The Numbers Don’t Lie: The Current Crisis of New York State School District Finances

State Aid: “From Dilemma to Predicament to Quagmire”

State Support of Public School Funding Since 2007 – A Succinct Examination

Findings, Conclusions and Recommendations for the Future of State Aid to School Districts Based on 2012-13 State Aid Data, Trends & Themes

Implications of the Property Tax Cap Law for School Districts

What the Property Tax Report Card Reveals about the Future of New York’s Public School Districts

Bullet Aid: Politics Masquerading as Compassion

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Overview:

In December 2011, the Statewide School Finance Consortium (SSFC) published a research paper titled: State Aid Formulas and New York Senate Not Making the Grade for Our Schools, Children and Communities. This study updates much of the work undertaken in last year’s paper, as well as covers new ground on other critical public education finance concerns.

Unfortunately, the narrative in assessing the impacts of 2012-13 state support for public education has had no significant change.

So again, last May parents in average and low-wealth communities throughout New York voted on their school district’s budget for 2012-13. And again, many once more expressed deep disappointment – even rage – at their school board, administrators and teachers for cuts in programs, staffing and opportunities for their children.

While the anger was understandable, it remained misplaced – especially in school districts heavily dependent on state aid for fiscal support. By law, state aid to school districts was allowed to increase by 4.1%, roughly $805 million. By the time the aid was distributed, only $752 million (just 93.4%) of that money found its way directly to school districts across New York. Even though there was finally an aid increase after years of stagnation, frustration still needs to be directed at the Governor and Legislature who once more largely punted when the opportunity presented itself to establish reforms to offset mandated increased costs to schools, and to simultaneously and finally abolish the inequity between the education children receive in the “have” and “have not” school districts in our state.

The $20 billion of state aid that will be distributed to school districts this fiscal year will still leave hundreds of thousands of our children shortchanged. Year after year too much of this money continues to flow to the wealthiest communities, with the best educational opportunities. By state policy and law these benefits are reserved for the wealthiest children among us who have once again secured an preserved the largess they incessantly enjoy from New York State even though members of the of state government charged by the state constitution to ensure that all children receive a “sound, basic education” know the funding system is faulty.

While the scenario depicted above continues to exist, the less wealthy and least able to maintain their school district’s fiscal and educational programs, continue to hemorrhage financial reserves and educational opportunities as they slide closer to insolvency in every way. Yet, no plan has surfaced to create equity and sufficiency of funding or to eliminate or alleviate the cost escalations so harmful to school district fiscal and educational health.

For more than a decade nearly every researcher who has studied state education aid formulas, their distribution and school finance recognizes the inequities, distortions, favoritism and contrived nature of school state aid funding. Yet the Governor, the Assembly and the Senate have been unwilling to address it. This past year may have provided more money, but the wealthiest school districts continued to receive funds from the same finite and small pool of funds from which the poorest communities draw resources.

As SSFC reminds stakeholders every year, it bears reviewing again in this study, that although the distribution of school aid has always been contentious, the roots of the current problem date back to 1988. On September 19 of that year, then Senator Ralph Marino, commenting on the leadership hold
the Long Island delegation was continuing to consolidate in the upper house, told the *New York Times*, “There has been this shift, and I don’t think the Upstaters have really realized that and accepted it.”

Senator Marino’s assertion was a precursor of one particularly insidious illustration of this shift – the creation of something known as the “Shares Agreement”, which, with its inception the following year, instituted a calculated, methodical and political shift in the distribution of school aid that has continued for more than 20 years.

The Shares Agreement was essentially established to reflect the notion that education aid should flow to the school districts that have the most students. This approach, however, takes little or no account of other critical indices that should be considered, such as: the number of impoverished children in a school district or a community’s property tax and income wealth.

Given the acutely onerous impacts the Shares Agreement has on disparities in school aid distribution, the SSFC undertook this two-part analysis and assessment that places a special focus on equitable funding for all students as we continue to represent the more than 400 school districts that comprise SSFC membership.

Interestingly, research conducted over several by SSFC has exposed the Shares Agreement as a shameful source of inequity for many Long Island school districts. Consistently the analysis of state aid data supports the conclusion that public school districts on Long Island are not a monolithic entity, but are similar to the rest of the state in many ways. All school districts that have the most poverty and least fiscal capacity get shortchanged, regardless of geographic location, as finite funds are distributed to the wealthiest school districts in New York. Such discoveries by SSFC and their circulation is just beginning to bear fruit as more school leaders reflect on the how their children have been constantly cheated out of the benefits wealthier school districts enjoy as the benefactors of inequitable state aid.

Part I of this study provides a deep examination of state support of public school funding over the past six years starting with the creation of the new Foundation Aid formula spearheaded by the Spitzer Administration in 2007. Observations of the controversial “Bullet Aid” program and the lack of meaningful Mandate Reform are also explored.

Part II is an analysis of the current dilemma faced by school districts drawn from school district reports about fund balances, budget changes and tax levies. Additionally, an analysis of the impact of the Tax Cap law was also conducted.

Conclusions of the SSFC research appear on page 83. Key assertions of this analysis:

1. While in 2007-08 Foundation Aid formula was acclaimed as the state’s answer to the constitutional responsibility of providing a meaningful and “sound, basic education” for all students, it has been incessantly and undeniably found to be inequitable, unfair, unreliable and fiscally unsustainable from its inception.

2. Unfair state aid distribution is not, as some say, a geographic issue that pits Upstate vs. Downstate. There are over three dozen Downstate school districts that share similar wealth and poverty factors as those Upstate – and the same bleak future as SSFC member school districts. The inequities in the distribution of the Foundation Aid formula and the massive state aid cuts over the past several years were an intentional, politically-motivated redirection of money to wealthier school districts at the expense of the less wealthy. Indeed, the needs of these school districts are as underrepresented as SSFC school districts.
3. Recent efforts to provide fiscal support to school districts is artificial misguided and lacks direction. The failure of the state to rethink the Foundation Aid formula, the impact of the Gap Elimination Adjustment (GEA) cuts, the Tax Cap law and the inequities instilled into the fiscal and economic fabric of school districts will continue to diminish, if not doom, economic recovery in a significant portion of the state.

4. Garnering the fiscal resources to “keep the promise” of a Fully Funded Foundation Aid formula as articulated in 2007-08 are more remote than ever. The state will not continue to send money to inefficient, ineffective or non-performing school districts much longer as such an effort is unsustainable and lacks merit. Our research uncovers these shocking realities:
   - It will take 50 years to “fully fund” Foundation Aid at the rate of improvement exercised last year.
   - It will take 6 years to eradicate the GEA at current levels of decline.
   - It will take over $5.5 billion to get to “full funding” in the Foundation Aid formula.
   - It will take over $2.2 billion to eradicate the GEA cuts.
   - It will take just short of $8 billion to “fully fund” Foundation Aid and eradicate the GEA cuts and account for expense driven aids.

5. Comparatively, even by using all available fund balances, school districts with the least wealth and an appreciable amount of poverty on average have the least capacity to use their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance. Additionally, 5% of all school districts don’t have enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance for a single year; over 22% of school districts are in the same quandary in less than 2 years in this scenario; and almost 39% of school districts in less than three years. These data raise a significant danger signal that warns about the real potential for an educational calamity in the not-too-distant future. The simultaneous and complete use of the Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance for this purpose would be an unmistakable disaster because absent these funds a district cannot operate.

6. The property Tax Cap law guarantees that those school districts with less wealth, fiscal capacity and the greatest poverty will not prosper educationally or fiscally. When coupled with past state aid freezes and cuts, and the recent insufficient state aid reduction of those cuts, it makes it nearly impossible for many school districts to survive fiscally or educationally over the next few years. With many school districts in fiscal and educational jeopardy, the quality of life in these communities – as well as economic development opportunities – will be severely diminished as the school district diminishes. New residents or businesses are attracted to a school district that is in fiscal or educational decay.

7. Absent significant, solid and expansive recommendations for a new Foundation Aid formula, and acceleration of the eradication of GEA cuts through a more equitable distribution of those funds and solid, viable initiatives to advance cost efficiencies and effectiveness in school districts by the current New NY Education Reform Commission in its preliminary report for December of 2012, the commission must be immediately disbanded. A reconstituted commission must be formed of those familiar with the workings, success opportunities, and failures of school districts fiscally, educationally and have a firm grasp of the concept of equity.

The reconstituted commission must immediately examine state aid to schools and school district mandates and make recommendations for legislative action on their continuance, modification or abandonment. New recommendations must occur and be implemented into law by April 1, 2013 and that will take effect in the 2014-15 school year so that every school district can include them in their planning for the 2014-15 school district budget.
8. In any political sense the state is currently incapable of solving the problems of school funding. A separate completely non-political commission, made up of those who study school finance and equity issues should be immediately convened to create and forward for legislative action by December 1, 2013 a new state aid formula based on:

   - Fiscal capacity and poverty levels of school districts:
   - A minimum local share of educational costs to be borne by every school district;
   - A comprehensive state aid formula that accounts for demographic, geographic and regional factors, and;
   - Appropriate measures of cost effectiveness, efficiency, and economy of scale required to maintain new state aid levels.

9. School boards, superintendents, and business officials will have to tackle new roles as defenders of the rational, thoughtful, efficient and effective school district operations, practices and policies as they face unprecedented scrutiny. Cost effectiveness, efficiencies and economies of scale will be paramount to public and political support. The immediate selective abandonment of ineffective and inefficient operations, practices and policies will be required for such support.

10. State government has offered no formal, recognizable or constitutionally suitable plan moving forward that addresses the short and long term reform and fiscal sustenance of the state’s nearly 700 school districts. Rather, there is a jumble of vague and improvisational strategies aimed at the survival of hundreds of battered and bruised fiscal and educational entities having low fiscal capacity and higher levels of poverty.

11. “Bullet Aid” is a wrong-minded process that is an extension of political authority at its most cynical. School districts that receive Bullet Aid are always grateful for any new funding. However, some are needy and some are not. Our data suggests that the distribution of these funds is mixed at best. It is distributed to the wealthiest and the poorest school districts or, as we see it, to the “high need school districts” and to the "no need school districts." We can identify no statistical correlation between indicators of need, such as poverty or wealth fiscal conditions, or anything else in the amount of funds given to school districts in general. The details of the distribution of these funds run the gamut from politically calculated to haphazard at best. Bullet Aid is beyond a flawed system; it is wrong – and should be redirected to provide an equitable distribution of such funds.
Part I – An Examination of State Support for Public School Funding Since 2007

State aid to school districts is determined by a formula that is contained within state Education Law. In 2007-08 Governor Elliott Spitzer and the Legislature created a new state aid distribution system that was designated as Foundation Aid. The conception behind the creation of Foundation Aid was two-fold:

- First, to ensure that more funding would flow to school districts to help them meet renewed calls by the Board of Regents for increased student performance and higher graduation rates – known as the Contract for Excellence

- Second, to satisfy the recent decision handed down by the New York Court of Appeals in the Campaign for Fiscal Equity (CFE) case that cited the constitutional mandate that the state is obligated to provide sufficient financial resources to schools to provide all children with a “sound and basic” education.

While the CFE case focused solely on the inequitable distribution of education aid to New York City, the creation of Foundation Aid was aimed at providing adequate levels of aid to all of the state’s schools, again to help them comply with the Regents’ Contract for Excellence.

Further, the distribution of these “sufficient” resources was to reflect the needs of the school district based on its wealth. Low wealth and average wealth school districts would receive greater per pupil aid support to reflect a greater relationship between their income and property wealth and student population composition (for example, higher levels of children who were impoverished, non-English speakers or evidenced other at-risk indicators).

The plan called for a phase-in of the new aid formula over four years to allow the state to gradually reallocate the resources needed to meet its objectives. In other words, Foundation Aid allocations would increase annually for school districts from 2007-08 through the 2010-11 school year, at which time schools would arrive at the full funding levels defined under the new formula. It was not to be.

The entire history of the flawed Foundation Aid formula that forms the base of all state aid from 2007-08 to 2009-10, and the implementation of concept of the blatantly inequitable “shares agreement”, can be found in our published document from December 1, 2011 entitled, “State Aid Formulas & NY Senate Not Making the Grade for Our Schools, Children & Communities”. The entire document is available on our website at: http://www.statewideonline.org/ConfSept2012.html. It will provide additional background to enhance reader context for this paper that picks up state aid history at 2010-11.

The Plan That Still Doesn’t Work (Assuming That There Still Is an Actual Plan)

By the third year of the Foundation Aid phase-in plan, the state began to experience a severe financial crisis. As a result Foundation Aid was frozen in the third year of implementation (2009-10) at only 37.5% of the full implementation target and continued to be frozen into the fourth and original final target year for full implementation (2010-11). Of further concern, on the third year of the planned phase-in, the state implemented a “back door” state aid cut – more accurately defined as a “defunding system” – that was designated as the Gap Elimination Adjustment (GEA). As Foundation Aid was “frozen”, total education aid was simultaneously cut.

Specifically, the cut in state aid to school districts (The Gap Elimination Adjustment or GEA) was intended to help eradicate the state’s own fiscal deficit with portions of the monies promised to schools redirected to other uses. GEA cuts totaled about $2.14 billion (2010-11). Adding insult to injury, reflecting the tardy receipt of federal Medicaid money, the state’s books were balanced with a further $132 million being withheld from the last state aid allotment checks sent to school districts in June 2011. Some modest aid increases were provided – as promised partial reimbursements -building aid, BOCES aid, transportation aid and support of programs for students with disabilities, to name a few – but these in no way mitigated the damage wrought by GEA cuts.
These data sets are based on the actual state aid runs summarized in SA121-3 and component parts DSAx1 spreadsheets from the State Education Department. They do not include aid the education in the enacted budge that funds such things as Teacher Resource and Computer Centers, non-public school aid or the new transportation funding for certain students in New York City, etc. A brief but enlightening analysis of these data and related matters is provided by the Comptroller of New York State on pages 43-44 at the following website: http://www.osc.state.ny.us/reports/budget/2012/2012-13_Enacted_Budget.pdf

For the 2011-12 school year, the state implemented another, deeper, GEA cut of $2.79 billion of promised aid to school districts. The amount of cuts was reduced by a last-minute partial restoration of $229 million, which will be discussed later in this examination.

Luckily, over the 2010-11 and 2011-12 school years the federal government, through various subsidies, largely tied to economic stimulus programs provided almost $1.3 billion to help school districts retain employees and educational programs. However, this federal funding ran out by the end of the 2011-12 school year, creating a de facto budget gap for large numbers of school districts that continue to try to maintain employment positions previously financed by federal Educational Jobs Funds (EJF) or Stabilization Funds.

Various other federal Stimulus monies and aids to foster school construction, consolidation of services, transportation and programs for students with disabilities aside, the loss of Foundation Aid revenue totaled $4.826 billion over the 2010-11 and 2011-12 school years. This is significant by any measure.

Although school districts had been able to rely on the now exhausted federal monies to support educational programs and maintain staff, the ongoing responsibility to provide funding to school districts still rests with the Legislature and Governor. To date, no specific strategy or plan has been developed by state government to replace the federal funds or – more importantly – to finish the original Foundation Aid implementation scheme. The proof is found in the amount of Foundation Aid and reduction of the GEA for 2012-13. Data contained in the chart below provide a backdrop of the impact of last three year’s state aid cuts (GEA) and illustrates how difficult it is – and will continue to be – for low wealth and average wealth school districts to maintain basic programs.

### Major School Aid Changes 2010-11, 2011-12 and 2012-13 ($ in Billions)

<table>
<thead>
<tr>
<th>Program</th>
<th>2010-11</th>
<th>2011-12</th>
<th>$ Change</th>
<th>2012-13</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Aid</td>
<td>$14.894</td>
<td>$14.894</td>
<td>$0</td>
<td>$15.005</td>
<td>$0.112</td>
<td>0.7%</td>
</tr>
<tr>
<td>Building Aid</td>
<td>$2.489</td>
<td>$2.633</td>
<td>$0.144</td>
<td>$2.721</td>
<td>$0.088</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other Aids</td>
<td>$4.479</td>
<td>$4.288</td>
<td>($0.191)</td>
<td>$4.440</td>
<td>$0.152</td>
<td>3.5%</td>
</tr>
<tr>
<td>Gap Elimination Adjustment</td>
<td>($2.138)</td>
<td>($2.556)</td>
<td>($0.418)</td>
<td>($2.267)</td>
<td>$0.290</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Restoration of GEA</td>
<td>$0</td>
<td>$0</td>
<td>$0.000</td>
<td>$0.110</td>
<td>$0.110</td>
<td></td>
</tr>
<tr>
<td>Federal Offset to 2010-11 GEA</td>
<td>$0.726</td>
<td>$0</td>
<td>($0.726)</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Federal Education Jobs Fund</td>
<td>$0.608</td>
<td>$0</td>
<td>($0.608)</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Reduction to Cover State Medicaid Shortfall</td>
<td>($0.132)</td>
<td>$0</td>
<td>$0.132</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Total Aids</td>
<td>$20.925</td>
<td>$19.258</td>
<td>($1.667)</td>
<td>$20.010</td>
<td>$0.752</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

These data sets are based on the actual state aid runs summarized in SA121-3 and component parts DSAx1 spreadsheets from the State Education Department. They do not include aid the education in the enacted budge that funds such things as Teacher Resource and Computer Centers, non-public school aid or the new transportation funding for certain students in New York City, etc. A brief but enlightening analysis of these data and related matters is provided by the Comptroller of New York State on pages 43-44 at the following website: http://www.osc.state.ny.us/reports/budget/2012/2012-13_Enacted_Budget.pdf

### School Aid Changes 2010-11, 2011-12 & 2012-13 ($ in Billions) Foundation Aid vs. The Gap Elimination Adjustment

<table>
<thead>
<tr>
<th>Program</th>
<th>2010-11</th>
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</tr>
<tr>
<td>Restoration of GEA</td>
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<td>$0</td>
<td>$0.000</td>
<td>$0.110</td>
<td>$0.110</td>
<td></td>
</tr>
<tr>
<td>Reduction to Cover State Medicaid Shortfall</td>
<td>($0.132)</td>
<td>$0</td>
<td>$0.132</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Total Aids</td>
<td>$12.624</td>
<td>$12.337</td>
<td>($0.287)</td>
<td>$12.849</td>
<td>$0.512</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Foundation Aid and GEA reductions need to be separated from “earned and incentivized” aid programs such as building aid, BOCES Aid and other such aids. Of the $752 million only $512 (68%) of all aid goes
to the continuous basic operations of the school district. The GEA settles in at just below $2.2 billion. However, the gains in the GEA reduction (a decrease of a decrease) offset had a marginal effect for many school districts due to the loss of $608 million in EJF funds at the end of 2012-13.

In summary, Foundation Aid was again frozen in the budget for 2011-12 while the amount of GEA cuts were increased by 19.5% over the previous year’s cut levels. By 2012-13 Foundation Aid was increased just .7% ($112 million statewide). Concurrently, the GEA cuts were reduced by 15.6% ($400 million statewide). The result was that state aid directly to school districts was less in 2012-13 than it was in 2010-11- the year full implementation (commonly known in state aid circles as “the promise”) of the Foundation Aid Formula was supposed to occur. As it stands now state aid to school districts is $915 million less (4.4%) than in 2010-11. That $915 million is $163 million more than the entire state aid that will be sent to school districts in 2012-13. Collectively, the cumulative loss of just the GEA over the last three years has been almost $7 billion. That’s $7 billion cut from anticipated funds (with the acknowledgment that Foundation Aid was frozen). The $1.3 billion federal stimulus funds of various varieties are also gone.

**GEA Cuts-The Budget Impact 2010-11**

The following scatter plots focus on the relevant distribution in the 2010-11 budget year of state aid cuts to school districts across the state. The trends displayed in these scatter plots are reflective of every school district in the state.

This scatter plot shows the increased burden placed on school districts with state aid cuts under the Gap Elimination Adjustment enacted into law for 2010-11. The horizontal axis represents the Combined Wealth Ratio (CWR). The CWR is a school district’s income and property values compared to the state average. An average CWR equals 1. School districts with a CWR higher than 1 are wealthier than average. The vertical axis represents the state aid reduction as a percent of each school district’s budget called Total General Fund Expenditures (TGFE). The CWR changes slightly each year, so the scatter plots have considered CWRs up to 1.25 as basically average wealth.

