjust basic funding by student need including poverty, limited English proficiency, geographic sparsity and disability status so that school districts have the resources to give all students the extra time and help they need to meet state learning standards;
- The State should adjust funding for the ability of the school district to raise revenues locally and for regional cost differences;
- Save-harmless provisions should protect school districts against loss but care should be taken to limit this aid so as to not divert too much aid toward loss rather than student need;
- The State should enact two-year budgets to help school districts predict their aid and sustain multi-year educational programs.

A critical part of this proposal, second to implementing the Foundation Formula, is to eliminate the Gap Elimination Adjustment, which was used to reduce State Aid to school districts by imposing overall aid cuts. The GEA was based on a number of factors that were different from the factors on which Foundation Aid was based. This has resulted in different school districts benefitting from the restoration of the GEA and the phase in of Foundation Aid. Foundation Aid still to be phased in

is estimated to be approximately \$5.4 billion and the restoring of remaining Gap Elimination Aid reductions is estimated to be \$1.6 billion. Figure 4 shows that remaining reductions in aid (GEA per pupil) are greatest for average need school districts.

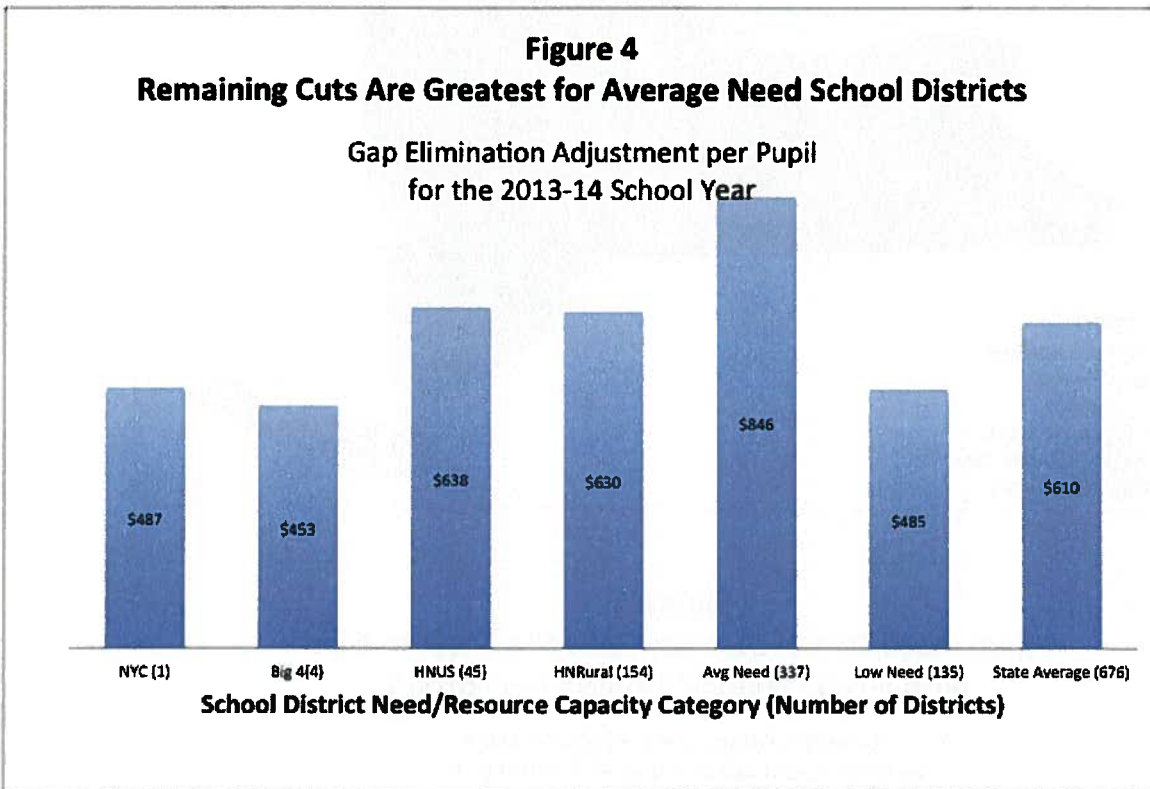


Figure 5 illustrates the potential of restoring the Gap Elimination Adjustment on a district basis. Figure 5 shows school districts that have low, medium and high amounts of Gap Elimination Aid per pupil still to be restored.