These scatter plots have been truncated at a CWR of 8.0 as data beyond that displays the same pattern as data for all other school district with a CWR of 2.0 and higher. To go beyond a CWR of 8.0 adds no greater understanding of these data and serves only to make data points smaller and more difficult to discern as the range increases. Additionally, it would only show the enormous wealth of about a dozen school districts that end up with such low-impact state aid cuts we fear that the focus on the equity issues in total would be lost on the shock of the significant inequity exemplified by the very few and the aggregate point about equity might be ignored. Therefore, the limit on the CWR has been set at 8.0.

School districts in the red box have a CWR of 1.25 or less. In terms of property and income values they are only slightly above average to well below average. These school districts represent communities of average wealth to the poorest school districts in the state.
The school districts in the green box represent school districts that have a CWR greater than 1.5 (property and income values equal to or greater than 1.5 times the state average). These are the wealthiest state school districts.

The poorest school districts, those in the red box, had the greatest negative impact on their budgets caused by the loss of state aid under the Gap Elimination Adjustment cuts. However, the wealthier school districts in the green box have the smallest negative impact on their budgets caused by the loss of state aid under the GEA cuts.

As demonstrated, this distribution system is clearly inequitable. This is especially true for average and below average wealth school districts where the aid cuts they experience can only be made up by major increases in the local property tax levy (now essentially impossible because of the newly enacted Property Tax Cap law) or by significant staff cuts, program cuts or use of reserves...or some combination of any or all of these approaches.

This has created a particularly vicious cycle for the poorest school districts – those that are least able to pay higher taxes and are already struggling to maintain even basic, mandated educational programs, cutting staff to the bone and using nearly exhausted reserves.

To determine if there was a possibility that a portion of the CWR could skew the result of the GEA cuts, an analysis of income and property values was undertaken. As both factors comprise the CWR, and because it is known that the relationships between property values and income may be significantly different across the state, scatter plots were created to isolate each variable independently.

An examination of the relationship between the Income Wealth of each school district and their corresponding negative budget impact of the GEA cuts is now provided. This scatter plot demonstrates the increased burden placed on school districts with GEA cuts for the year indicated on the scatter plot. The horizontal axis represents the Alternate Pupil Wealth Ratio (APWR). The APWR is a school district’s income values compared to the state average. An average APWR equals 1. School districts with an APWR higher than 1 are wealthier than average. The vertical axis represents the state aid cut as a percentage of each school district’s budget (TGFE).

School districts in the red box have an APWR of 1.25 or less. These school districts, in terms of income values, are only slightly above average to well below average and represent communities of average wealth to the poorest school districts in New York State.

The poorest school districts, the ones in the red box, have the greatest decrease in state aid and had the greatest negative impact on their budgets caused by the loss of state aid under the GEA cuts. However, the wealthier school districts in the green box have the smallest decrease in state aid and a smaller negative impact on their budgets caused by the loss of state aid under the GEA cuts. The school districts in the green box represent those school districts that have an APWR greater than 1.5 (income values
equal to or greater than 1.5 times the state average). These school districts represent the wealthiest school districts in New York State.

This again demonstrates that the distribution system is clearly inequitable. The shift of burden from the budget to the tax levy is incredible for the school districts that are most dependent on state aid. The poorest school districts are required to have the largest percent tax levy increases if the state aid cuts being offered by the Governor are put into place. Further, the average and below average wealth school districts possess the least income capacity to create and maintain reserves and educational programs with the current tax burden.

The Property Wealth of each school district provides another measure of negative impact to the budget based on the school district’s property wealth and thus it’s fiscal capacity to have “something to tax.”

This scatter plot shows the increased burden placed on school districts with state aid cuts under the Gap Elimination Adjustment enacted into law for the 2010-11 budget year. The horizontal axis represents the Pupil Wealth Ratio (PWR). The PWR is a school district’s property values compared to the state average. An average PWR equals 1. School districts with a PWR higher than 1 are wealthier than average. The vertical axis represents the state aid cut as a percent of each school district’s budget (TGFE).

School districts in the red box have a PWR of 1.25 or less. These school districts, in terms of property values, are only slightly above average to well below average. These school districts represent communities of average wealth to the poorest school districts in New York State.

The poorest school districts (red box) had the greatest decrease in state aid, which therefore triggered a drastic negative impact on their budgets that was usually mitigated by school districts through cuts in staff, programming and the use of reserves. This condition was caused by a combination of the GEA cuts and escalating costs of operation.

However, the wealthier school districts (green box) have the smallest decrease in state aid and the smallest negative impact on their budgets (caused by the loss of funding under state aid cuts). These school districts have a PWR greater than 1.5 (property values equal to or greater than 1.5 times the state average) and represent the wealthiest school districts in New York State.

Again, this distribution is inequitable. The average and below average wealth school districts have the least property wealth – and therefore lack the capacity to create and maintain reserves and educational programs as they possess limited to marginal taxing capacity. By contrast, the poorest school districts, those least able to pay higher taxes and already struggling to maintain educational programs, endured the brunt of the GEA cuts with the diminishment of their programs, staff and savings accounts.
GEA Cuts-The Budget Impact 2011-12

The same trends that existed in 2010-11 continued into 2011-12 – except that the negative impacts became more ominous. This scatter plot shows the increased burden placed on school districts with GEA cuts for the 2011-12 budget year. The horizontal axis represents the Combined Wealth Ratio (CWR). The vertical axis represents the state aid reduction as a percent of the each school district’s budget (TGFE).

School districts in the red box have a CWR of 1.25 or less. These school districts represent communities of average wealth to the poorest school districts in New York State.

The poorest school districts (red box), endured the greatest negative impact on their already weakened budgets caused by the loss of additional state aid with the GEA cuts.

However, the wealthier school districts (green box) have the smallest pressure on their budgets caused by the GEA cuts. The school districts in the green box denote those school districts that have a CWR greater than 1.5 (property and income values equal to or greater than 1.5 times the state average). They represent the wealthiest school districts in the state.

The inequity once more shows through. The cuts are deeper and the patterns are the same. For the second consecutive year, poor and average wealth school districts must struggle with the impact of the GEA on their budget and hence their tax levy. The poorest school districts, those least able to pay higher taxes and already struggling to maintain educational programs from the previous year’s cuts, must dig deeper into program, staff and into their savings to offset a drastic increase in tax levy that voters would likely not support.

The same trend that existed in 2010-11 based on Income Wealth distribution continued into 2011-12, but the negative effect was deeper. The poorest school districts (red box) had the greatest decrease in state aid and pressures to decrease their budget to control their tax levy as a direct result of the massive GEA cuts.

The wealthier school districts (green box) again had the
smallest strain on their budgets with minimal if any impact on tax levies – a result of the considerably lower GEA cuts per student. The school districts in the green box represent those that have an APWR greater than 1.5 (income values equal to or greater than 1.5 times the state average) – the wealthiest public school districts.

School district residents pay their property taxes with their income. Those of marginal income fare the worst under the GEA cuts.

Just like the Income Wealth distribution of the GEA cuts, Property Wealth cuts display the same basic pattern. The scatter plot below shows the increased burden placed on school districts with the GEA cuts for budget year 2011-12. The horizontal axis represents the Pupil Wealth Ratio (PWR). The PWR is a school district’s property values compared to the state average. An average PWR equals 1. School districts with a PWR higher than 1 are wealthier than average. The vertical axis represents the GEA cut as a percent of the each school district’s budget (TGFE).

Districts in the red box have a PWR of 1.25 or less. These districts, in terms of property values, are only slightly above average to well below average. They represent communities of average wealth to the poorest school districts in New York State. These school districts had the greatest decrease in state aid per student and greatest negative impact on their budgets and tax levies due to the loss of revenue under the GEA cuts.

The wealthier school districts in the green box had the smallest decrease in state aid and the smallest impacts on their budgets and thus on their tax levies caused by the GEA cuts. The school districts in the green box represent the wealthiest in the state – those school districts that have a PWR greater than 1.5 (property values equal to or greater than 1.5 times the state average).

Obviously, the shift in financial burden would need to be borne by the tax levy if the school district budget could not absorb it. As demonstrated in previous data the poorest school districts, those least able to pay higher taxes and already struggling to maintain educational programs, could have the largest percent tax levy increases due to the GEA state aid cuts. Again, in terms of equity and the fiscal health of these school districts, the current system of state aid cuts is unacceptable, inequitable and wrong.

The average and below average wealth school districts have cut considerably from their meager resources to merely survive as a viable community school district. This was the second or third successive year that these school districts will be forced to trim their budgets and use reserves. This is a financially unsustainable situation. After the two or three years of incessant cuts the least wealthy school districts were desperately trying to retain staffs levels that are already insufficient, class sizes that are too large and the growing inability to assist students with special needs.

While SSFC had no member school districts in Westchester, Nassau, Suffolk, Orange, Putnam or Rockland counties, our data has always analyzed all school districts in the state. We have often included
data in our reports, programs, presentations and meetings from other regions of the state. Some of these data are presented in the next scatter plot.

It is readily apparent from this scatter plot that it has the same pattern as data for the entire state. Further each of the school districts within the red box has a CWR less than 1.21 and a Free and Reduced Price Lunch (FRPL) percent of at least 24% – meaning that almost one of every 4 children are at some level of poverty.

The school districts in these counties, as in the entire state, that are average or below average wealth, experienced a more dramatic negative impact on their budgets as a result of the GEA cuts than school districts of above average wealth. Consequently, the impact of the cuts is not an “Upstate vs. Downstate” geographic issue – it is a wealth and demographic issue.

The impacts of state aid cuts on the budgets of average and below average wealth school districts is clearly a critical challenge. With cost escalations and uncertain revenues, budgets have been severely strained. Basic as well as elective educational programs have been lost to the point where the quality and veracity of the educational program is problematic.

A significant loss of revenue logically creates pressure on a school’s budget. But it also creates pressure on a community’s property tax levy. Levy revenues are important to a school district’s overall revenue picture. Except for minor miscellaneous sources of revenue, the tax levy along with state aid and appropriated fund balances are the primary counter-balance to budget expenditures.

Tax levy increases to support a school district’s budget remain the least desirable alternative for obvious reasons – school district residents are loath to increase taxes and do so only reluctantly. National data confirms that tax levels in New York in general and in some counties (all of which are members of the SSFC) have some of the highest property taxes in the nation. In fact, the enactment the Tax Cap law is proof enough that New Yorkers want a brake applied to tax increases.

The second year of GEA state aid cuts (2011-12) was larger and worse for average and below average wealth school districts than the original GEA. Moreover, it increased the pervasive procrastination of the state to resolve state aid issues, made the problems more politically difficult to unravel, and has lead to frustration on the part of school district officials and communities that have to live with these well-known issues.

**GEA Cuts-The Budget Impact 2012-13**

The GEA cuts of 2012-13 provided some modicum of relief to previous GEA cuts. The scatter plot below shows the burden placed on school districts with GEA cuts for the budget year 2012-13. The horizontal axis represents the Combined Wealth Ratio (CWR). The vertical axis represents the state aid reduction as a percent of the each school district’s budget (TGF).
School districts in the red box have a CWR of 1.25 or less. These school districts represent communities of average wealth to the poorest school districts in New York State.

The poorest school districts (red box), endured the greatest negative impact on their already weakened budgets caused by the loss of additional state aid with the GEA cuts.

However, the wealthier school districts (green box) have the smallest pressure on their budgets caused by the GEA cuts. The school districts in the green box denote those school districts that have a CWR greater than 1.5 (property and income values equal to or greater than 1.5 times the state average). They represent the wealthiest school districts in the state.

Some elected leaders in Albany continue to raise a divisive perspective that characteristically ignores what these data reveal about the impact of the distribution of state aid cuts. These individuals prefer to suggest that the impact of these cuts is an “Upstate vs. Downstate” (defined as Nassau, Orange, Putnam, Rockland, Suffolk and Westchester, counties) geographic issue.

Our research has shown no data to support this perspective. Indeed, when one looks closely at school district fiscal capacity and poverty issues, “Downstate” is no more monolithic than “Upstate”. These data continue to reveal the any unifying force for reform should be based on school district fiscal capacity and poverty issues and not geography. Despite this, political/regional alliances remain focused on the preservation of many school districts’ fiscal and educational self-interests rather than any attempt to secure adequate and fair funding levels of state aid to assist the children in attaining student achievement levels necessary for the success measures as articulated by the Commissioner of Education and the Board of Regents.
While SSFC currently has only one member school district in the aforementioned “Downstate” region, our research has always analyzed all school districts in the state. Some of these data are presented in the next scatter plot.

It is readily apparent from this scatter plot that the schools in these counties demonstrate the same pattern as these data for the entire state. Further, each of the school districts within the red box has a CWR less than 1.21 and a Free and Reduced Price Lunch (FRPL) percent of at least 24% -- meaning that almost one of every 4 children are at some level of poverty.

Again, the school districts in these counties, as in the entire state, that are average or below average wealth, have experienced a more dramatically negative impact on their budgets as a result of the GEA cuts than school districts of above average wealth. Consequently, the impact of the cuts is not an “Upstate vs. Downstate” geographic issue -- it is a wealth and demographic issue. Regardless of the region of the state examined, the trend data is always the same -- those school districts with the least fiscal capacity and greatest measures of poverty lose the most and have the most to lose.

Further, for the third consecutive year, the cuts are deeper and the patterns are the same as poor and average wealth school districts must struggle with the impact of the GEA on their budget and consequently their tax levy. The poorest school districts, those least able to pay higher taxes and already struggling to maintain educational programs from the previous year’s cuts, must dig deeper into program, staff and into their savings to offset a drastic increase in tax levy that voters would likely not support.

A lone bright spot to these data is that the impact of the cuts at a percent of previous year budget is less than the second year of the GEA cuts. This relief amount of about one to two percent of budget, while welcome, is insufficient to the survival of a budget -- especially if the school district has limited fiscal capacity as evidenced by the CWR.

(The recognition that school districts have made significant educationally and fiscally harmful cuts to program and financial success targets is more evident and is illustrated in greater detail in the Property Tax Report Card (PTRC) section of this report found on page 47.)

**GEA Cuts-The Property Tax Levy Impact 2010-11 and 2011-12**

To cover GEA cuts for budget year 2010-11 as indicated on the scatter plot below, some school districts needed to increase their property tax levies in 2010-11. Due to the unrealistic level of increases called for in most cases, these levies were in fact not boosted by the amount shown in the scatter plots. Instead higher tax levy increases were kept at modest levels by school districts making sometimes massive cuts to educational programs, interscholastic and co-curricular activities, transportation, deferred equipment and bus purchases -- not to mention the loss of over 10,000 school district employees state-wide over
the last two years. As demonstrated on the scatter plot, poor and average wealth school districts again bore the brunt of these draconian cuts. Conversely, wealthy school districts barely, if at all, reached any discomfort level.

The poorest school districts had the greatest impact on their increase in their tax levies caused by the loss of state aid under the 2010-11 GEA cuts. This includes the Federal JOBS Restoration money of $608 million to be spent over the 2010-11 and 2011-12 school years. Most of the funds, approximately $400 million, were spent in 2011-12 alone. Average and below average wealth school districts – and especially the poorest school districts – simply did not have the capacity to shift this incredible burden to the tax levy.

Going forward school districts in the red box will continue to cut staff, programs and services and whatever reserves that exist to avoid adding to the tax burden. This is the same strategy used by school districts in the budget year 2009-10 when Foundation Aid was first frozen. As noted, this diminishes the ability these school districts will have to provide a viable educational program – and again underscores that the impacts of GEA are unacceptable, inequitable and wrong.

To cover state aid cuts for budget year 2011-12, the scatter plot at above shows how some school districts would have needed to increase their levies. Again, the high figures of up to almost 45% are unrealistic to put before voters and were ultimately avoided by more budget, program and staff cuts, and use of any existing reserves.

The poorest school districts (red box) were in the greatest jeopardy to increase tax levies caused by the loss of state aid under GEA. Also, as noted, this was the last year to spend the federal JOBS Restoration money if a school district had not already exhausted these funds in the school year 2010-11.

The thorough demonstration of unfairness permeates these data. The poorest school districts again were required to endure the largest percent tax levy increases. School districts in the red box continued to cut staff, programs, services and use up ever-dwindling reserves to avoid onerous tax increases in their communities.

As depicted in the scatter plot to the left, SSFC non-member regions at the time, suffered the same problems as SSFC
member school districts. Wealthy school districts, on the other hand, had a much easier time over the two years of GEA cuts.

Undoubtedly, the continuous existence of the then current and frozen state aid formula and the current size and formula for the GEA cuts will diminish the length of time average and low wealth school districts will have to provide a viable educational program. The wealthiest school districts – those with the greatest revenue generation capability, the largest reserves, and those less dependent on state aid – will be able to maintain their significant and quality programs for a considerable period of time with little major affect on budget or tax levy.

The 2011-12 Partial State Aid Restoration

At the behest of the state legislature there was a small, partial restoration of state aid to school districts. This restoration totaled $229 million for the 2011-12 school budget year. While the distribution of these funds appeared on the surface to be based on need, this was not the only criterion. The funds were only somewhat targeted to school districts where there was a critical need in favor of a political assurance that “everyone gets something.”

One-third of the restoration funds went to the Big 5 city school districts (New York, Yonkers, Syracuse, Rochester and Buffalo), but over 25% went to the wealthiest counties in the state. Less than 45% went to the rest of the state. The over $19.5 million in “restoration” (8.5% of the total) that went to the wealthiest school districts would have had a greater positive impact if they had been distributed to the state’s neediest school districts. This was a politically-motivated decision not an educationally sound fiscal decision.

GEA Cuts-The Property Tax Levy Impact 2012-13

To cover state aid cuts for budget year 2012-13, the scatter plot that follows shows how some school districts would have needed to increase their levies. Again, the high-end amounts of up to almost 30-40 percent were unrealistic to put before voters and were therefore avoided by more budget, program and staff cuts, as well as the use of any existing reserves.

The poorest school districts (red box) were in the greatest jeopardy to increase tax levies caused by the loss of state aid under GEA. Also, as noted, 2011-12 was the last year to spend the Federal Education JOBS Restoration money for those school districts that had not already exhausted these funds in the school year 2010-11.
Although this condition is better than that of the previous year, it still poses a significant burden on school districts as they face the first year of the Tax Cap. The complete demonstration of unfairness continues to permeate these data. The poorest school districts again would have been required to endure the largest percent tax levy increases. So – for the fourth consecutive year – school districts in the red box continued to cut staff, programs and services and deplete reserves, if any existed, to avoid additions to the tax burden in their communities.

To again demonstrate that this inequity is not geographic, data has been compiled to disaggregate school district metrics in predominately non-SSFC geographic areas. As depicted in the scatter plot to the left, general SSFC non-member regions suffered the same problems as SSFC member school districts. Wealthy school districts, on the other hand, have had a much easier time over the three years of GEA cuts.

Although the numeric impact of the GEA on this portion of the state is significantly less than the state as a whole, it is still unacceptable for school districts with marginal fiscal capacity and high poverty. These school districts will continue to cut programs and use fund balances as they will not sustain voter support for tax levy increases of 5-10 percent or higher. Tax levy suppression in these regions – and throughout the state – will continue to be a significant objective as a result of the Tax Cap law.

Undoubtedly, the continued existence of the current state aid formula, as well as the current size and formula for the GEA cuts, will diminish the length of time that average and low wealth school districts will have to provide a viable educational program. The wealthiest school districts – again, those with the greatest revenue generation capacity, lowest levels of poverty, the largest reserves, and those less dependent on state aid – will be able to maintain their significant and quality programs for a considerable period of time with little major affect on budget or tax levy.
How GEA Cuts and the Loss of Federal Education Job Funds (EJF) Negated 2012-13 Education Aid “Increases”

Last spring, as elected leaders in Albany celebrated the on-time passage of the 2012-13 Budget, they appear to have neglected to mention an often overlooked – but critical – detail when discussing what they accomplished in public education funding. While the Executive Budget “increased” aid to public school districts by $752 million, there was little or no attention called to the phase-out of Federal EJF funds totaling $608 million that would occur at the same time. The result was that the net increase of state aid was therefore only $144 million.