In contrast, phasing in the Foundation Formula will have the greatest benefit for high need school districts, with the Big 4 city school districts and high need urban or suburban school districts benefitting the most on a per-pupil basis. Figure 6 graphically illustrates the Foundation Aid per pupil still due for each of the need/resource capacity groups of school districts.

Figure 5. Remaining GEA Per Pupil for New York School Districts

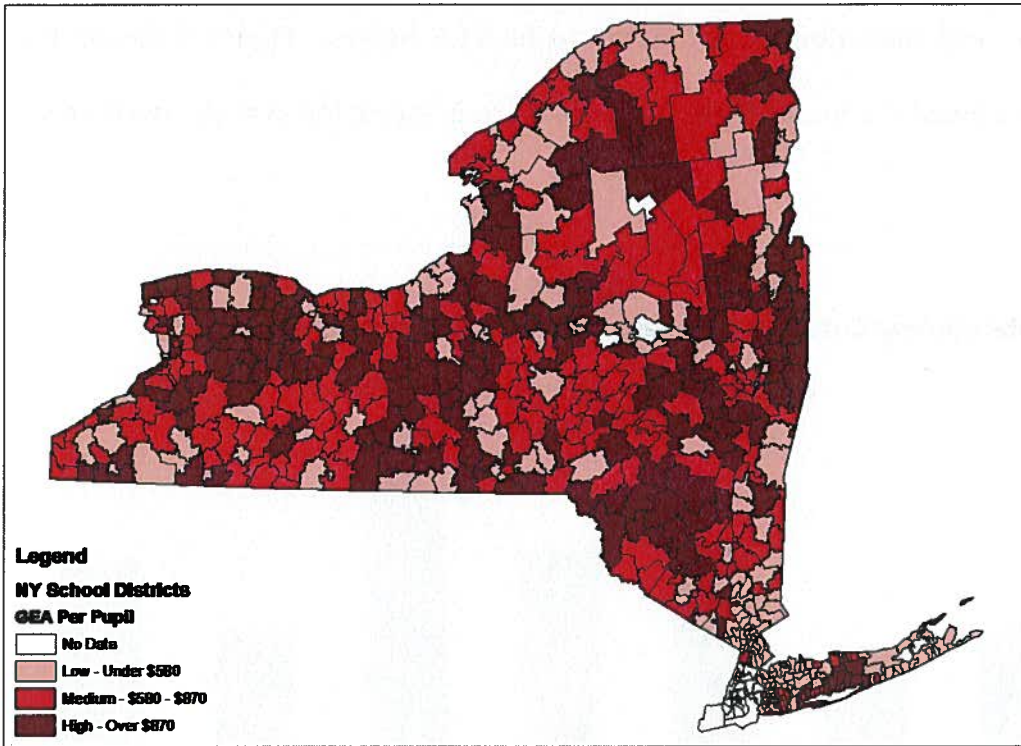


Figure 6
High Need School Districts Have the Most to Gain with a Fully Funded Foundation Formula

Foundation Formula Aid per Pupil Still Due by
 Need/Resource Capacity Category of School Districts
 2013