Further, as indicated earlier in this paper, of the $752 million in “new” education aid, about $240 million of this amount was allocated as non-Foundation Aid – which is used for such items as Building, Transportation, Excess Cost (educational programs for students with disabilities) and BOCES aids. The issue with this allocation is that these funds were the state’s portion of incentivized aids that are in effect partial reimbursements for the already expended costs of programs. Therefore, when these reimbursement aids are also subtracted from the purported increase in state aid, school districts collectively are left in the red in terms of combined fiscal support from state and federal government sources for 2012-13 when compared to 2011-12. It is therefore reasonable to conclude that the impacts on individual school districts based on their fiscal capacity and level of poverty will be drastically different due to the distribution of Foundation Aid and continuous GEA cuts.

The state’s inability to address the loss of Federal EJF revenue – which kept many school districts afloat when the GEA was implemented and otherwise eviscerated district finances and in turn their educational programs— is paramount to the comprehension of the fiscal dilemma faced by school districts for the foreseeable future. Foundation Aid hadn’t changed for three years prior to the passage of the 2012-13 state budget. Over this time the GEA had not only been created, but also increased from its original level. The focus of our research was to study the increase in Foundation Aid and the reduction of the GEA cuts as a mechanism to “make the school districts fiscally whole”.

If one looks only at the loss of the $608 million of Federal Education Jobs Funds (EJF) at the end of 2012-13 and the state’s ability to offset just that amount, the results of their efforts are mixed at best. As is the continuous case with every state aid initiative, the details paint a different picture than the aggregate. The distribution of $512 million of new Foundation Aid and reductions to the GEA cuts for 2012-13 to school districts make up approximately 84% of the loss of the $608 million in EJF monies. However, the characteristics of the distribution of that money are critical to understand how state aid continues to be inequitable.

The CWR is a standard example of the assumption of fiscal capacity of a school district. The table to the left shows that the use of Foundation Aid and reductions to the GEA cuts provided 24% of all school districts with enough or more than enough aid to offset the loss of EJF monies. The average CWR of this data set was .47 (less than half the average wealth of a school district in New York State); the minimum CWR in this data set was .18 (a school with extremely low fiscal capacity; less than a fifth of the state average); but the maximum CWR is 1.05 (barely average). If the analysis were to stop at this point, it would seem that the right school districts got the monies they need to just offset the loss of the EJF. But that is not even a quarter of the school districts in the state. In fact almost 71% of all school districts have a CWR between .186 and 1.05.

Thus, a number of school districts in the clearly below average fiscal capacity to average fiscal capacity range must not have received enough funds to offset their loss of EJF. Why not? In part this is because 32% of all school districts received between 49.9% and 15% of equivalent EJF monies. The “everyone gets something” distribution method continues with the Less than 50% of Total EJF Supplanted data sub-

<table>
<thead>
<tr>
<th>Impact of the Enacted Budget Relative to the Replenishment of the Expired Federal Program- Education Jobs Funds (EJF) and the Combined Wealth Ratio (CWR)</th>
<th>Max CWR in Data Set</th>
<th>Min CWR in Data Set</th>
<th>Average CWR in Data Set</th>
<th>% of all Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% or more of Total EJF Supplanted</td>
<td>1.05</td>
<td>0.186</td>
<td>0.47</td>
<td>24%</td>
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<tr>
<td>Less than 100% but 75% or more of Total EJF Supplanted</td>
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<td>0.443</td>
<td>0.74</td>
<td>16%</td>
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<tr>
<td>Less than 75% but 65% or more of Total EJF Supplanted</td>
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<td>0.516</td>
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<tr>
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<tr>
<td>Less than 50% of Total EJF Supplanted</td>
<td>44.96</td>
<td>0.626</td>
<td>2.56</td>
<td>32%</td>
</tr>
</tbody>
</table>
set that contains a maximum CWR of almost 45 and average CWR of 2.56. Inequities are evident throughout this distribution. The Less than 50% of Total EJF Supplanted data sub-set has two problems. First, it provides funds to a school district with a CWR of 44.96 and simultaneously provides an insufficient amount of funds to a school district that has a CWR of only .626 (just slightly above half of the statewide average). Second, almost a third (32%) of these school districts, in just this data sub-set, have CWRs at 1.0 or below. Concurrently, within the same data set, 53% have CWRs over one and a half times (CWR>1.5) the state average. This distribution is patently inequitable by any measure of school district fiscal capacity.

Moreover, funds were also disbursed so as to provide school districts with CWRs as high as 1.853 (over four times greater than the 100% or more of Total EJF Supplanted data set) with enough funds to offset Less than 65% but 50% or more of Total EJF Supplanted as noted in data set above.

There was a dynamic political move at play when the Executive Budget was first announced. The next scatter plot (left) details the distribution of funds according to the Executive Budget and illustrates the distribution of Foundation Aid and the reduction of the GEA cuts based on CWRs up to 4.0. The Executive Budget reallocated $250 million from the entire state aid budget of direct disbursements to school districts. These funds were earmarked for use by competitive grants.

The SSFC immediately and assertively noted to our membership, legislators, the Governor’s office and other stakeholders that the grant program, as proposed, while seemingly positive in theory, was unproven and mired in implementation and start-up woes from the previous year. Further, when compared to the critical program and fiscal survival needs of school districts, the grant program was not considered a priority by school districts. Other organizations seized on or discovered this rationale and over time $200 million was reallocated in the final budget to increase (albeit by a small amount) Foundation Aid and more reductions to the GEA.

Note that the distribution of the funds as a proportion of the EJF funds (this scatter plot distribution only goes up to CWR of 4.0) remained basically unchanged between the executive proposal and the final legislative enactment. The legislature simply threw the money at the problem with only minor
improvements to the distribution. Note that the school districts in the blue box (the wealthiest school districts) got more money. Although higher need districts were thankful for the funds, the inequities continue to exist, unmodified and uncorrected.

Further analysis of the average and below average fiscal capacity school districts is warranted. The distribution “curve” is too steep to be truly discriminating between the relative wealth of the school districts between .18 CWR and 1.25 in this instance. Note the tight luster between school districts beginning with a CWR of about .55 and those with a CWR of about .85. Here the correlations breakdown in both the Executive and enacted budget. Their percent of replenishments should be higher.

The same is true when the enacted budget is examined. More money went to school districts with CWRs between .55 and .85 as it did to every other CWR level. But to create a greater correlation between the CWR and the distribution of state aid funds the .55 to .85 CWR range, for example, should have been more robustly funded.

It is plausible to conclude that wealthy school districts received additional funds because the less wealthy were denied funds. That is, that everyone got the net result of the state aid and reduction in GEA cuts because there is a political stratagem in existence in Albany that says “everyone must get something- whether they need it more than others or not”.

CWRs are not the only metric that can be applied to these data sets. Free and Reduced Price Lunch (FRPL) is a useful measure of poverty. These data illustrate the same trends toward inequity as were exposed in the CWR data sets. The FRPLs of those school districts that received enough additional Foundation Aid and GEA cut reduction to offset their EJF averaged .74 (a measure of high poverty). Even the minimum in this data set is significantly high. But this is where the mirage of equity evaporates.
of the total), 11 of them have FRPL levels of 0.0, yet they received between 42.5% and 16.4% (with an average of over 22%) in state aid to supplant EJF. Also within this same data set are 89 school districts with FRPLs above .25 to over 1.0 (due to the convoluted way such things are calculated) for an average of FRPL of 40%. However, each of these school districts received less than 50% of the loss of EJF in state aid, (their average amount supplanted was only 35% and ranged from .15 to .499). This is hardly an equitable distribution of state aid to school districts with such great needs.

Even deeper analysis finds that there is no correlation between the CWR and the EJF in the first place; another sign of inequity. Yet the remedy to this condition remained elusive for the Executive and the legislature. They could have addressed the inequity of the distribution of the EJF and its subsequent loss by high need and average need school districts, but did not.

While it is obvious that there was no correlational relationship between FRPL and the distribution of EJF, there is a statistically significant correlation between the Executive proposal and FRPL. While funding should have been higher, kudos are nonetheless due to the Executive for making this important connection. Unfortunately that correlation lost its statistical significance with the final budget passed by the legislature. The legislature added more funds (about $200 million) to the final state aid package while simultaneously distributing these additional sums to the less needy and the wealthier school districts as evidenced by data provided here with regard to the enacted budget.

The GEA is Even More Inequitable than is the Current and Unacceptable Foundation Aid Formula

The education of students in any school district begins with the number of students to be educated. The amount of funds per enrolled student a district must educate is critical to any analysis. School districts are therefore rightfully concerned about the amount of funds per enrollee they receive from the state. This is particularly true of school districts with low or marginal fiscal capacity to provide their own fiscal resources to educate their children. The same is true for school districts that have large percentages of children living in poverty. And then there are school districts that have a combination of these two critical attributes: low-to-marginal fiscal capacity and higher levels of poverty.

This analysis begins with data about the correlational distribution of Foundation Aid per enrolled student and the fiscal capacity of a school district (CWR). The lower the fiscal capacity of a school district the more it will need state funding to provide the “sound basic education” required by the state constitution. Therefore, to ensure equity, the distribution of funds should be highly correlated to the

<table>
<thead>
<tr>
<th>Impact of the Enacted Budget Relative to the Replenishment of the Expired Federal Program- Education Jobs Funds (EJF) and the Free &amp; Reduced Lunch Program (FRPL)</th>
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<th>Average</th>
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<tr>
<td>Less than 100% but 75% or more of Total EJF Supplanted</td>
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</tbody>
</table>
CWR of school districts. To be statistically significant the correlation should be at least .7 and negative. That is, more significant Foundation Aid should be sent to school districts with the least fiscal capacity compared to their wealthier counterparts. However, these data do not reflect that anticipated correlational occurrence.

These data support the notion that the correlation while negative is not significant in the least and approaches an almost random distribution. In fact, little of the distribution can be statistically tied to the concept that more significant Foundation Aid should be sent to school districts with the least fiscal capacity, as compared to their wealthier counterparts.

This method does not even approach an equitable distribution. Also note that this represents three years of data – when state aid was frozen in 2010-11 and 2011-12 and when it was altered in 2012-13. The correlation of the distribution has weakened every year, particularly in the year when the Foundation Aid funds were increased. So the Foundation Aid formula fails the equity test with regard to distribution and fiscal capacity.

However, the Foundation Aid Formula does much better against a poverty measure such as FRPL. To be equitable, the distribution of funding should be highly correlated to the FRPL of school districts. To be statistically significant, the correlation should be at least .7 and positive. That is, more significant Foundation Aid should be sent to school districts with the most measure of poverty compared to their counterparts with less poverty.

These data would suggest that there is a significant correlation between poverty and the distribution of Foundation Aid. Over half of the distribution seems to be based on the fit between these two attributes. Note that this is also three years of data when state aid was frozen in 2010-11 and 2011-12 and when it was altered in 2012-13. The caution is that the initial high level of correlation has drifted downward over the three year period and the distribution has weakened every year, particularly in the year when the Foundation Aid funds were increased. So the Foundation Aid formula passed the equity test with regard to distribution and poverty but is losing the correlational strength every year. A this rate of correlational deterioration the ability to call the correlation “statistically significant” will occur in three years although it will remain more correlated that the CWR is now.

The impact of the GEA cuts is clear. It devastates all school districts, but predominantly school districts of low or marginal fiscal capacity and higher levels of poverty. This has been borne out through both quantitative and qualitative data.

The correlation between the GEA per enrolled student and the CWR is critical to a determination of distributional equity. To be equitable, the distribution of the GEA cuts should be highly correlated to the CWR of school districts. To be statistically significant, the correlation should be at least .7 and positive. That is, less GEA cuts should be exacted from school districts with the least fiscal capacity compared to their wealthier counterparts. However, these data do not reflect that desired correlational occurrence.
The distribution of the GEA cuts is troublesome. The chart shows three years worth of CWR data in four data sets. Displayed are the first year of state aid cuts in 2010-11, the increased GEA cuts in 2011-12 and the reduction of the GEA cuts in the Executive budget for 2012-13 and the further reductions in the enacted budget for 2012-13 as proposed by the legislature and ultimately enacted. No real measurable correlation exists for any year or in any data set. The GEA cuts formula disasterously fails the equity test with regard to distribution and fiscal capacity.

The correlation between the GEA per enrolled student and a poverty measure such as FRPL is critical to a determination of distributional equity. To be equitable the distribution of the GEA cuts should be highly correlated to the FRPL of school districts. To be statistically significant the correlation should be at least .7 and negative. That is, less GEA cuts should be exacted from school districts with the greatest amounts of poverty, as compared to their counterparts with less poverty. However, these data do not reflect that expected correlational occurrence.

The correlational distribution of the GEA cuts is obvious. The chart illustrates three years of FRPL data in four data sets. Displayed are the first year of state aid cuts in 2010-11, the increased GEA cuts in 2011-12 and the reduction of the GEA in the Executive Budget for 2012-13 and the further reductions as proposed by the legislature ultimately included in the enacted budget for 2012-13. No real measurable correlation exists for any year or in any data set. The only glimmer of hope was that the executive budget proposal was more correlated to FRPL (though not even close to statistical significance) than the previous year and pointed in the right direction. The legislature contribution to equity was to increase funds with less of a correlation to the FRPL than had existed in the past. Thus the small improvement in distribution proposed by the Executive was not only eradicated, the end result was less of a correlation than had existed in previous years. Also note that the 2011-12 increase in GEA cuts was even less correlated to FRPL than in the initial year of GEA cuts.

The GEA cuts formula fails the equity test with regard to FRPL distribution and CWR fiscal capacity. These data also suggest that the GEA is more random than Foundation Aid. That randomness results in acute per student losses of Foundation Aid from the GEA cuts that are extremely harmful to school districts dependent on state aid as those with low or marginal fiscal capacity and higher levels of poverty.

As school districts with low or marginal fiscal capacity and higher levels of poverty count so heavily on state aid, the percent of the aid they receive that is lost to the GEA cuts is important to their ability to provide a “sound basic education”. Again, one would hope to see that the percent of state aid cuts to school districts that rely on state aid the most would be less than their wealthier counterparts.

Another data set to examine is the relative impact of the GEA cuts on the Foundation Aid Formula. The GEA takes away a portion of what Foundation Aid gives to each school district. The net result is less aid than anticipated.

To review some key points:

- The reader must remember that Foundation Aid was supposed to be phased-in over a four year period based on a 2006-07 aid baseline.
- Foundation Aid began to flow in 2007-08. By the second year of the phase in 2008-09, each school district was provided 37.5% of the full phase in.
- Foundation Aid was frozen at the 2008-09 level in 2009-10 and 2010-11 (the target date for full phase-in) and again in 2011-12. It was increased for 2012-13. However, beginning in 2010-11 the state instituted state aid cuts (first the Deficit Reduction Plan, or DRA).
This was soon followed by the GEA in 2011-12 as the state aid cuts were dramatically increased. In 2012-13 there was a decrease in the level of state aid cuts in as discussed earlier in this paper.

Of particular concern is the level to which the state aid reductions have cut into the Foundation Aid revenues anticipated and counted on by school districts. Additionally, what can the distribution of these cuts and their impact tell us about that lack of continued inequity suffered by school districts of low or marginal fiscal capacity or higher levels of poverty?

The examination of the next chart shows that the impact of the GEA is clearly a massive diminishment of Foundation Aid. It is the magnitude of the cuts that matters most. School districts with the least fiscal capacity and the most dependent on state aid face an extremely difficult task to “make up” for state aid losses. Typically these school districts are forced to do one or more of three things:

- Districts can use fund balances to offset the revenue shortfall from the state aid cuts and minimize the negative impact on taxes.
- They can cut or not replace staff. This can be done through “right sizing“, if the opportunity exists. It can also be accomplished through attrition (usually defined as not replacing employees that leave service by retirement or other permanent means). The least desirable option is a reduction in force (layoffs/RIF/Riffing). The attrition method at times masks a layoff and provides the same result- less program. For example, whether a foreign language teacher is laid off or is lost through attritional retirement, the result is the same – the loss of a foreign language offering.
- Districts can reallocate staff and cut programs. These can be either part of the state and/or school district accepted curriculum (courses) by eliminating them altogether or combining classes for higher class sizes. Other options include, though not always less volatile in the community or with unions, cuts of some magnitude to remedial and/or enrichment classes and programs, co-curricular activities, interscholastic sports, field trips, events and the like.

This chart suggests that the loss of state aid on average has been, and continues to be, significant. The average loss for each of the years has never been lower than 20%. It is difficult to guess how a business, as opposed to a low-fiscal-capacity and high-poverty school district, could operate with the annual loss of at least 20% of the chief source of income. However, some school districts lost as little of 6% and others as high as 45%. The higher levels of loss, if sustained by a low fiscal capacity and high poverty school district, would be staggering to the fiscal and educational health of that community school district.

The problem is not just that the impact of the 2011-12 GEA cuts were more negative than the previous year. The continued 2012-13 loss remains even greater when compared to 2010-11, even though Foundation Aid was increased and the GEA cuts decreased in 2012-13. The increased Foundation Aid and diminished GEA cuts didn’t make a dent compared to the GEA cuts of three years prior. While the changes in the 2012-13 Foundation Aid and GEA cuts were celebrated by the Executive and the Legislature, they are far from the sufficient sum of funds required to provide an improvement needed three years ago. While it is a step in the right direction, it is too small of a step. Any gain in the total scheme of things is insignificant.

A piece of these data does offer some evidence that a measure of greater equity does exist. The weight of poverty weighs very heavy on a school district. The impact of poverty is a critical factor in the cost of education and therefore, the fiscal capacity of a school district. This chart demonstrates that there is a correlation between the FRPL (as just one measure of poverty) and the impact of the GEA upon Foundation Aid.
As we analyze this step that goes in the right direction, we refer to the sum total impact of the loss of Foundation Aid due to the GEA cuts. What is not a step worthy of celebration is the continuous lack of equity in the drive for improved fiscal replenishment provided by the 2012-13 increase in Foundation Aid and the reduction of the GEA cuts. The question of equity continues to dog the state’s initiatives to provide school districts with funds.

This “per enrolled student” chart demonstrates that a school district’s fiscal capacity still has little to no measureable correlation to the Foundation Aid/GEA cuts predicament in which they find themselves. The correlations are not statistically significant by any measure other than they exist in the right direction, that is, that to a very small degree the impact of the GEA cuts upon Foundation Aid is on occasion, but not generally, smaller on school districts with less fiscal capacity as measured by the CWR. Equity will not be achieved until this is the general condition rather than an occasional occurrence. Basically, through some other measures other than the fiscal capacity of a school district is the nexus of distribution between Foundation Aid and the GEA cuts. While another measure may be noteworthy, fiscal capacity of a school district is first and foremost at the pinnacle of criteria paramount to a school district’s survival financially, educationally and politically – and not necessarily in that order.

### The Cost to Eradicate the GEA Cuts and Provide Fully Funded Foundation Aid

As quickly as this new Foundation Aid was infused into the financial blood stream of school districts they came to rely more on that continuous and massive concoction of state aid as a major source of revenue to offset the largely unchecked escalation of desired and mandated expenses. In 2009-10 however, the third year of phase-in did not occur. Foundation Aid was frozen at its second year phase-in amount and would stay there until 2012-13. Since 2009-10 school districts appealed for an articulated state aid plan that completed the phase-in process. To date, no articulated state aid plan to compete the phase-in of Foundation Aid has been enacted into law or surfaced as a plan endorsed by the governor or either house of the state legislature. After all this time, the amount of money needed to fulfill the state’s “promise” of the full Foundation Aid phase-in that began in 2007-08, eliminate the GEA cuts and also account for a modest amount of additional expense-driven aids is daunting.

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<th>2010-11 % OF FOUNDATION AID LOST W GEA PER ENROLLED Correlation to FRPL</th>
<th>2011-12 % OF FOUNDATION AID LOST W GEA PER ENROLLED Correlation to FRPL</th>
<th>2012-13 % OF FOUNDATION AID LOST W ALL GEA PER ENROLLED Correlation to FRPL</th>
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<tr>
<td>r</td>
<td>-0.69</td>
<td>-0.71</td>
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<td>r’</td>
<td>0.48</td>
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The correlation is almost significant in two of the years shown and reached significance in one of the years. There is a general correlation that reflects that less Foundation Aid was lost by school districts due in part to a measure of poverty. This represents one of the closest and continuous correlational themes that permeate this paper. It appears that at least one measure of poverty plays a significant role in the determination of the Foundation Aid/GEA cuts nexus.

As the chart shows, the amount of immediate cash needed to institute full implementation of Foundation Aid based on 2012-13 SED data is over $5.5 billion. This is a huge sum and – based on the workings of state government – its sustainability is questionable. Calculations by the SSFC, as far back as the inception of Foundation Aid in 2007-08, arrived at an extremely similar amount. And since 2007 and
2008 attempts made by SSFC to point out this fact and explain the implications of these phenomena were met with disbelief, aversion and a degree of hostility by various state government and policy advocacy groups.

Further, the elimination of the current GEA cuts would require the immediate infusion of almost $2.2 billion into the education budget. Then with an additional annual increase of approximately $245 million in expense driven aids, the total immediate additional cost of “full funding” reaches nearly $8 billion.

These figures make “full funding” appear stunningly remote, especially when state budget deficit projections are taken into account. Moreover, how could “full funding” be accomplished and simultaneously provide equity and fairness to the distribution?

Implications of the Current State Aid Situation

Of concern to the SSFC is not only what has occurred vis-à-vis state aid to school districts, but what is going to happen in the future. In short, does the state have a plan to get school districts to the 2010-11 “promised” level of fiscal support? Absent a plan there is no choice but to calculate the current – or at least most recent – rate of change in Foundation Aid and the reduction of GEA cuts. That calculation is actually rather simple. This year (2012-13) Foundation Aid increased by about $112 million and $400 million was used to restore cuts contained in the GEA. Using only the 2012-13 direction and rate of change (the first in four years) it would take 50 years to get to the “promised” amount of Foundation Aid, as calculated in the state aid spreadsheet DBSAD1, Column W(FA0001) 00 FOUNDATION AID BEFORE PHASE-IN. Further, it would take six years to eradicate the GEA cuts as calculated from the state aid spreadsheet DBSAA1 column AA(FL0026) 00 2012-13 GAP ELIM ADJUST ON BT1213 and column AB(FL0027) 00 2012-13 GAP ELIMINATION ADJMT RESTORATION.

It is obviously absurd to wait 50 years for “full funding” of Foundation Aid (given the current rate of improvement and without regard to distribution). Equally impractical is the notion that it will take six years to eradicate the GEA cuts at the current level of reduction (again without regard to distribution). There is no doubt that these data underscore the extreme lack of reality being employed to achieve “full funding”, fulfilling the “promise” of Foundation Aid, or even some degree of movement toward a more equitable and fairer distribution of state aid to school districts. The system simply does not have the monies needed – nor does a plan exist – to provide for the immediate implementation of state actions that will result in a sound fiscal arrangement for state support of public schools.

This research identifies two compelling reasons for the state to not fully fund the existing Foundation Aid Formula. First: If it is fully funded, money will continue to be “skimmed off the top” to fund those school districts that need it much less at the expense of higher need school districts. This would unfortunately continue to be accomplished due to the basic congenital inequities of the Foundation Aid formula and the absurdities of the distribution of High Tax aid and Administrative Efficiency Aid as noted later in this paper. Second: It would maintain the artificially created and politically motivated “shares agreement” that has been well documented in previous SSFC publications (See “State Aid Formulas & NY Senate Not Making the Grade for Our Schools, Children & Communities” at: http://www.statewideonline.org/ConfSept2012.html.) Both of these reasons are grounded in the inequity of the current Foundation Aid formula. To fully fund a seriously flawed, inequitable and state budget-busting formula makes no sense. Therefore, a new, equitable and sustainable formula is required.
Funding the Current Foundation Aid Formula vs. Funding a New and Equitable Foundation Aid Formula

There are numerous problems – from both policy-making and political perspectives – with the concept of moving toward full ("Promised ") Foundation Aid funding under the current formula. From a cynical viewpoint, a case can be made that the development of the original Foundation Aid formula was purposefully developed to be excessively complicated; and that the stated goals behind the creation of the formulas in 2007-08 – to make state aid more understandable, flexible and equitable – were actually modified at inception to be dense and thereby be protective of perceived and created political turf, power and influence. Power in this regard can be clearly identified as self-serving, self-perpetuating and filled with unfairness, partiality and excess. Moreover, such power artificially creates as a disguise a “will of the people” façade, rather than authentic advocacy and representation to meet the real needs of people. Ironically, these character traits are identical to the ones that school districts are required to teach students to avoid, expose and reject as part of the state-mandated State Education Department Character Education curriculum.

From strictly policy and economic perspectives, no independent researcher has yet identified or found a positive correlation to state Foundation Aid per student that is genuinely significant statistically to be called fair, equitable, predictable or appropriate based on both fiscal capacity wealth and poverty measures of school districts statewide. Data in this paper has suggested the opposite to be true, as has data researched by the New York State Council of School Superintendents (NYSCOSS), the of Rural Schools Association (RSA), and Prof. Bruce Baker at Rutgers University (see papers published by Dr. Baker online at - http://schoolfinance101.wordpress.com/), among other experts.

The result of all of this research clearly demonstrates that the current Foundation Aid Formula is inequitable as it does not appropriately distribute aid to school districts to meet the fiscal capacity and poverty needs of the communities they serve. Rather, these numerous studies concur that GEA cuts actually make matters worse for school districts of lower fiscal capacity and higher poverty than their wealthier counterparts.

Interestingly, in the spring of 2012 more than a dozen state senators were signatories of a letter to the Governor that acknowledged the inequities in state aid to school districts and asked the Governor to lead in the enactment of a more equitable distribution of state aid to school districts. The affirmation by these legislatures was gratifying, as was the Governor also going publically on the record that state school aid distribution is inequitable. These developments resulted from relentless data-driven pressure by stakeholders armed with evidence that unarguably unmasks the annual politically-motivated state aid scam. The Statewide School Finance Consortium played the lead role in this initiative and was joined by other partners including NYSCOSS and RSA.

The amount of money needed to fulfill the state’s “promise” of the Foundation Aid phase-in that began in 2007-08, eliminate the GEA cuts, and also account for a modest amount of additional expense-driven aids is daunting. The SSFC was and continues to be concerned that school districts rely on the “promise” of full implementation without an understanding of the state’s periodic and long term fiscal conditions that influence the state’s ability and desire to move toward a fully funded Foundation Aid formula.

Moreover, there appears to be a misguided belief by school districts that the metrics placed into the formula, as they are updated to reconstitute the fully aided amount, would always yield the amount of fully funded Foundation Aid as was first envisioned in 2007-08. That amount came to be expected. Despite that belief, data that makes up the actual formula is continuously updated in internal spreadsheets. These data “inputs” of enrollment, levels of poverty, property wealth, income measures, and other are constantly changing. If fact they have been changing since the 2007-08 inception of Foundation Aid. Yet, the legislation that identified the amount of Foundation Aid to each district starting in 2009-10 remained unchanged (frozen) at the actual 2008-09 amount. That amount ignored the updated “inputs” placed in internal spreadsheets and into the formula, and thus remained unused and unexposed by the state’s policymakers and lawmakers.
Thus, there is a large gap between the amounts of aid school districts believe they will secure when Foundation Aid is fully funded and what the updated Foundation Aid formula stipulates as the amounts actually payable to each school district. The difference between these two calculations is shocking. This is especially true if the Foundation Aid full phase-in is based on updated 2012-13 SED data. Additionally, it would appear that many school districts are over-funded. If so, the question of the status of “save harmless” emerges. (“Save-Harmless” is the concept that a school district would not experience a diminishment of state aid should it be found to be “over-funded” through some circumstance. The maintenance of effort that ensues becomes part of the overall state aid funds statewide and makes the cost of the aid higher than if the save harmless provision had not existed and has the potential to then limit access to aid by other school districts as the amount of state aid is finite.)

The continuance of “save-harmless” provisions is usually expensive and may not reflect the desired equity goals a formula was created to provide. Additionally, there is a question about the possibility for future periodic increases to state aid and it must be dealt with. For instance, if there was a guaranteed 3% minimum increase in aid would “save-harmless” school districts be eligible for it and further increase the cost of the aid boost or perhaps diminish the amount of the overall increase to other school districts to meet a dollar target?

“Save-harmless” is a legitimate concern. The reason is that 138 school districts (20.4%) have already achieved or exceeded full funding under the Foundation Aid formula according to State Education Department computations based on updated data and the Foundation Aid formula metrics. This is largely due to updated enrollment, student demographic and school district wealth data (As per Foundation Aid, as calculated in the state aid spreadsheet DBSAD1, Column W(FA0001) 00 FOUNDATION AID BEFORE PHASE-IN and compared to current Foundation Aid amounts in state aid runs).

The current result of this tainted Foundation Aid formula is that some school districts are “hypothetically” already fully funded in 2012-13 and that some of these districts were even fully funded by 2011-12. Consequently, based on the 2006-07 published Foundation Aid targets for 2010-11, some school districts are in fact “over-funded”. This phenomenon exists because the metrics for calculation of Foundation Aid has remained unchanged, except for a small modification in 2012-13. Yet the “inputs” discussed earlier–have changed for every school district. Because these inputs have changed – significantly for many school districts – the target amount for 2010-11 has been replaced by the formula updates based on the new “inputs”. It can be said the original Foundation Aid 2010-11 target as “moved” as “inputs” were updated. This has nothing to do with the fact that the original aid was frozen at its 2008-09 amounts that reflected, hypothetically, 37.5% of the 2010-11 target amounts that were payable to each school district based on 2006-07 data. Nor the fact that that condition remained, by Education Law per the enacted state budgets, stagnant until minor changes in 2012-13 resulted in a paltry increase that actually made the equity issue worse.

The issue of “over-funded” implies that these school districts have already been held as “save-harmless” – that no diminishment of their aid was made. These schools simply receive the same aid as in the past whether or not they are eligible for it based on the new inputs. This situation presents several complications. For instance, should future Foundation Aid include a “save harmless” provision? If so, is the cost sustainable? Or is such a plan equitable? Would these same “save-harmless” school districts calculate out to a “save harmless” status if the Foundation Aid formula was more equitable? What is the cost of such “save-harmless” provisions in the immediate and long term future? How will any “save harmless” provision be paid for? Would additional monies be allocated to the Education Budget or would any additional cost come out of the same finite “in law” Education Budget?

But like all things state aid, the Foundation Aid predicament is complicated and a solution remains elusive. The following scatter plots illustrate the predicament. In particular, school districts have experienced enrollment declines, increased wealth metrics – that are often based on no real change in school district wealth, but rather state aid wealth averages in comparison to the wealth measures of individual school districts over the most recent years, and the introduction of such “innovations” as
Administrative Efficiency Aid (a noteworthy misnomer) and High Tax Aid (a good idea gone terribly wrong); both of which will be further scrutinized later in this paper.

The continued disregard for these congenital and easily identifiable problems has established, as noted, ever greater inequities. This leads to a serious problem for which no remedy has been identified by the legislature or the executive. What will a “fully funded foundation aid formula” look like? While the existing equitably flawed formula continues in place this problem will remain unsolved until the formula itself is corrected for equity and funds are redistributed accordingly.

It must be understood that there may just be a number of “wealthy” school districts for which no logical Foundation Aid formula can produce an appropriate distribution. This may be due in great part to significant differences and disparities between at least these variables; income wealth, property wealth, measures of poverty. For instance as single school district may possess low income residents, very high property values and a high or low amount of poverty simultaneously. Currently there are a number of “flat grant” school districts for which the Foundation Aid formula does not work. Perhaps it must be realized that a single unified formula will not work under certain circumstances.

Additionally, it must also be recognized that a Foundation Aid formula that is equitable may not provide additional funds to some school districts. This does not mean a school district must be denied all Foundation Aid, but that any alteration to the current aid amounts may be extremely small or nonexistent. To manipulate a formula otherwise would fly in the face of the purpose of an actual Foundation Aid formula based on need and fiscal capacity.

To be properly constructed, a Foundation Aid formula must be based on the baseline amount of money needed to educate each student. This amount of money must therefore take into consideration not only enrollment and attendance figures, but also the educational and educationally related needs (e.g., numbers and levels of disability of students educated in the school district). Further, a narrow regional cost factor can be applied and deference given to student demographic characteristics that include such considerations as grade level measures of poverty and population density and scarcity.

Further, prior to any aid given to a school district, its capacity to pay school taxes needs to be determined based on income and property wealth measures. There must be a set standard for each school district detailing its contribution to the education of its own children. This standard has always been emphasized by Statewide School Finance Consortium. The current formula includes the general principles of these standards, but formulaically alters options for school districts – particularly higher fiscal capacity and lower poverty school districts – to migrate to optional formulae and thereby avoid the appropriate “tests’ that determine the proper amount of state aid they should receive. (This is done with the use of multiple and manipulated “sharing aid ratios” to be discussed later in this paper). This is a major reason why the Foundation Aid and GEA cuts formulae break down when measured against a reasonable amount of equitable distribution.

Foundation Aid, in the end, must demonstrate a strong correlation between per-pupil aid and local fiscal capacity and student needs. This can be accomplished and measured using two easy to understand correlations: CWR and Foundation Aid per student; and FRPL and Foundation Aid per student. The correlational distribution of Foundation Aid to these two school district variables is important. It shows who gets how much. The formulae themselves answer the “why”. The formulae are written under the guidance of and ultimately the approval of state elected officials.

But the distribution of Foundation Aid, when fully funded, is not correlated to the CWR or FRPL. It should be clear by now that that distribution of Foundation Aid, as originally planned, or as updated inputs replace old inputs, seems to avoid two of the most critical factors of school finance: a school district’s ability to sustain its own fiscal base in the absence of an appropriate distribution of state funds; and, the level of poverty possessed by students and their families, which weighs heavily on the ability to finance and support available and successful educational programs. No matter how one measures Foundation Aid, its current amount and portioned distribution – or even at full distribution at its new calculated cost – equity doesn’t seem to fit in.
The chart at left drives this point home. It illustrates the correlation between various CWR and FRPL data sets to a fully funded Foundation Aid formula. There is, again, no correlation of any statistical significance. Any correlation thought to exist is simply marginal at best. Again, these data reveal that the CWR, a school district’s fundamental tax capacity as a measure of its income and property wealth, fails to register as a major factor of Foundation Aid. And Foundation Aid, for low wealth and marginal wealth school districts determines their ability to educate their children to New York State’s standards.

This isn’t statistical gibberish. Only two scatter plots are needed to support the conclusion revealed in the previous chart. The first scatter plot directly below illustrates the variation and dispersal of fully funded Foundation Aid for all school districts with a CWR up to 1.4. This captures data on low, average and a little above average fiscal capacity school districts. The percentage range on the scatter plot goes from 0% to 300% funded.

Clearly the school districts on the scatter plot form an accumulation of school districts between .20 CWR that starts to disperse around .75 CWR. The school districts accumulate at this level because there are so many school districts in that range.

More importantly the accumulation of school districts is generally horizontal but it does have height. The height range is large, approximately 50% (from 50% to 100%). Height measures the variation within the CWR variable. These are the levels of Foundation Aid based on the fully funded amount for each of those school districts. If CWR is so critical to Foundation Aid, why there such height to the accumulation of school districts along the range of the CWR continuum? Clearly, other variables are at work other than the CWR. So much so that the CWR influence is practically nil.

Additionally, it should be noted that as the accumulation of school districts disperses toward the 1.4 CWR range the height of the distribution becomes taller. If lower CWR school districts were to reap the greater benefit of the distribution of state aid in the 2012-13 state budget, then the school districts of lower wealth (the left side of the scatter plot) would have higher percentages than the wealthier school districts (on the right side). The result of this variation and distribution is a correlation of .24 (shown in the previous chart) – meaning that there is practically no correlation.

Moreover, it is important to describe the attributes of the school districts that are over-funded based on the Foundation Aid formula. As noted in data presented earlier in this paper, a total of 138 school districts are over-funded by current formula and of that dataset 64 (9.5% of all school districts) have CWRs under 1.4; 40 (6% of all school districts) of the dataset districts have CWRs of 1.0 or less and 16 (2.4% of all school districts) have CWRs of .75 or less. These are all average to below average wealth school districts, waiting on the promise that they will be “fully funded” at some point in the future. The unfortunate reality is, they are already fully funded now or over-funded based on the formula. The increase in Foundation Aid enacted in the 2012-13 budget ignored this fact and has actually created a
“save-harmless” provision with a “guaranteed minimum increase” regardless of the Foundation Aid formula. Thus, the Foundation Aid formula does not currently function, nor did it ever really function last year. This evidence would suggest it never fully functioned.

The next scatter plot looks at the remaining CWR levels. This scatter plot illustrates the variation and dispersal of fully funded Foundation Aid for all school districts with a CWR beyond 1.4. It captures data on above average to very wealthy school districts with large to enormous fiscal capacity. (Note that the CWR range is from 1.4 to 44.96.)

Again, the school districts on the scatter plot form an accumulation of school districts between 1.40 CWR that starts to disperse around 3.4 CWR. The school districts accumulate here because there are so many school districts in that range. Also note the increased percentage scale (now up to 2,100%). This is displayed so that all school districts would be represented between data in these last two CWR scatter plots.

This accumulation of school districts does have height. However, the height range is large, around 150% (from 49% to 200%). Height measures the variation within the CWR variable. These are the levels of Foundation Aid based on the fully funded amount for each of those school districts. Note how the percentage of fully funded is significantly over 200% for school districts on a sizeable portion of the scatter plot. Further, note that the percentage of over-funding seems to increase with the CWR once the CWR passes about 3.0. Again, other variables are at work than the CWR; so much so that the CWR influence is practically nil for these high wealth school districts.

This subset (school districts with CWRs over 1.4) is made up of 126 school districts (18.6% of all school districts). Of these 126 school districts, 71 (58.7% of this subset) are at or over 100% Foundation Aid funded, and 34 (about 27% of this subset) is beyond 200% over-funded in Foundation Aid. This leaves only 18 (about 14.3% of the subset) under-funded in Foundation Aid. These are all above average to very wealthy school districts.

For these wealthy school districts the recent increase in Foundation Aid in the enacted 2012-13 budget ignored the fact of over-funded wealthy school districts and has created a “save-harmless” provision with a “guaranteed minimum increase” for wealthy school districts regardless of the Foundation Aid formula. Thus, the Foundation Aid formula does not currently function, nor did it really function last year. Save harmless provisions and guaranteed minimum increase have proven to be expensive and difficult to control as a fiscal practice.

The important questions raised by these data are: Why are such wealthy school districts so over-funded by the Foundation Aid formula in the first place? And, why does this practice continue? State funds are finite and lower wealth school districts have endured much over the last three years. No matter what the amount in dollars the over-funding represents, state aid funds would find a more equitable and fairer home in the hands of much less wealthy school districts.

Perhaps there is evidence here that some school districts, due to their wealth, must actually be provided with some modicum of state funds outside of the common Foundation Aid formula that was designed
for every other school district. The basis and amount of such aid is yet to be researched, discussed and determined.

The use of FRPL as one measure of poverty is also illustrative in the fully funded Foundation Aid context. This scatter plot illustrates the variation and dispersal of fully funded Foundation Aid for all school districts with a FRPL up to .25. It captures data on low poverty school districts. Note that there are 11 school districts with 0% FRPL and a total of 20 school districts with FRPL below 1% in New York State (1.6% and 3% of all school districts respectively). The percentage range on the scatter plot goes from 0% to 300% funded.