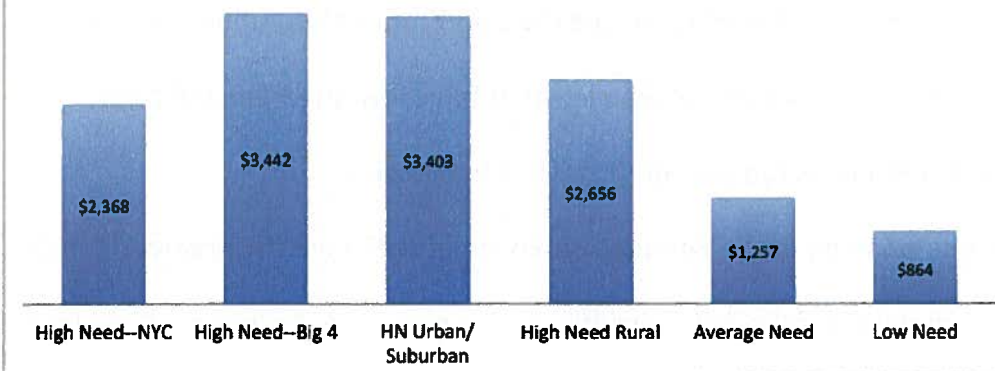
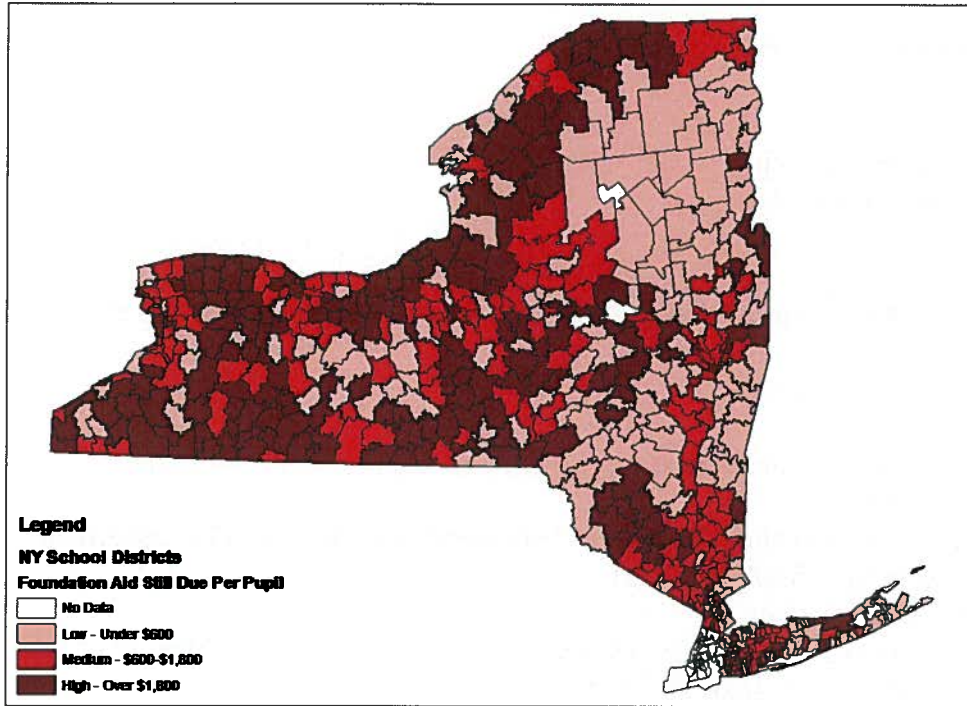


Figure 7 shows these data on a school district basis in a map of New York State School Districts showing low medium and high amounts of Foundation Aid per pupil still due.

Figure 7. Foundation Aid Per Pupil Still Due for New York School Districts



Other NYSASBO Proposals

In addition to its school aid proposal, NYSASBO recommends a number of legislative proposals for school year 2013-14 (see <http://www.nysasbo.org/page/legislative-priorities-24.html>). Two of these proposals, complement this school aid proposal so are described in more detail. One provides mandate relief to school districts and the other provides additional accountability and support for fiscal management and oversight.