This scatter plot shows that in this subset of 223 school districts with relatively low poverty to low-to-no-poverty, as evidenced by a FRPL of less than .25 (33% of all school districts), 50 (22.4% of the subset and 7.4% of all school districts) are over-fully funded if the Foundation Aid formula were to “run”. Additionally, 18 (8.1% of the subset and 2.7% of all school districts) are over-fully funded in Foundation Aid by 150% or more, even though they have no or marginal poverty.

Again, illustrated by the last chart, there is no correlation between FRPL and fully funded Foundation Aid. This is an alarming development as over-fully funding some of these school districts from a finite amount of funds will only serve to deprive needier school districts of some amount of funds. The more needy school districts and the neediest among them need every penny they can get to maintain fiscal stability and education programs.

To complete the analysis the next scatter plot illustrates the predicament of the higher to highest poverty school districts. This scatter plot represents the rest of the school districts in New York State. The range on this scatter plot only goes to 1,400% of fully funded Foundation Aid. There are 453 (67% of all school districts) in this subset. A total of 28 school districts fully funded at or above the 150% level. That represents 6.2% of the subset and 4.1% of all school districts.

Additionally, there are 86 school districts (19% of this subset and 12.6% of all school districts) that are at the fully
funded Foundation Aid level or above it. The shame is that there are 17 school districts that are over-
fully funded and have 50% or more of their student eligible for FRPL. That is 3.8% of the subset and 2.5%
of all school districts respectively.

Moreover, there are another 35 school districts (7.7% of this subset and 5.2% of all school districts) that
are within 90% of full funding. In total, for the subset that has a FRPL count above .25, there are 121
school districts (26.7% of this subset and 17.9% of all school districts) that are at or above 90% full
Foundation Aid funding based on updated inputs. That’s about one out of every 5.6 school districts in
New York State. There are also a significant number in the high 80% range as well.

All of these school districts are probably under the impression that they are due significant additional
funds from Foundation Aid in large part due to their significant poverty percentages. However, that is
not the case. Again there is no statistically significant correlation between any of these school districts
and the ability to garner more Foundation Aid due to their current levels of poverty as measured
by FRPL. It is easy to see even without the use of statistics that almost all of the school districts in
this subset are at similar points of fully funded Foundation Aid – whether they have FRPL levels of .30 or .85.

Such results make no equitable sense. This is another development that must be viewed with alarm. As
over-fully funded and lower poverty level school districts garner more funds, higher poverty level school
districts lose out. When funds are finite monies must serve needier school districts first and foremost.
After three years of state aid cuts, the loss of federal funds and various other fiscal losses endured by
the more needy school districts, the neediest among them deserve and need every penny they can get
to maintain fiscal stability and education programs.

If these data aren’t enough to make the case, the table below illustrates the overall distribution of fully
funded Foundation Aid. It shows the distribution of the 2012-13 Foundation Aid as a percent of the fully
funded Foundation Aid based on current formula and updated inputs.

<table>
<thead>
<tr>
<th>W(FA0001) 00 FOUNDATION AID BEFORE PHASE-IN</th>
<th>Number of Districts</th>
<th>% of All Districts</th>
<th>CWR Average</th>
<th>CWR Median</th>
<th>CWR Min</th>
<th>CWR Max</th>
<th>FRPL Average</th>
<th>FRPL Median</th>
<th>FRPL Min</th>
<th>FRPL Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently at 100% or better</td>
<td>138</td>
<td>20%</td>
<td>3.15</td>
<td>1.45</td>
<td>0.42</td>
<td>44.96</td>
<td>0.30</td>
<td>0.33</td>
<td>0.00</td>
<td>1.04</td>
</tr>
<tr>
<td>Currently between 99% &amp; 95%</td>
<td>22</td>
<td>3%</td>
<td>0.79</td>
<td>0.63</td>
<td>0.50</td>
<td>2.45</td>
<td>0.40</td>
<td>0.41</td>
<td>0.00</td>
<td>0.58</td>
</tr>
<tr>
<td>Currently between 94% &amp; 90%</td>
<td>41</td>
<td>6%</td>
<td>0.73</td>
<td>0.71</td>
<td>0.48</td>
<td>1.35</td>
<td>0.35</td>
<td>0.35</td>
<td>0.05</td>
<td>0.66</td>
</tr>
<tr>
<td>Currently between 89% &amp; 85%</td>
<td>64</td>
<td>9%</td>
<td>0.74</td>
<td>0.62</td>
<td>0.36</td>
<td>2.29</td>
<td>0.34</td>
<td>0.36</td>
<td>0.00</td>
<td>0.72</td>
</tr>
<tr>
<td>Currently between 84% &amp; 80%</td>
<td>68</td>
<td>10%</td>
<td>0.73</td>
<td>0.62</td>
<td>0.19</td>
<td>2.33</td>
<td>0.37</td>
<td>0.39</td>
<td>0.01</td>
<td>0.70</td>
</tr>
<tr>
<td>Currently between 79% &amp; 75%</td>
<td>93</td>
<td>14%</td>
<td>0.64</td>
<td>0.57</td>
<td>0.28</td>
<td>2.02</td>
<td>0.39</td>
<td>0.41</td>
<td>0.02</td>
<td>0.83</td>
</tr>
<tr>
<td>Currently between 74% &amp; 70%</td>
<td>95</td>
<td>14%</td>
<td>0.75</td>
<td>0.60</td>
<td>0.32</td>
<td>2.37</td>
<td>0.37</td>
<td>0.34</td>
<td>0.00</td>
<td>0.82</td>
</tr>
<tr>
<td>Currently between 69% &amp; 65%</td>
<td>66</td>
<td>10%</td>
<td>0.68</td>
<td>0.51</td>
<td>0.22</td>
<td>1.90</td>
<td>0.40</td>
<td>0.45</td>
<td>0.01</td>
<td>0.89</td>
</tr>
<tr>
<td>Currently between 64% &amp; 60%</td>
<td>42</td>
<td>6%</td>
<td>1.13</td>
<td>1.04</td>
<td>0.25</td>
<td>2.30</td>
<td>0.29</td>
<td>0.24</td>
<td>0.01</td>
<td>0.72</td>
</tr>
<tr>
<td>Currently between 59% &amp; 55%</td>
<td>25</td>
<td>4%</td>
<td>1.25</td>
<td>1.29</td>
<td>0.30</td>
<td>2.12</td>
<td>0.29</td>
<td>0.12</td>
<td>0.00</td>
<td>0.81</td>
</tr>
<tr>
<td>Currently between 54% &amp; 50%</td>
<td>12</td>
<td>2%</td>
<td>1.44</td>
<td>1.50</td>
<td>0.39</td>
<td>2.19</td>
<td>0.16</td>
<td>0.10</td>
<td>0.00</td>
<td>0.68</td>
</tr>
<tr>
<td>Currently below 50%</td>
<td>10</td>
<td>1%</td>
<td>1.23</td>
<td>1.19</td>
<td>0.44</td>
<td>1.84</td>
<td>0.32</td>
<td>0.27</td>
<td>0.00</td>
<td>0.85</td>
</tr>
</tbody>
</table>

The wide variations within each subset are reflective of the non-correlational aspects of Foundation Aid
to both CWR and FRPL as measures of the need for Foundation Aid in the first place. Note that there is a
consistent trend of low CWRs (CWR min) and Low FRPLs (FRPL min) at every funding level. Such a
circumstance plainly makes no sense in terms of equity. The more the chart is analyzed the more the
inequities are revealed.

No amount of explanation can justify the large swings in these descriptive statistics other than to say
that Foundation Aid – as a “needs based formula” used to create and maintain an equitable distribution
of state aid simply does not work. And even if Foundation Aid were to suddenly become fully funded
and current, many needy school districts would nonetheless be extremely hard pressed to maintain
fiscal and educational solvency.
Other Aid Issues: “Skimming Off the Top” Continues

High Tax Aid
The political machinations used to alter the Foundation Aid formula and thereby reach a legislative consensus was significant. Some assessments of the 2007-08 and the 2008-09 Foundation Aid formula point to the maintenance of the “shares agreement” that was mentioned in the Overview and elsewhere our December 2011 report. Modifications to the state aid plan have been a continuous process in Albany. One case in point was the creation of “High Tax Aid.” High Tax Aid continues today and is present in the state aid budget for 2012-13.

As its name would imply, High Tax Aid was intended to address high property taxes. Poorer school districts have low incomes and property values and thus less “tax capacity.” Property taxes in these communities are usually comparatively high even to fund modest educational programs. However, in many cases the “high taxes” paid by wealthier school districts are the result of a community decision to fund expansive and expensive school program offerings, lower class sizes, advance college placement programs and other enrichments over and above what the state mandates that less wealthy school districts cannot afford to provide. State aid to school districts is a finite sum. Therefore, for the wealthiest school districts High Tax Aid supplements the costs of their expensive extra programs while it denies fiscal resources that could be reallocated to the neediest school districts.

An analysis of High Tax Aid conducted in 2008 by SSFC concluded that it was in part basically a “workaround” for high wealth and “high tax” school districts regardless of the reasons for program costs. The intention of the aid, “as advertised”, was to assist those school districts of average and below average wealth that generally possess ordinary programs whole with significant tax burdens. It was done with the creation of a three-tiered system capped by a final category called “due minimum” that provided more opportunities for wealthy school districts to circumvent the original goal of the aid category.

The 2008 analysis of the high tax aid formula reveals a sinister approach. With each successive tier numbers of school districts considered wealthy by any measure were included as an eligible recipient of the aid. For instance, in the tier three test, a school district needed a Regional Cost Index (RCI) greater than 1.3 to be eligible. That would limit Tier Three to wealthier downstate school districts as only downstate school districts have a RCI of 1.3 or higher. Further, 60 school districts not eligible for any of the regular “tiers” of aid received as high tax aid under the provision of the “due minimum.” There were 17 school districts that were eligible for 50% of the allotment using this mechanism; four had CWRs higher than 2.20 but below 3.0; six were between 3.0 and 4.0; one was between 4.0 and 5.0, one between 9.5 and 10.0; one between 10.5 and 11.0, three between 20.0 and 30.0 and one above 40.0. Clearly all of these are wealthy districts, which makes a compelling case that the creation of a formula like this wasn’t accidental. Indeed, this is a scheme where money is directed to wealthy school districts as it is skimmed from the total state aid fiscal structure. The same structure exists in current aid distributions as it did in the 2008 analysis.
Even the first criteria for High Tax aid eligibility, the Tax Ratio is flawed. The Tax Ratio is a measure of tax effort by finding the ratio of the residential tax levy (with condominiums) as divided by gross income as a set minimum, but arbitrary level. This measure is also flawed because the numerator includes taxes paid by vacation home owners but the denominator does not include income of vacation home owners. Their income is reported in the school district where their primary residence is located. This inflates the measure for school districts with a high concentration of vacation homes (even if the actual residents have low income levels). It also understates the tax burdens for school districts with high numbers of renters. In this case the taxes paid by residents of multifamily dwellings are not included in the numerator but the income of renters is included in the denominator. Such logical flaws are infused into state aid formulas by design not by mistake.

While there is merit in the notion of High Tax Aid, SSFC questions whether such aid should be granted to school districts with CWRs above 1.5. After 1.5 the money is utilized for enrichment not for a “sound basic education.” State funds were never intended to be used for enrichment. Enrichment is solely a taxpayer responsibility. If a school district is wealthy enough to desire these enrichment items then they have an obligation to pay for them.

Administrative Efficiency Aid

A newer state aid creation was an attempt to reward efficiency. It doesn’t and it won’t. The aid formula for the school year 2012-13 entitled “Administrative Efficiency Aid” was anything but.

Currently there are school districts in which the superintendent is also the school business official and the principal, yet – astonishingly – the school district is not eligible for administrative efficiency aid. There are school districts that have practically jettisoned their entire administrative staff, yet no aid has been forthcoming.

Moreover, no school district with less than 1,786 students receives the aid. There are few poor school districts with more than 1,786 students, although they do exist. This threshold, whether artificially or accidentally created ignores a significant body of research about the productive qualities and performance of small schools throughout the country.

Further, our analysis of these data suggests that Administrative Efficiency Aid does not reward or punish administrative efficiency. Almost no school districts with a CWR beyond 1.5 are eligible for
Administrative Efficiency Aid.

One is left to wonder whether or not this aid category would actually entice school districts to become more administratively efficient. This is especially true if they enjoy what wealthy school districts have: a CWR above 1.5; less of an impact on their budgets and levies due to GEA cuts per student; tremendous taxing capacity due to a large amount of income and/or property wealth; significant reserves; and considerable upper level programs and offerings at all grade levels. Such districts actually may not desire to change through unattractive reductions, decrease the number of administrators, eliminate or share positions and duties or alter pay scales to demonstrate greater financial efficiency. For them the aid threshold may be too high and thus unattractive to be an incentive as to warrant or encourage a change. Besides, there is no penalty for school districts like these to remain inefficient.

Further, the new laws and regulations for the Annual Professional Performance Review (APPR) cause school districts to maintain as many administrators as needed to accomplish the new human resource and budget costly unfunded mandate.

The GEA State Aid Cuts Remain

The distribution of aid cuts per student is clearly visible when one looks at the county scatter plot below. The scatter plots are color coded. The columns in red are the counties with the loss of state aid in the GEA cuts above average. All of these counties lost over $800 or more per student (Suffolk County being the lowest in the above average category at $804) to a high of $1,798 in Wyoming County. The statewide average aid cut per student is $794, down from a high of $937 for 2011-12. Over the last few years the area of the greatest cuts is in largely rural or suburban Upstate areas and four of the Big 5 cities: Buffalo, Rochester, Syracuse and Yonkers.

Per student aid losses in counties in blue were below the state average. Westchester, Nassau, Rockland, NYC and Putnam Counties lost the least at $456, $566, $653, $662, $664 respectively. Clearly, these counties did well when compared to any of those in red.

Historically the cuts began to effect parts of these counties with greater intensity in the 2011-12 school budget cycle. Although parts of Long Island, the northern suburbs and counties of New York City have pockets where significant cuts exist, the school districts in these areas have been largely unscathed in comparison to the rest of the state.

Aggregate county statistics conceal inequities within counties. As revealed earlier in this paper, the counties that lost the least per student in GEA cuts for 2012-13 contain three dozen or more school districts that fared far worse. There must be a recognition that these counties are not monolithic and that considerable equities exist within them. On this point, SSFC hopes that the negatively affected school districts will call out the inequity in the clearest terms.
The determining factor once again is wealth. Those school districts with the lowest or lower wealth lose more per child in aid and are more state aid dependent as they lack the community fiscal capacity to exist without the aid. The dilemma arises when wealthier school districts endure marginal impacts on their overall school district budgets and levies with their aid cuts while less wealthy school districts endure significant impact on their local budgets and levies.

Problems with the Foundation Aid Formula - Changes Must Be Made to Create Greater Equity.

Problems with the Foundation Aid formula begin with the use of synthetically weighted and truncated metrics that tend to maintain, create or at least foster inequities. A fully funded Foundation Aid Formula is not what is desired by the SSFC. An analysis of the Foundation Aid formula reveals significant flaws that divert funds to high wealth school districts. Below are some recommendations for changes to the current Foundation Aid formula that would create and maintain greater distribution equity. Such discussions should begin now before more money is drained from de facto “save harmless practices” rather than real reform.

1.) Income Wealth Index (IWI)

IWI has a floor of .65 in the Foundation Aid formula. This means that school districts having Income Wealth Index below .65 (roughly only two-thirds the wealth of an average wealth school district) are treated as if their Income Wealth were .65 (45% of all school districts). There are 304 school districts in the 2012-13 state aid runs that have an IWI less than .65. Assistance to these “neediest of the needy” is therefore essentially truncated with no deference to their plight. This seriously disadvantages the poorest school districts in the state. If poorer school districts’ actual IWI was used in the Foundation Aid formula more aid would flow to the poorest school districts.

Additionally, the IWI ceiling for this formula is 2.0. It is unknown why aid should be driven to school districts with an IWI at that level. One would think that if the target of such aid was below average and average wealth school districts, especially in consideration of an income index, the maximum should be
in the 1.3 to 1.4 range to allow for fluctuation over time and to ensure the goal of the aid is on target.

The scatter plot highlights that those denied access to assistance with the IWI portion of the state aid formula are among the poorest school districts in the state as the scatter plot below shows. Many fall far below the floor of .65 and fall into the .20 to .60 range. A few can fall below .20 and are basically financially destitute. However, based on the loss of the IWI floor and the current the financial yield for the poorest among them would be significant based on their needs and current fiscal condition.

The county bar chart points to the general yet relative geo-political nature of the aid mechanism as compared to the need for a more demographic egalitarian approach. The counties with the greatest number of school districts currently ineligible for aid under the IWI portion of the Foundation Aid formula are noted on the scatter plot above.

That any school district is denied this aid because they are “too poor” is beyond belief. Further, that this condition has been perpetuated since the 2007-08 school year by three governors, a majority-stable Assembly and during a time period when both parties had a chance to fix it in the Senate is incredulous and speaks volumes about politics in New York State compared to the needs of children and taxpayers.

There have been a few legislative initiatives to change this formula. None have seen the light of day and the problem remains unsolved.

2.) Local Tax Effort

The current Foundation formula contains a calculation intended to require a minimum local tax effort. However, it is not allowed to work as intended. The intended Local Tax Effort test is circumvented by four “sharing ratio” tiers that allow wealthier school districts to select the tier that most beneficially generates aid not intended to go to wealthier school districts in the preceding portions of the Foundation Formula. Further, while wealthy school districts may have $1 million or more behind every student in tax levy capacity, low wealth school districts may only have about $200,000 in tax levy capacity behind each child. The capacity to levy taxes to create or sustain program and opportunities for student therefore varies tremendously between high wealth and low wealth school districts.

The Local Tax Effort section of the Foundation Aid formula that exists today is only a shadow of the originally intended concept. While the 2007 Foundation Aid proposal advanced by Governor Spitzer included many of the elements from the Board of Regents “Successful Schools” model for Foundation Aid, substantial changes including but not limited to the inclusion of “State Sharing Ratios” became part of the formula. These “ratios” were intended to drive funds to school districts that lost some measure of support under the new Foundation Aid plan. Moreover, other formulas were altered to also redirect funds to school districts that did not do well under the new mechanisms that originally attempted to make the formula more equitable.

3.) Measures of Poverty

The relative value of the Free and Reduced Lunch Program (FRPL) and Extra Ordinary Needs Students (EONS) counts is muted under the current Foundation Aid formula. Poorer school districts are disadvantaged by this metric and thus do not receive the amount of aid needed to educate these children with special needs. Many low wealth school districts have significant immigrant populations, most of these students are designated as English Language Learners (ELL). These children must become an enhanced metric used to drive aid to these school districts. (A single shining light with this concern is that these measures were given more weight under the Restoration of Aid in 2011-12 GEA.) These measures operate best when they are in balance with other modifications to the Foundation Aid Formula.

4.) Administrative Efficiency Aid

The formula for Administrative Efficiency Aid makes it impossible for smaller school districts (regardless of their demographics, geography or topography) to be eligible for this aid. The measure of economy of
scale is too high for all but the largest school districts to meet. This report has already discussed the mechanics and erroneous assumptions behind this impractical and useless aid category. The monies attributed to this aid would better be spent elsewhere to support more needy school districts.

5.) The Regional Cost Index

The current Regional Cost Index is too large and inappropriate. It is used to send more money to wealthier portions of the state. We believe the Geographic Cost of Education Index (GCEI, Chambers, 1997) would be a better and broadly based index to use.

The use of an index increases state aid to a school district by multiplying the index number by some other metric. If the index is large the poorest regions are always 1.0 and everyone else is simply higher due to such things as higher standard of living costs. In effect, the larger the index the greater the number used to multiply against some metric. If the index has a range of 22 points (For example, 1.0 to 1.22; where the resultant figure would look like 1.22 times “x” for the region with the highest index number) it would yield a certain result for higher standard (cost) of living regions. Yet if the index was larger, say 44 points (For example 1.0 to 1.44; where the resultant figure would look like 1.44 times “x” for the region with the highest index number) the resultant computation would be even higher; significantly higher. Thus, in an effort to maintain the standard of living of the wealthiest regions monies are allocated through this part of the formula. This part of the formula works against others as it ensures the maintenance of a high standard of living in one region while it maintains the lower standard of living in another.


6.) Need/ Resource Capacity Computation

The Need/Resource Capacity (N/RC) uses the 2000 census data which is ten years old and Free and Reduced lunch data from 2000-01 and 2001-02. The state should use the most up to date indices of poverty/wealth when formulating a state aid distribution for education. It is our understanding the N/RC was never intended to be used in any state aid formula. Instead it was way to classify school districts into six categories for use by the State Education Department. The first two categories are just New York City and the Big 4. In the end school districts other than New York City and the Big 4 fall into just the last four categories. This is metric does not provide the level of statistical discrimination and disaggregation needed to equitably and clearly determine the distribution of something so critical to school districts as state aid or the GEA cuts.

However, in any case, the N/RC is used wrongly in the GAP Elimination Adjustment calculation. For instance, the Total General Fund Expenditure (TGFE) check - limits aid lost in relation to the school district’s TGFE. If a school district is high need then the aid lost is limited to 6.8% of the 2010-11 TGFE. Average need school districts can lose up to 11%. Need-Based Restoration differentiates the dollar amount restored per student based on the N/RC. (N/RC is also inappropriately used to determine High Needs Building Aid)

7.) Updated Inputs Result in Stagnant or Minimal Foundation Aid Increased Support in the Future

Aside from the significant inequities contained in the formula there are additional problems. The inputs within the inequitable formula are constantly updated, but only internally. Decreases in enrollment and the national recession’s impact on relative wealth metrics within the formula diminished the “FOUNDATION AID BEFORE PHASE-IN” amounts particularly for average and below average school districts. Therefore, once those inputs are updated as per current state aid files they will allow further research into the new inequities that are the result of the old inequities in the formula. Such research by all parties must begin, and where begun, provide meaningful, thoughtful and equitable recommendation for state aid formula changes annually.
Bullet Aid – Politics Masquerades as Compassion

Politics for the sake of politics have served as a proxy for sound state aid fiscal plans in New York State. Our website ([http://www.statewideonline.org/ConfSept2012.html](http://www.statewideonline.org/ConfSept2012.html)) contains the spreadsheet (PDF) as best as we were able to reconstruct (incorrect or difficult-to-interpret school district or building names were used in the legislation) the distribution of Bullet Aid to public school districts as of this writing. Public school districts were not the only benefactors of the largess of members of the Assembly and Senate. Additional benefactors of Bullet Aid included PTAs, charter schools, after-school programs, libraries and other groups. It is our understanding that the Assembly still has about $9 million to disperse.

School districts that receive Bullet Aid are always grateful for any new funding. However, some are needy and some are not. Our data suggests that the distribution of these funds is mixed at best. It is distributed to the wealthiest and the poorest school districts or, as we see it, to the “high need school districts” and to the “no need school districts.” We can identify no statistical correlation between indicators of need, such as poverty or wealth fiscal conditions, or anything else in the amount of funds given to school districts in general. The details of the distribution of these funds run the gamut from politically calculated to haphazard at best.

A data analysis of the Bullet Aid doled out thus far provided continued evidence that the “shares agreement” and the lack of equity continue to be a common legislative theme. The scatter plot clearly shows that high wealth school districts got Bullet Aid (Wealthy school districts with CWR >1.5 are in the blue box). But not all school districts received Bullet Aid. Many high and low wealth school districts did not get Bullet Aid. The distribution is not based on wealth – as one can see from the scatter plot.

The school districts that have the most difficult time in the maintenance of a solid and long term fiscal plan and comprehensive educational program over the last few years are those with the lowest CWRs. There are more lower CWR school districts than higher CWR school districts. But as the scatter plot points out – some wealthy school districts got just as much Bullet Aid as a dollar amount as lower wealth (CWR) school districts. There is no correlation between the wealth of a school district and the amount of Bullet Aid it received, or – in the case of some, didn’t receive.

A similar phenomenon exists when a measure of poverty is examined and correlated to Bullet Aid distribution as shown in this next scatter plot. The school districts in the blue box have very little poverty as measured by FRPL data. Yet these school districts received every bit as much Bullet Aid money as those in the red box with greater to significantly greater amounts of poverty. The school districts that tended to get the most bullet aid were New York City, Buffalo, Rochester, Syracuse and Yonkers. Without doubt poverty is a factor for each of them and there is substantial evidence that they need all the financial aid they can get. But they could have received even more Bullet Aid and other school districts of similar FRPL counts but less population density in every corner of the state had it not been
skimmed off the top for distribution to those school districts with higher CWRs and low FRPL counts. And again, some school districts regardless of the amount of poverty they have, got no Bullet Aid. Clearly, for these funds to work in an equitable fashion, Bullet Aid funds should be wrapped into the reduction of the GEA with a new formula to ensure equity.

The Bullet Aid provided to a school district is a cumbersome statistic. To discover what the impact of that Bullet Aid could be requires an examination of Bullet Aid per student per school district. The distribution of Bullet Aid per student per school district follows an inequitable pattern. One needs to examine the relationship between Bullet aid per student, and poverty. For instance, this scatter plot illustrates that there were higher CWR school districts that received as high and even higher amounts of Bullet Aid per student as the lowest CWR school districts. Note the outliers in the higher CWR range that received extremely high sums per student compared to the poorest of the poor as indicated by CWRs lower than .5 and lower. There was little or no thought behind Bullet Aid and its relationship between poverty and equity.

The Bullet Aid distribution patterns are echoed in the above scatter plot of the relationship between FRPL and per student per school district allocations. Again, some per student amounts of Bullet Aid are equal to or
better for school districts with the lowest FRPL poverty counts when compared to those with significantly higher FRPL measures. This is further evidence of the inequity present in the distribution of Bullet Aid.

Disaggregated data seems to clarify the phenomenon under scrutiny. The chart below provides insight into the randomness of Bullet Aid and exposes the practice as a purely political act devoid of merit other than some school districts benefit and others don’t.

Here is a sample of findings from the chart. There are many more below average and average wealth school districts than significantly above average ones. School districts of average to below average CWR make up 71% of all school districts in the state, yet they received only 64% of the Bullet Aid. Even if one were to truncate the wealth measures of a 1.5 CWR there are glaring disparities and inequities in the distribution of Bullet Aid. Just a comparison of those two variables yields significant information from which to base conclusions about the distribution of Bullet Aid. For instance, those school districts that have a CWR of less than 1.5 make up 72% of all school districts yet received 88% of the Bullet Aid. At first glance, this sounds equitable. But note that the 12% of Bullet Aid that did go to school districts with a CWR higher than 1.5 was distributed to school districts with CWRs on average of 3.22 compared to only .74 for the poorer school districts. Further the median difference was a CWR of 2.11 for the wealthier school districts and only .67 for the poorer school districts. Note the ratios here. The mean average difference is a 4.35 to 1 and the median average ratio is 3.14 to 1.

Note also the differences in the per student amounts of Bullet Aid distributed to these same school districts. The poorer portion of the population received more funds in total but less per student. The mean and median per student distribution for the poorer school districts was $45 and $31 respectively. It was $117 and $44 for the wealthier school districts. In fact the per student mean and median distribution to the wealthiest school district that received Bullet Aid are larger in every case when compared to any data set shown for poorer school districts.

Interestingly, the two school districts with the highest per student Bullet Aid have either no measure of poverty or an extremely low FRPL count. The distribution of the top five school districts with the greatest amount of per student Bullet Aid reveals that two have no appreciable poverty, which begs an obvious question — “So why did they get these funds?”

By comparison there were 212 (31% of all districts) that received no Bullet Aid. Of those, 133 (almost 63% of this subset and 19.7% of all districts) had CWRs of < 1.0 (average wealth) and 103 (48.6% of this subset and about 15% of all districts) had CWRs of < .75 (only three quarters of an average wealth school district). Clearly a huge portion of low fiscal capacity and struggling school districts were missed.

The same inequities are exposed when FRPL counts are used as a data set. Of the 212 school districts that did not receive Bullet Aid, 94 (almost 14% of this subset and over 44% of all districts had FRPLs of
> .40 (appreciable poverty) and 53 (25% of this subset and about 3.7% of all districts) had FRPLs of > .75 (significant poverty). Again, why was money sent to wealthy school districts from a finite pool of funds when school districts so much poorer got nothing?

An examination of the spreadsheet data of Bullet Aid (which is too large to be included in this paper, but is available at http://www.statewideonline.org/ConfSept2012.html) sadly shows in one region of the state a large number of school districts received the exact same amount of Bullet Aid for each school district. A total Bullet Aid amount of $346,632 was shared by 39 school districts at $8,888 each. In this case, the per student amount of Bullet Aid ranged from $1.81 to $35.13. This was obviously done without regard to any measure such as enrollment, poverty or fiscal capacity. It is just the kind of distribution that demonstrates a total lack of regard for fairness and equity. This phenomenon was repeated in other parts of the state as well to one degree or another.

One Senator went so far as to openly acknowledge that the distribution was politically motivated and based on political party affiliation. This was an honest and sincere appraisal about the efficacy of Bullet Aid, but a disheartening fact of life in Albany. This methodology may serve legislators but it hardly serves the neediest children in the state.

Disaggregation of these data yield noteworthy conclusions about the haphazard distribution of Bullet Aid. It also shows that Bullet Aid does nothing to promote equity or provide greater support for school districts most in need. It is simply a political gimmick to throw money at school districts and others to obtain political benefit – that is all it is.

The spoils system of politics is alive and well in New York State and endorsed by the legislative and executive branches. Despite veiled and not so veiled threats to educational equity advocates that complaints about Bullet Aid will result in the diversion of these funds elsewhere than to school districts, Bullet Aid is beyond a flawed system; it is wrong. At this point, even when speaking with students in senior high school government classes who methodically examine such practices as the distribution and rationale given for Bullet Aid, they conclude that the entire Bullet Aid system is “bogus” when compared to a state aid formula that could be written to provide an equitable distribution of such funds.

When needy school districts are so strapped for cash these funds would have been better distributed to the state aid formula to rid school districts of the crushing impact of the GEA. This way school districts could plan for the use of these funds rather than be surprised if lucky enough to receive such funds based on a purely self-serving legislative initiative that comes out of nowhere at the end of the legislative session.

A “good government” characteristic that students are taught is doing the right thing with transparency and forthright motivation. With all the government wrangling about state budget deficits, budget cuts, etc., the mystery appearance of tens of millions of dollars of Bullet Aid for political purposes is beyond the pale. Rather than spend the funds allocated toward Bullet Aid so opaquely, such available funds need to be properly diverted to the assistance of school districts within a state aid formula that reflects a predetermined rational “needs” approach. Instead, it was the plan all along to reinstate Bullet Aid as a reborn spoils system.

Bullet Aid underscores recognition that such funds do exist, may always exist and need to be reallocated to ameliorate the plight school districts have experienced from recent and severe state aid cuts. Look at the logic. The state aid cuts were caused because of the lack of state budget funds while simultaneously Bullet Aid is resurrected from nowhere. This is pure politics at its most cynical – cut state aid to schools claiming nothing can be done and then give some of it back in the guise of a political favor for which school districts are expected to be unbelievably and vociferously grateful.

Please note some school districts got absolutely nothing and others got next to nothing. Yet, despite all compassion for the needy expressed in political rhetoric, a large number of wealthy school districts with excellent tax bases, high fiscal capacity, low poverty levels or even poverty levels at nil, still got more money from this finite pool of funds that was thought to no longer exist.
Mandate Relief Is “Under Discussion”

Current mandate relief issues need to be addressed by state government and the Board of Regents as a way to bring real cost savings through greater productivity and efficiency. With the advent of three successive years of frozen Foundation Aid and this year’s meager and inequitable Foundation Aid increase, the last three GEA cuts and the drastic implications of the “Tax Cap” it is critical to the ability of school districts to cut costs by being rid of unnecessary and unfunded state mandates.

The problem for school districts is twofold. First, some mandates accomplish nothing more than just using up the staff resources of school districts. There is only so much time in a day, some things are worth doing and some things aren’t when mission and time must be subject to triage. Often more mission critical duties are minimized to meet mandates that require significant attention and paperwork. The eradication of these types of mandates doesn’t always save significant sums of money but it would allow for the reallocation of staff to accomplish primary mission targets. The new Annual Professional Performance Review (APPR) initiative is an appropriate example. Human resources to accomplish APPR goals are stretched very thin. A possible reallocation of personnel from some non-mission critical mandates to more important tasks such as efforts to improve student performance may be helpful in many school districts. Second, many unfunded mandates have a cost. Aside from health and safety mandates, almost all are wrapped up in labor law, education law and the regulations of the Commissioner of Education.

However, these alone will not ameliorate the fiscal problems faced by school districts due to the current inequitable Foundation Aid formula or the last three years of grossly inequitable cuts under the GEA. Each of these items bears consideration and closer examination. It is time to address the “sacred cows” of the public educational sector. For a more detailed list consult the New York State School Boards Association (NYSSBA) or New York State Council of School Superintendents (NYSCOSS) websites.

Recently passed legislation touts major mandate relief savings to be had for both school districts and municipalities. An initial review by the SSFC of the amount of savings attributed to this new legislation is dubious at best. Based on the current savings resultant from major continuous initiatives of school districts across the state to mitigate the costs of many unfunded mandates, SSFC puts no credence in the level of anticipated savings from this purported mandate relief legislation.

The New NY Education Reform Commission has been charged with the examination of a plethora of education initiatives and their cost drivers. Initial recommendations for fiscal and regulatory relief are due in December of 2012 and an expansive set of recommendations are due a year later. It is imperative that mandate relief be forwarded this year for legislative action, and that this relief is massive and sweeping even though they are characterized as “initial” recommendations. School districts are under massive strain from cost escalations due to a significant number of unfunded mandates.

Anecdotal information is mixed from those who have testified, tried unsuccessfully to testify, or those that observed the work of the commission. Critical comments include the narrow focus of topics, the belief that certain speakers are rigged, others are chosen selectively for some reason, and that the commission articulates no genuine interest in “heavy lift” topics. Additionally, disappointment in the background of the commissioners themselves to the lack of attendance from a significant number of commissioners at some of the hearings has been expressed from time to time.

Aside from the Education Reform Commission’s work, at other meetings with state officials not directly connected to the commission who expressed interest in mandate relief, participants have been told that a number potential cost saving labor relations legislative initiatives were “off the table”. Taken as a whole, none of these initiatives sound like they have a faith instilling start to a mandate relief solution.

The SSFC is concerned with the potential for poor performance results of such initiatives, based on the track record of previous initiatives with regard to mandate relief. School districts aren’t the only government entity for which there must be performance standards.
Most of the unfunded mandates that are problematic or expensive for school districts are a primary product of two sources – elected members of state government and the Board of Regents. While they are not the only source of unfunded mandates they are the major contributors.

Part II – Analysis of the Current Fiscal Dilemmas Faced by School Districts

What the Property Tax Report Card Reveals about the Future of New York’s Public Schools

To fully understand the state of public school district finances in New York, it is vital to provide an in-depth analysis of the 2012-13 Property Tax Report Card data. These data, when coupled with earlier analyses conducted by Statewide School Finance Consortium (SSFC), continue to support and reinforce our previous predictions about threats to the educational and fiscal health of low and average wealth and high and average need school districts.

Limitations and Caveats

The Property Tax Report Card is comprised of self-reported data. An analysis of such data is contingent upon the rigor and accuracy of these data. Indeed, errors can be made and will ultimately be revealed years from now as these data undergo rigorous auditing. However, historically, there is no real evidence that there have been the type of glaring inaccuracies presented in past Property Tax Report Cards that would render the continued dissection, analysis and conclusions contained in the following pages wholly inaccurate or incorrect. These data appear in whole to be as accurate and robust as is required for important generalizations and themes to surface.

As the “Big 4” cities (Buffalo, Rochester, Syracuse and Yonkers) and New York City do not complete the Property Tax Report Card their data cannot be included in this analysis. Recent longitudinal trend data by SSFC would suggest their financial, operational and educational program issues have followed school districts with similar Combined Wealth Ratios (CWR) and Free and Reduced Price Lunch (FRPL) Program percents (and other measures of poverty), but on a grander scale due primarily to their significantly larger student counts.

Budgeted Spending and Enrollment

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<thead>
<tr>
<th></th>
<th>2011-2012 Budgeted Spending</th>
<th>2012-2013 Budgeted Spending</th>
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<tbody>
<tr>
<td></td>
<td>$32,225,251,745</td>
<td>$32,775,773,785</td>
</tr>
<tr>
<td>Year to Year Chg $</td>
<td>$550,522,040</td>
<td></td>
</tr>
<tr>
<td>Year to Year Chg %</td>
<td>1.7%</td>
<td></td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>2011-2012 School Enrollment</th>
<th>2012-2013 School Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,572,855</td>
<td>1,561,748</td>
</tr>
<tr>
<td>Year to Year Chg $</td>
<td>-$11,107</td>
<td></td>
</tr>
<tr>
<td>Year to Year Chg %</td>
<td>-0.7%</td>
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Based on Property Tax Report Card data published in May 2012, budgeted spending increased from a little over $32 billion in 2011-12 to a projected $32.775 million for 2012-13. This represents an increase of over $550.5 million; an overall percentage spending increase of 1.7%. This increase is almost half the most recent CPI, which hovered at over 3%.

As school districts experienced double digit medical and pension cost increases, escalations of fuel costs, labor contract expenses and other factors it could be assumed that budgets would have increased more. The increase in spending was muted by such actions as: union concessions on salary, medical cost sharing; reductions in staff through attritions
(where staff is not replaced as the school district “right sizes” through retirements and resignations) and layoffs and/or program eliminations; and the increased sharing of services between school districts directly or through a BOCES. News reports were replete with these cost reduction measures across the state as the 2012-13 school district budgets were developed and public informational meetings were held. State data would suggest that school districts were holding down tax and spending increases even before the Tax Cap became law. Such actions are not new.

The actions taken by most school districts though are simply not sustainable over the long haul. For instance, staff concessions such as pay freezes will not last forever; a school district cannot layoff the same person more than once; and programs that are integral to providing students with a “sound, basic education” as preparation for college, post secondary education or skills training can only be jettisoned up to a certain point. Not to mention that public attention of and expectations for improved student performance continues to increase.

The Tax Cap: Tax Levy Limits and Exclusions

Introduction

Another “numbers problem” for school district officials appeared as they wrestled with the new “Tax Cap” law. Simple math makes it clear that the larger a tax levy is, the larger a single percent on that levy will raise in revenue. It follows that the smaller the levy is, the smaller a single percent will raise in revenue. It is also evident that the school districts with the largest levies have the least state aid per pupil because they have, on average, higher incomes and/or property values than those districts that are not wealthy.

Again, only a basic understanding of middle school level math is required to appreciate this next example. Let’s suppose that half of a school district’s budget goes to pay teaching staff and that staff is guaranteed an annual 2% increase in salary by the Triborough Amendment (a state law that maintains that all scheduled step increases – pay raises – stay in force until a successor contract is agreed upon by the union and the school district) then the budget, all things being equal, must increase by at least 1%. This does not account for any other expense increases to the school district – such as pension costs, medical insurance, utilities, fuel for school buses and so on. Nor does it count any new revenues that can be leveraged against the budget to produce a lower levy.

In this hypothetical example the budget must increase by 1%. But what about the levy if it is capped at 2%? Can the school district have a tax levy within 2% if the budget increases by only 1%? It depends. It depends on whether or not the amount of money that equals a 1% increase in budget is greater or less than a 2% increase in levy.

The chart below offers a comparison of the real wealth and poverty measures of school districts and provides some real insight into this problem. In almost half (332 or 49.5%) of all school districts a 1% Increase in Estimated 2012-13 Budget Exceeds 2% Estimated 2012-13 Levy based on the current PTRC. Note also that those school districts where this is true possess lower wealth (mean and median) and higher levels of poverty (mean and median) that do their counterparts where a 1% Increase in Estimated 2012-13 Budget DOES NOT Exceed 2% Estimated 2012-13 Levy (PTRC 2012). Thus in reality
those districts with the least fiscal capacity and higher levels of poverty are seriously disadvantaged from the beginning of the Tax Cap calculation.