Mandate Relief

School districts and other local governments must competitively bid all purchase contracts of \$20,000 or greater and all public works contracts of \$35,000 or more (GML section 103). Duncombe and Searcy (2005²) grouped New York State school district procurement into three categories:

1. Equipment and furniture
2. Materials and supplies
3. Services

Examples of procurement that is subject to such advertising (if spending thresholds are reached) include:

1. Independent auditor service
2. Legal services
3. Transportation service (including transportation provided by parents and reimbursed by school districts)
4. Construction services
5. Telecommunication services such as telephone, and teleprinter, networks, radio, microwave transmission, fiber optics, communications satellites and the Internet.
6. Desks and chairs
7. Textbooks
8. Paper, pens and pencils
9. Copying machines, fax machines, computers, Smart Boards, etc.
10. Snow removal
11. Feasibility studies for school district merger
12. Food service

Advertising shall take place in the newspaper(s) designated for that purpose by the board of education. A minimum of five days must elapse between the first publication of the advertisement and the formal opening and reading of bids.

² Duncombe, William and Cynthia Searcy. Can The Use of Recommended Procurement Practices Save Money? Prepared for the Education Finance Research Consortium, 2005.

School districts also purchase from State contracts, through contracts with BOCES and through cooperative purchasing agreements with other local governments. This analysis is limited to purchasing through competitive bidding as required by General Municipal Law section 103, because school districts are required to advertise for these types of purchases. Improving the advertising of competitive bids through electronic means is the focus of this report.

Chapter 56 of the Laws of 2010 amended GML section 103 to include provisions associated with receiving bids in electronic format. It did not however address fulfilling the advertising requirements related to competitive bidding through electronic means.

The problem: School districts and other local governments incur considerable expense complying with requirements to advertise in local newspapers and often receive only a weak response such as a single or no bidder. The rationale for competitive bidding is to bring costs down through competition but it is hard to argue that costs are reduced in instances when there is a single bidder, especially if that bidder knows that there are no other likely bidders.

The solution: School districts should be allowed to use electronic means to advertise the availability of procurement contracts. Specifically New York State should have a procurement website available where local governments can post bids and vendors can go to see all available bids. This will save local governments the cost of advertising and increase bidder access to information of bids that are available thus increasing competition. The site can incorporate e-mail notifications

to potential vendors for bids in specific areas.

School District Fiscal Accountability Act

New York State school finance has become increasingly complex and costly. The public demands that all students be prepared for college and career success in a constrained and competitive economic environment. In order to advance this agenda in a fiscally responsible manner the New York State Association of School Business Officials proposes changes to Education Law and General Municipal Law to increase transparency, accountability and the effective use of resources. Specifically, NYSASBO recommends A School District Fiscal Accountability Act that:

1. Amends Education Law to require each New York State school district to have a school business official
2. Amends Education Law and/or Commissioner's Regulations to require all school districts to prepare a five-year long-range financial plan to accomplish its education goals, to be updated every five years
3. Amends Education Law and General Municipal Law as needed to require school districts to post electronically or otherwise make it available to the public a copy of the annual audited financial statement, including any corrective action plan, and the five-year long-range financial plan.

Conclusion

Demands have never been greater for New York schools to educate students to meet rigorous learning standards and to be successful in careers. The goal should be for the vast majority of students to be prepared for economic self-sufficiency. The state should set high learning standards and provide the resources schools need, with proper management and leadership, to meet them. School business officials stand ready to work with boards of education and school district instructional leadership to engage in the difficult task of using school resources legally, efficiently and effectively.

References

Daggett, W.R. Leading Change During Challenging Times. Keynote presentation at the annual conference of the New York State School Boards Association, October 25, 2013.

Glassman, J. Economic Outlook: Global Renewal Spreads. Presentation prepared for a Webinar sponsored by the New York State Association of School Business Officials, November 15, 2013.

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