<table>
<thead>
<tr>
<th>Districts Where 1% Increase in Estimated 2012-13 Budget Exceeds 2% Estimated 2012-13 Levy (PTRC 2012)</th>
<th>Districts Where 1% Increase in Estimated 2012-13 Budget DOES NOT Exceed 2% Estimated 2012-13 Levy (PTRC 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of School Districts</td>
<td>332</td>
</tr>
<tr>
<td>Percent of All School Districts</td>
<td>49.5%</td>
</tr>
<tr>
<td><strong>Disaggregated Data</strong></td>
<td><strong>Disaggregated Data</strong></td>
</tr>
<tr>
<td>CWR Min</td>
<td>0.186</td>
</tr>
<tr>
<td>CWR Max</td>
<td>4.39</td>
</tr>
<tr>
<td>CWR Mean Average</td>
<td>0.56</td>
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<tr>
<td>CWR Median Average</td>
<td>0.537</td>
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<tr>
<td>FRPL Min</td>
<td>0.1196</td>
</tr>
<tr>
<td>FRPL Max</td>
<td>1.03</td>
</tr>
<tr>
<td>FRPL Mean Average</td>
<td>0.46</td>
</tr>
<tr>
<td>FRPL Median Average</td>
<td>0.46</td>
</tr>
</tbody>
</table>

It is therefore obvious that wealthier, less state aid dependent school districts are able to raise more money per percent of levy than average or below average wealth school districts. This scenario could easily result in the need to cut the budget to an increase below 1% through cuts to staff, purchases and programs; the use of more reserves than the previous year; or by somehow finding other sources of revenue. This situation places average and below average wealth school districts at a serious disadvantage compared to wealthier school districts.

A visit to the websites of wealthy school districts will provide more than enough information to demonstrate their wealth. These districts are successful by every measure – student performance, graduation rates, student offerings and programs of every variety, community involvement and financial support, the best educators and administrative teams that money can buy and the list goes on. And because of those strengths they have the costs that go with them. But they enjoy the financial capacity to fund such a district, as reflected in the financial support their tax levy provides. They continue to maintain these programs through the financial support of their taxpayers. The miracle of the Tax “Cap” is that these wealthy school districts will be able to raise much more money than poorer school districts in support of their programs.

Poorer, average wealth and higher poverty districts are forced to “ignore costs” due to the Tax Cap. As one “cost” is “ignored” another “cost” is “created” as the school district cuts staff, program, defers maintenance, bus purchases and the like. A significant number of students fail to meet performance standards, or at least fail to improve; there is less staff for remediation; and enrichment activities and other programs such as Academic Intervention Services and Summer School are not proven methods to help improve student performance. Those “costs” will still be there but their associated “expenses” are simply and temporarily removed from the school district budget. To make things even more complicated, staff professional development lines were cut, as well as administrative and supervisory positions from many budgets – only to be restored at the expense of something else due to the new APPR and new Common Core curriculum requirements.
The 2012-13 Tax Cap Experience

The enactment of the Tax Cap law created no direct restrictions on school district budgets or tax levies that could be put before the voters. Instead it placed requirements on the degree of voter support needed to enact the tax levy for the budget presented to the public. The tax levy limit has been referred to as a “threshold.” If the calculated tax levy falls at or under the calculated tax level limit, only a simple majority is needed for budget approval. If the tax levy exceeds the tax levy limit, a supermajority of 60% of the voters is needed for the budget to be approved.

Interestingly, by contrast, until the public vote for school budgets in 2012-13, previous years’ votes were legally on approval of the budget itself. It now appears too many voters that it is the tax levy that ultimately needs voter approval. This seems to suggest that the budget must be made to fit the willingness of voters to pay the tax levy.

This is a distinct and significant change in focus for school districts and voters. Prior to school budget votes in May 2012 the budget was basically set in stone by voter approval and the levy would be altered up or down without limitation after the school budget year started. The focus has now shifted. Now the budget is still voted on, but the limits on the degree of support of the budget is transferred legally to the approval or disapproval of the budget—hinged directly on a publicly-disclosed and legally-limited tax levy that directly supports it. With the Tax Cap law, both the budget and a levy limit are set in stone for district residents. A school district can ultimately decrease the tax levy after the beginning of the budget year, but it cannot increase it beyond the tax levy limit approved by voters.

The calculation of the school tax Levy limit was a multi-part process that determined whether or not the passage of a budget with its proposed tax levy amount would require a simple majority or a super majority. (Those steps can be found at: http://www.p12.nysed.gov/mgtserv/propertytax/taxcap/home.html)

The multiple steps of the Tax Cap (Tax Levy Limit) calculation, or their merits and drawbacks, will not be examined in this portion of the report. Instead, the focus will be to illustrate how the Tax Cap calculations “played out.”

The Tax Cap law required changes to the Property Tax Report Card. Due for submission immediately after the required resolutions by boards of education that denoted historically identified budget amounts, the new reports also were required to contain Tax Cap information related to the tax levy limit of each school district, exemptions available to the school district (for permitted pension costs beyond a two percentage point increase and local cost portions of capital expenses) and the final tax levy amount to be sought from the voters in support of that budget. Further information about whether or not a school district has exceeded its tax levy limit or used any or all of its permissible exemptions would also be noted or derived from the document submission. Additional guidance for the submission and calculation of the parts of the tax levy and exemption calculations was provided by the Office of the Comptroller.

The State Education Department provided the following model as guidance and an explanation for the items related to the tax levy to be included in the required submission for the 2012-13 Property Tax Report Card:
The actual statewide totals listed below are based on the published 2012-13 Property Tax Report Card published in May of 2012:

Using the chart above and below it is easy to see that the 2012-13 tax levy is $431.95 million larger (2.24%) than it was in 2011-12. However, it should not be a surprise to practitioners that it is a significantly lower increase than was permitted by the Tax Cap law. Further, this increase is less than the almost 3.5% increase of 2011-12 over 2010-11.

In the chart at left, note that in the aggregate, $112.9 million of tax levy and allowable exemptions were not levied at all (Total from the 2012-13 Proposed vs. Max-$ column). This combination of un-levied funds speaks volumes about the anxiety school boards and superintendents had as they sought voter approval for their budgets. Had these possible levy and exemption amounts been included in levies for voter approval, the average increase would have been 2.8% rather than 2.24%. As with all averages, school district by school district data would exhibit huge variation in percentage amounts. In some cases, the use of all exemptions would change the requested tax levy increase percent negligibly and in others significantly. In any case, the 2.24% potential increase in overall tax levy is higher than the imaginary – but believed – “2% Tax Cap” in the minds of voters. But even that analysis is shallow.

A more disaggregated look at these data suggests that the determination of what the possible amount and percentage increase that the tax levy will be that will then go to voters is

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<th>I</th>
<th>J</th>
<th>K</th>
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<tbody>
<tr>
<td>School Tax Levies</td>
<td>Permissible Levy Limit</td>
<td>Max w/Excl</td>
<td>Tax Levy Proposed</td>
<td>Tax Levy w/o Exclusions</td>
<td>Tax Levy Proposed</td>
<td>Tax Levy w/Exclusions</td>
<td>Percent Change</td>
<td>Vs. Max - $</td>
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<tr>
<td>19,251,202,241</td>
<td>568,018,706</td>
<td>19,819,220,947</td>
<td>19,154,871,317</td>
<td>19,274,368,786</td>
<td>19,706,320,726</td>
<td>2.24%</td>
<td>(112,900,224)</td>
<td>-0.57%</td>
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<tr>
<td></td>
<td></td>
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<td>Overall Levy Inc.%</td>
<td>2.24%</td>
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<thead>
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<th>Tax Cap Levy</th>
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<tbody>
<tr>
<td>Aggregated Data</td>
</tr>
<tr>
<td>Total Number of Districts</td>
</tr>
<tr>
<td>Disaggregated Data</td>
</tr>
<tr>
<td>Used Full Limit &amp; Used Full Exemption</td>
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<td>Levy Range</td>
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highly unpredictable. Further examination of the composite parts of the $112.9 million of tax levy and exemptions unused is warranted. The total for all school districts is an aggregate of $112.9 million; but it does not present the entire picture. For example, there were 144 school districts that used their full tax cap limit and full number of exemptions as they went before the voters, according to the data provided in the May 2012 Property Tax Report Card. The tax levy ranged from -.19% (that is a decrease in the levy with full tax levy limit and full exemptions) to a high of 4.73%. It is easy to see that by using the tax levy limit formula and all available exemptions that the “2% Tax Cap” is a misnomer for these school districts. These districts used all available parameters of the new Tax Cap legislation and found a way to live within it. They did not all provide proposed levies limited to 2%. Indeed, it is actually possible to have a tax levy limit below zero – a negative number – without exemptions.

Statistically, there were 51 school districts that exceeded their tax levy limit and required the 60% positive voter plurality to gain approval. According to the Property tax Report Card two of those school districts requested approval for $1 each, (most probably due to rounding in the computation) another for $1,277 and the remainder ranged from between $13,289 and $2,465,339. The latter group that requested tax levy increases produced tax levy percent increases that ranged from .16% to 11.29%. The combined total requested above the limit by all of these districts was $25,948,329.

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<tr>
<th>Tax Cap Levy</th>
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<tbody>
<tr>
<td>Exceeded Full Limit &amp; Used Full Exemption</td>
<td>51</td>
</tr>
<tr>
<td>Noteworthy</td>
<td></td>
</tr>
<tr>
<td>Two districts by $1 each; one by $1,277</td>
<td></td>
</tr>
<tr>
<td>Of the 51 Districts: Amount Exceeded</td>
<td>$25,948,329</td>
</tr>
<tr>
<td>Of the 51 Districts: Average Amount Exceeded</td>
<td>$508,791</td>
</tr>
</tbody>
</table>

By contrast, this means that the 476 school districts that requested less tax levy with exemption increases than they were entitled to claim under the Tax Cap law (although 20 school districts requests were only diminished by $1,000 or less) decided not to request $138,848,553 (an average of $291,699). This is a significant sum.

These 476 school districts somehow absorbed the $138.85 million of eligible exemptions expenses and thus lowered their tax levy. It was accomplished the way all school districts ultimately balance their budgets in difficult financial times – by doing one or more of three things: using fund balances or reserves, cutting staff and/or cutting programs or altering operations. Absent huge and sustainable unused fund balances it seems unlikely that low to average wealth and high to average need school districts would be able to sustain such a strategy into the future. Fund balances are exhausted when they supplant a tax levy and reductions in staff and programs or operations do not continue to multiply without a negative impact to the mission of the school district.

School districts find it difficult to ask residents to fill the revenue gap to sustain projected budgets for two reasons. First, there is the Tax Cap that legally, politically and psychologically restraints tax levy increases. Second, in much of the state, Tax Cap or no Tax Cap, residents are unwilling or unable to continue to sustain demands for greater financial support for their school district. So school districts simply use what funds they have in cash and reserves and cut staff, programs and operations. All the while often requested tax levies often tended to ebb at or close to the “2% Tax Cap” expectation generally held by school district residents.
In such circumstances school districts inflict financial and educational disadvantage upon themselves before residents vote on the budget rather than risk the “no increase in levy/no exemptions” rules of a contingent budget. This phenomenon could be an unintended outcome of the Tax Cap. Why? Clearly, it is because school district options after a budget is defeated twice are financially, operationally and – particularly – educationally devastating under the requirements of the Tax Cap law.

The reasoning used by most school boards and school leaders is that the impact of a contingent budget must be avoided. School districts with little financial or educational program resources remaining after years of frozen state Foundation Aid and state aid cuts (Gap Elimination Adjustments) were especially hit hard by this new reality. Many school districts have been cutting their reserves, fund balances, operations, services and programs for the last two or three years. The rules for contingent budget levies under the Tax Cap are clear-cut: no increase in the tax levy over the previous year’s tax levy and no allowable exemptions. Thus, the desired tax levy increase and every attempted exemption must now be absorbed into the budget and non-mandated expenses must be removed until the same or lower levy level is achieved compared to the previous year’s levy. (As an aside, from a strategic perspective, many school districts believed that they could attempt the two permitted votes on a budget and, if all else failed, then simply layoff staff and adopt a contingent budget. This is not true because the law forbids this activity.)

There are also significant requirements concerning the composition of a contingent budget itself. The administrative component of the budget must not be higher as compared to the program component when compared to the last defeated budget. (The most current information found on the topic of administrative to program requirements in a contingent budget is available at: http://www.p12.nysed.gov/mgtserv/budgeting/ . Focus your attention on APPENDIX II on the website. It does not mention the Tap Cap changes for the levy as the components of the law needs to be updated into the document.) Thus, a school district cannot lay off staff as it moves into the contingent budget unless it removes administrative costs to maintain the same ratio or level (as defined as the percent of administrative costs and the percent of program costs) as was present at the time of the last defeated budget vote. This requirement is extremely problematic – educationally and politically. It also presents a labor relations nightmare.

There is a provision in the Tax Cap law that permits school districts to “carry-over” into future tax levies small portions of under-utilized levy amounts or exemptions. The desire to use such a provision is unknown, untested and is generally thought to be a “less than perfect idea” in light of the perceived unpredictability of voters. Additionally, there is the difficulty and frustration expressed by superintendents, school business officials and boards of education who had to “explain” the actual Tax Cap calculations and how “the 2% Tax Cap was not really a 2% Tax Cap.”

Characteristics of School Districts that Did Not Take Full Tax Cap Limit or Exemptions

As noted in the previous section, a significant number of school districts chose not to take their full permitted exemptions so that they could present their communities with tax levy levels below what could be defined as “tax levy limit plus allowable exemptions.” This is colloquially known as “leaving money on the table”. The Tax Cap Law does permit the use of “carry over” funds for the development of the budgets for 2013-14 and beyond. (The available carry over is equal to the prior year tax levy limit
– prior year tax levy – but no greater than 1.5% times the prior year tax levy limit.) However, the analysis provided in this paper does not suggest that it will be used by many, if any, school districts.

The breakdown of the 71% of school districts (476) that chose not to take their allotted full Tax Levy Limit or exemptions represents a diverse population. A smaller number of these districts were generally or slightly above average wealth, but by far, of the remaining districts, most were well below average wealth. From this latter group, 389 (82%) had CWRs less than 1.36; 336 (71%) had CWRs less than 1.0. Additionally, 331 (70%) of the group had FRPLs greater than .25; 119 (25%) had FRPLs greater than .50. The school districts that absorbed exemptions had more often moderate to significant levels of poverty.

The demographics of the school districts that chose not to seek full amounts permitted under the Tax Cap represent one level of analysis. The other level of analysis concerns what the exemptions mean to the finances and educational program of these school districts. Failure to request voter approval for such sums indicates that the school district had to make difficult choices. They had to either decrease expenses or find other revenues that would make the collection of these sums unnecessary. Another option was to create a combination of both of these tactics simultaneously. Regardless, each choice had serious implications for the short and long term educational and fiscal health of the school district.

What is it that makes less wealthly school districts that are also burdened with comparatively more poverty not request voter approval for a tax levy they are legally entitled to? It may be that while this approach doesn’t serve the school district as a long term fiscal or educational strategy, it may work politically in the short term. School districts running out of funds may avoid fiscal insolvency over a given period of time based on the hope that the fiscal picture will brighten due to some combination of increased state aid or expense relief. In the short term the school district may garner voter support that could translate into a positive budget vote because taxes were kept lower than they could have been or that the cuts the school districts were forced to make to accommodate the new tax levy amount struck a positive chord with voters.

These data suggest that school districts were reticent to increase their proposed levies any higher than they thought voters would accept given generally held conceptions about the anticipated “2% Tax Cap”. For those school districts that chose to stay under the tax levy limit and/or not use their full permitted amount of exemptions, the objective was to not create levy proposals with large percentage increases. In the end, for a significant number of these districts, the use of their full tax levy limit or all of their permissible exemptions would not create a tax levy increase considerably higher than those they ultimately proposed. However, for a number of these school districts, had the full tax levy limit or

| Under The Tax Cap (Lowered Levy and/or Absorbed Exemptions) |
| Disaggregated Data |
| CWR < .50 | 110 |
| CWR < 1.0 | 336 |
| CWR <= 1.36 | 389 |
| CWR > 1.36 | 87 |
| CWR > 2.0 | 51 |
| FRPL = 0 | 6 |
| FRPL < .25 | 145 |
| FRPL > .25 < .50 | 212 |
| FRPL > .50 | 119 |

| Under The Tax Cap (Lowered Levy and/or Absorbed Exemptions) |
| To Go to Cap or Use all Exemptions would result in: | # Districts |
| No Additional Percentage Change ($ amount was marginal) | 29 |
| An additional percentage increase in Levy under 1% | 284 |
| An additional percentage increase in Levy over 1% | 192 |
| An additional percentage increase in Levy over 2% | 115 |
exemptions been used, percentage increases could have raised public concern and greater scrutiny about school district spending, but only yielded a small amount of funds for the district in comparison to their budgets.

The concern with this strategy in the long term is that state aid does not appear to be increasing by a sufficient amount to offset escalating costs or to cover permissible exemptions. Heightened cost curves show little indication that they will ebb. Legislatively, and in any real immediate sense, meaningful and cost saving mandate relief remains as only a political talking point.

If anything, mandates have escalated. For example, the new teacher and principal evaluation system (APPR) will require significant training costs and is labor intensive at a time when most school districts have recently cleared their ranks of administrators needed to evaluate teachers. As noted, these reductions were driven by a need to mitigate expense escalations, as well as to quell political and public pressure that suggested that school districts “have too many administrators.” Labor relations for schools have generally been challenging and concessions from unions – for those districts that have secured them – do not appear to be sustainable for any length of time. Further, calls by state government for greater efficiency and improved student performance are not supported by funds to help provide the type of professional development training that teachers need to be more effective. Lastly, there are also no current means to remove ineffective teachers that are genuinely inexpensive and time-sensitive. (The new teacher evaluation system could make that better, but not in any practical sense for at least the next two years.)

### Characteristics of School Districts that Pursued the 60% Supermajority

<table>
<thead>
<tr>
<th>Challenge Tax Levy</th>
<th>Average CWR</th>
<th>Average FRPL</th>
<th># Districts Per County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albany</td>
<td>1.01</td>
<td>0.07</td>
<td>2</td>
</tr>
<tr>
<td>Broome</td>
<td>0.44</td>
<td>0.74</td>
<td>1</td>
</tr>
<tr>
<td>Cayuga</td>
<td>0.64</td>
<td>0.41</td>
<td>2</td>
</tr>
<tr>
<td>Chautauqua</td>
<td>0.95</td>
<td>0.15</td>
<td>1</td>
</tr>
<tr>
<td>Chenango</td>
<td>0.44</td>
<td>0.66</td>
<td>1</td>
</tr>
<tr>
<td>Clinton</td>
<td>0.62</td>
<td>0.50</td>
<td>2</td>
</tr>
<tr>
<td>Columbia</td>
<td>1.38</td>
<td>0.30</td>
<td>1</td>
</tr>
<tr>
<td>Delaware</td>
<td>3.37</td>
<td>0.47</td>
<td>1</td>
</tr>
<tr>
<td>Erie</td>
<td>0.78</td>
<td>0.27</td>
<td>1</td>
</tr>
<tr>
<td>Essex</td>
<td>3.93</td>
<td>0.31</td>
<td>1</td>
</tr>
<tr>
<td>Fulton</td>
<td>0.52</td>
<td>0.54</td>
<td>1</td>
</tr>
<tr>
<td>Herkimer</td>
<td>0.54</td>
<td>0.40</td>
<td>1</td>
</tr>
<tr>
<td>Montgomery</td>
<td>0.58</td>
<td>0.36</td>
<td>1</td>
</tr>
<tr>
<td>Nassau</td>
<td>1.17</td>
<td>0.29</td>
<td>2</td>
</tr>
<tr>
<td>Niagara</td>
<td>0.63</td>
<td>0.28</td>
<td>1</td>
</tr>
<tr>
<td>Onondaga</td>
<td>0.67</td>
<td>0.23</td>
<td>1</td>
</tr>
<tr>
<td>Orange</td>
<td>4.39</td>
<td>1.04</td>
<td>1</td>
</tr>
<tr>
<td>Saratoga</td>
<td>0.77</td>
<td>0.26</td>
<td>2</td>
</tr>
<tr>
<td>Schoharie</td>
<td>0.58</td>
<td>0.37</td>
<td>1</td>
</tr>
<tr>
<td>Seneca</td>
<td>0.65</td>
<td>0.53</td>
<td>1</td>
</tr>
<tr>
<td>St. Lawrence</td>
<td>0.60</td>
<td>0.44</td>
<td>1</td>
</tr>
<tr>
<td>Steuben</td>
<td>0.40</td>
<td>0.48</td>
<td>4</td>
</tr>
<tr>
<td>Suffolk</td>
<td>3.06</td>
<td>0.17</td>
<td>14</td>
</tr>
<tr>
<td>Ulster</td>
<td>0.93</td>
<td>0.34</td>
<td>3</td>
</tr>
<tr>
<td>Westchester</td>
<td>3.11</td>
<td>0.13</td>
<td>2</td>
</tr>
<tr>
<td>Wyoming</td>
<td>0.54</td>
<td>0.36</td>
<td>1</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>1.63</strong></td>
<td><strong>0.33</strong></td>
<td><strong>51</strong></td>
</tr>
</tbody>
</table>

School districts are the only municipal entities in New York State that elects a governing body that does not have the power to approve a tax levy of any kind. School district budget elections require an annual vote of district residents no matter how meager the amount or the change from the previous year’s budget is – even if in the negative. Additionally, under the Tax Cap law, a vote to over-ride the district’s established tax levy limit requires the approval of a 60% supermajority of voters – another peculiarity that no other municipal government in the state has to perform.

At face value, the notion that a minority of voters can force their will over a majority of voters is patently undemocratic. And, in actuality, the need to attain a super majority – especially in New York State governance – is rare, reserved for such momentous determinations as over-turning an executive veto of legislation, impeachment of the executive, or ratifying amendments to the state constitution. After all, such decisions as the
election of all public officials in New York and the passage of nearly all legislation require a simple majority of voters. The conception of the Tax Cap supermajority requirement therefore has the strong taint of politics attached to it rather than fair-minded and customary democratic principle and processes.

School districts in only 27 of the 57 counties and municipalities that vote on public school budgets (the counties comprising the five boroughs of New York City and the cities of Buffalo, Rochester, Syracuse and White Plains do not vote on their school budgets) attempted to obtain a supermajority. The characteristics of these districts were mixed.

Based on the initial PTRC report and aside from the statistical anomaly of two school districts being only $1 over their Tax Cap limit, 49 school districts made the attempt. (Note: Subsequent to the final issuance of the property Tax Report Card, it became known that additional school districts also challenged the Tax Cap – but due to reporting errors they are not included in these data.) Of these districts, the average Combined Wealth Ratio (CWR) was 1.63 and the median was .82. The average Free and Reduced Price Lunch percent (FRPL) was .33 and the median was .29.

When these data are disaggregated the demographic distribution is easier to see. The CWR of 11 of the school districts that challenged the Tax Cap was above 1.375 (22% of the school districts were wealthy by SSFC standards); 34 had CWRs of less than 1.0 (69% were less than average wealth by state standards) and 17 had CWRs less than .65 (35% were considered low wealth by almost everyone’s standards). The FRPL of 20 of the school districts was less than .25. Thus, 41% were considered to have no or, at best, moderate poverty; 8 school districts have FRPL levels of poverty listed as zero. Of this group, 39 school districts have FRPLs of less than .5, while 10 school districts had FRPLs greater that .5 (or 20% of these school districts exhibit significant levels of poverty).

About half (24; 49%) have CWRs less than 1. and FRPLs greater than .25. Roughly 18% (9 school districts) had CWRs less than 1.0, but FRPLs greater than .5. These data suggest that wealthy, average wealth and poor school districts with a mixture of all wealth and poverty levels took actions to override the Tax Cap. The value of disaggregated data is revealed as the aggregate averages would lead one to believe that, on average, school districts that challenged the tax cap were significantly above average wealth (1.63) and experience moderate poverty levels (.33). On average, school districts in Nassau, Suffolk and Westchester counties that challenged the Tax Cap were by definition high wealth and low poverty but many other school districts of significantly lower wealth and higher levels of poverty decided to challenge the Tax Cap as well. The reader can determine which school districts challenged the tax levy limit to maintain their significant and successful programs and which school districts their moderate, dwindling or meager programs.

The initial results of budget votes for the school districts that attempted to over-ride the Tax Cap were also mixed. In all, 19 (37%) of those school districts that challenged the tax levy limit failed to pass their
budget on the first attempt. The characteristics of these school districts in the aggregate indicate on average below average wealth (.87 CWR) and very moderate poverty levels (.31 FRPL). Disaggregated data reveal that these averages are skewed by data from Columbia, Nassau and Suffolk counties. Here the school district averages for the defeated over-ride budgets were all above average wealth (CWRs of 1.38 1.17, 1.13 respectively) and moderate to very low poverty levels (FRPLs of .30, .29, .12 respectively). All are above average wealth and low to moderate levels of poverty.

By contrast, the remaining school districts that failed in their attempt to over ride the Tax Cap were almost all below average wealth (some significantly) and possess moderate to significant levels of poverty. For these school districts the challenges of educational and fiscal solvency are more difficult when the last three years of Gap Elimination Aid (GEA) cuts are factored into their finances and the ability to maintain program, staff and operations.

In the final tally all but two school districts passed their budget after the second vote. This was accomplished only after further cuts to staff, programs, operation, and the use of additional fund balance were undertaken to lower the originally-proposed tax levy.

The Tax Cap continues to be a factor in school district finance. The inflation rate used in the current year Tax Cap computation was 2% (“allowable levy growth factor”). That is the maximum level that a tax levy can. It was 2% because inflation was running close to 3.2% for the time period used in the calculation. Currently the latest calculation of the inflation factor, according to the New York State Comptroller, is 2.93% [http://www.osc.state.ny.us/localgov/realprop/pdf/growthfactors.pdf]. That means that the “allowable levy growth factor” for the Tax Cap computation will again be 2%. This begs a logical question: “How is a school district supposed to use two consecutive years of 2% allowable levy growth factor each when inflation in the rest of the world is calculated at 3.2% and 2.93% respectively?” In essence, the school district trend is that the Tax Cap calculation actually contributes to them losing ground.

The use of Payments in Lieu of Taxes (PILOTs) in the computation of the Tax Cap (“Tax Levy Limit”) significantly more often than not leaves many school districts dazed by the impact PILOTs leave on their ability to raise their tax levy within legal, reasonable and “voter acceptable” limits. Routinely PILOTs offer little or no levy relief to school districts and are mainly viewed as counterproductive to the fiscal capacity of the school district under Tax Cap legislation. The ability of a school district to levy needed taxes is hampered by the PILOT. This is because the PILOT does nothing to add revenues to the school district because nothing is added to the tax roll upon which the “Tax Levy Limit” is brought to bear. Additionally, it has been shown that in many cases, the “promised” jobs that led to the grant of the PILOT from the local granting agencies and their municipal partners never materialize. And often when they do, few if any actually go to the current taxpayer-residents of the school district in which the PILOT business is located. Businesses with PILOTs hire regionally and not in rigid accordance with school district boundaries. A strong case can therefore be made that the use of PILOT agreements in the Tax Cap formula is bad for business and bad for school districts as PILOTS contribute to increasing fiscal and educations decay of school districts, which contradicts one of the bedrock principles of economic development – that businesses are attracted to communities that have strong public schools.

Further, as outlined in the section Characteristics of School Districts that Did Not Take Full Tax Cap Limit or Exemptions, the willingness of many school districts to claim legal exemptions like Employee Retirement System costs and the local share of capital expenditures has not been utilized – and will likely never be utilized – by these districts. Moreover, additional capital expenses are about to come on
line in school districts after the massive use of the EXCEL aid incentives (funding enticements provided to support building renovation project work and diminish local taxpayer costs) for capital projects.

Under the Tax Cap law wealthier school districts that are less dependent on state aid will be able to raise more money per percent of tax levy than average or below average wealth school districts. Clearly, attaining the mandated 60% super majority to go above the “tax levy limit” will be an unrealistic outcome in most other communities. Average and below average wealth school districts – those that rely much more heavily on state aid – will be forced to continue to cut staff and programs and use reserves to stay in operation – an unsustainable process.

In summary, the Property Tax Cap guarantees that those school districts with less wealth, fiscal capacity and the greatest poverty will not prosper educationally or fiscally. When coupled with past state aid freezes and cuts – and the most recent insufficient state aid reduction of those cuts – it makes it nearly impossible for many school districts to survive fiscally or educationally over the next few years. With many school districts in fiscal and educational jeopardy the historical cornerstone of community identity and pride in many localities will diminish along with the school district. Again – no person, family or business is attracted to a community with schools that are in fiscal or educational decay.

How Much Money School Districts Have and Where They Have It

There appears to be a belief by school district residents and policy makers that school districts have a significant amount of cash that could be used to continuously absorb cost increases and thus blunt the need for tax levy increases. In fact, some school districts do indeed have a significant amount of cash, others have a moderate amount and too many have practically none at all. The question is, regardless of how much money a school district has, can they really use those funds to dampen tax levy increases and, if so, for how long? The answer to that question is based on five variables: the amount of cash the school district has on hand and in reserves, the intended purpose for those funds, expenses over time, state aid in the future, and cash flow needs.

An examination of fund balances is not as easy as it may seem. The Property Tax Report Card summarizes fund balances for each school district. General fund balance definitions from the State Education Department are found at: http://www.p12.nysed.gov/mgtser/propertytax/. Fund balances come in various forms – and many have restricted use. Some fill revenue holes in the budget and are used to offset taxes; others contain school district liabilities; and the rest are for emergencies, school district operations and cash flow.

<table>
<thead>
<tr>
<th>2011-2012 Asgnd Approp Fund Balance</th>
<th>2012-2013 Asgnd Approp Fund Balance</th>
<th>Year to Year Chg $</th>
<th>Year to Year Chg %</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,421,313,234</td>
<td>$1,305,870,663</td>
<td>($115,442,571)</td>
<td>-8.1%</td>
</tr>
</tbody>
</table>

The Assigned Appropriated Fund Balance is specifically used to fill a revenue hole in the budget and offset tax levy increases. In the 2011-12 school year $1.42 billion of school district cash was used to offset tax levy increases. In the 2012-13 school year $1.31 billion of school district cash is anticipated to be used to offset tax levy increases. This is a year-to-year reduction of $115.4 million (-8.1%). However, the total money used to offset taxes for the last two years would be roughly $2.73 billion. But that aggregate reduction masks what is really happening to the Assigned Appropriated Fund Balance. In actuality, some school districts increased their Assigned Appropriated Fund Balance, others kept it the same and still others reduced it.
Reductions of Assigned Appropriated Fund Balance use occurred with 324 school districts. In all, they reduced this appropriation by a sum of $212.96 million, bringing the total amount used by this group to $545.37 million. They used, on average, $1.68 million of reserves offset tax levies.

This strategy is often employed in two types of situations — revenues may have increased at a greater rate than expenditures, or revenues decreased or stayed the same, yet expenses fell to a greater degree. Either circumstance is conceivable given the 2012-13 state aid amounts. However, the latter strategy may have occurred more often as school districts cut staff, programs and operational components of their budgets to diminish the impact of escalating costs compounded by the loss of $605 million in federal Education Jobs Funds (EJF), other increased expenses, insufficient revenues to offset such expenditure changes, or some combination of all of the above.

To maintain this strategy, on average, each of these school districts must somehow annually come up with $1.68 million to merely start at the same place with the Tax Cap, hypothetically, in perpetuity. By contrast, there were 129 school districts that maintained their current level of Assigned Appropriated Fund Balance. From this group almost a quarter of a billion dollars ($248.7 million) was used to offset taxes.

The average amount for these school districts was almost $2 million each, significantly higher than those who decreased their use of fund balance. (It is interesting to point out that five school districts have used no Assigned Appropriated Fund Balance over the last two years — and that nine school districts used no Assigned Appropriated Fund Balance for the coming year’s budget.)

The largest amount of Assigned Appropriated Fund Balance expended was by the 213 school districts that increased their use of appropriated fund balance. This is done to mitigate the impact of an increased tax levy due to some combination of revenue and expenditures. If revenues fail to keep up with expenditures then more fund balance is pushed into the calculation so that tax levies alone do not carry the entire burden. This group of school districts increased the use of Assigned Appropriated Fund Balance by over $95.5 million; they averaged almost $500,000 increases each. In total, over $511.8 million, an average of $2.4 million was used by these school districts to hold tax levy increases down.
An appropriate rhetorical question would be, “where could these funds come from?” Often they are the delta (difference or change - “Δ”) between budgeted revenues and expenses and actual revenues and expenses. For example, if revenues were higher than anticipated and expenditures were lower than expected, a district would have funds left over (a “fund balance” if you will) from that budget cycle. These funds could be used for an appropriation over the next years to offset taxes, or to reinforce reserves and/or go to unassigned funds as needed or desired within legal limits. Could unanticipated revenues therefore overcome unanticipated expenses, or vice versa, to accomplish the same result?

This problem arises when, as budgets get tighter, that is, that budgeted revenue and expenditure amounts come closer to actual amounts, the ability to create a delta narrows. In some cases school districts have anecdotally reported that their deltas are evaporating quickly particularly over the last few years as their budgets become “tightly”.

The Adjusted Unrestricted Fund Balance serves two purposes. The first is to account for encumbered expenses of the school district that were created in one fiscal year, but are due to be paid in the next. The other is to provide cash on hand for school district emergencies, operations and cash flow. In Real Property Tax Law Section 1318 (RPTL §1318) a limit is set on the amount of unrestricted fund balance a school district may have. Currently 4% of a school district’s subsequent year’s budget may be unrestricted fund balance. Other municipalities do not have such restrictions on cash and unrestricted fund balances. Additionally, it is rare that a 4% unrestricted fund balance is sufficient to meet a school districts cash flow and operational needs. Often funds are temporarily “borrowed” from other school district accounts (reserves and funds) to offset cash flow and operational fund shortages.

According to the Property Tax Report Card the average amount of funds in Adjusted Unrestricted Fund Balance decreased by $195.3 million (-13.9%) between 2011-12 and 2012-13. The funding level dropped from an average of 4.4% (in excess of the RPTL §1318 limit) to 3.7% below the limit. One might conclude that when the average of unrestricted funds fall below the 4% limit it is a potential symptom of fiscal stress and requires further analysis. To that end the data must be further disaggregated to reveal trends and patterns that may shed light on the demographics of school districts that have little or no unrestricted cash fund balance, compared to those that have significant fund balance sums that may exceed legal limits. (In the case of the latter, further investigation than that conducted in this study may provide additional information into the fiscal, operational and educational nuances of that practice.)

These next two scatter plots show the distribution of school districts across New York State with CWRs of .18 to 4.0. Note the large concentration of school districts along the 4% line in accordance with RPTL §1318. This is a normally anticipated occurrence. What is not anticipated, or desired, is the large concentration of school districts of below average to slightly above average CWRs that have less than the 4% of Adjusted Unrestricted Fund Balance. Moreover, there is a concentration of low to slightly above average wealth school districts with below average per student ($775) amounts of Adjusted Unrestricted Fund Balance.
These school districts will face two complications as they move forward. One – they may experience periodic or significant longer term cash flow issues during or throughout the entire school year. In turn, this would lead the school district to four possible actions: First, they could cut expenses during the school year to lessen the impact of expenditures on their cash flow. This has the effect of cutting or deferring critical, high or low priority or marginal infrastructure initiatives. These kinds of actions potentially doom such efforts or the original strategies to failure. Such measures could range from maintenance or purchases plans, to other items like electives, staff development and the like. Second, a school district could delay payments to vendors or other expense outputs. This does not reinforce the school districts credit rating if it is a legal obligation or dealings with vendors if it involves late bill payments. Third, the school district could borrow (as in a “due to; due from” account method) from restricted reserves if they have them. This is a risky practice that could bring the scrutiny of auditors and consternation from a number of other groups. However, this has actually become an all-too-common practice. Fourth, the district could borrow money from the public market in the form of a Revenue Anticipation Note (RAN) or Tax Anticipation Note (TAN), if legally applicable. However, such an action is considered to be only a short term and temporary solution until the district can right its finances.

In any case, an insufficient Adjusted Unrestricted Fund Balance is undesirable and problematic. However, a significant number of school districts find themselves in such a depleted and potentially destructive financial situation.
As noted, with reference to the *Adjusted Unrestricted Fund Balance*, school districts’ characteristics fall into three categories – the *Adjusted Unrestricted Fund Balance* was either reduced, increased or stayed the same. We will now disaggregate the data in such a way as to disclose the demographic patterns that may exist in each category.

### Adjusted Unrestricted Fund Balance

<table>
<thead>
<tr>
<th>Total Number of Districts</th>
<th>671</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total $ Change from 2011-12 to 2012-13</td>
<td>($195,250,321)</td>
</tr>
<tr>
<td>Total % Change from 2011-12 to 2012-13</td>
<td>-13.9%</td>
</tr>
<tr>
<td>Average Amount Per Student</td>
<td>$775</td>
</tr>
</tbody>
</table>

According to the Property Tax Report Card, the *Adjusted Unrestricted Fund Balance* in 2012-13 is reported to be $195.3 million less than in 2011-12. This 13.9% decline will bring these cash balances to $775 on average per student statewide.

Disaggregated data shows that 347 (52%) school districts lowered their *Unrestricted Fund Balance* by a total of $242.6 million for 2012-13 when compared to 2011-12. This is a diminishment of an enormous 31.2% or $699,189 on average. That brought this fund balance down to just $700 per student for these school districts on average – 9.6% less than the average school district statewide. The reason for this decline is unknown, but most likely depends on circumstances in each school district.

Possible causes may include a number of possibilities. Some school districts, in part or completely, may have already created budgets so “tight” over the last few years that they simply have less cash left annually. Other school districts experienced to some degree the increased need for monies to cover *Assigned Appropriated Fund Balances* due to some amalgamation of increased expenses with insufficient source of revenue to cover them. For still others it could be the need to increase funds in the *Adjusted Restricted Fund Balance* due to increased liabilities incurred by the school district for a multitude of reasons from tax certiorari claims, unemployment insurance demands, termination or severance payouts, or under-budgeted items such as pension costs or employee medical insurance premiums. In actuality, it could be all of these possibilities or more.

<table>
<thead>
<tr>
<th>Total Number of Districts</th>
<th>291</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total $ Change from 2011-12 to 2012-13</td>
<td>($612,750,332)</td>
</tr>
<tr>
<td>Total % Change from 2011-12 to 2012-13</td>
<td>-20.1%</td>
</tr>
<tr>
<td>Average Amount Per Student</td>
<td>$847</td>
</tr>
</tbody>
</table>

Disaggregated data shows that 33 (5%) school districts maintained their previous balances of $1.9 million on average. Another 291 (38%) districts increased their balances for 2012-13. However, of those 291 school districts, 57% reduced their *Adjusted Restricted Fund Balance*.
Balances simultaneously. School districts that increased their cash balances make available, on average, $847 per student, and 9.3% above the statewide average.

The maximum allowable amount of Adjusted Unrestricted Fund Balance is the basic life blood of a school district’s cash flow. The greater the amount, the better the school district’s ability to maintain needed cash flow. Absent cash flow these school districts experience periodic or continued structural deficits during a single fiscal year or longer. Such situations are often remedied with the use of borrowings such as a Revenue Anticipation Note (RAN) or Tax Anticipation Note (TAN). The use of these borrowing mechanisms are not permitted long term when lenders see no realistic end to root cause cash flow issues. The use of either of these mechanisms costs these school districts money in interest payments and issuance costs and is a symptom of a tenuous fiscal condition in need of long term remedy.

The tenuousness of the cash flow of school districts can be identified in part by an examination into the amount of Adjusted Unrestricted Fund Balance.

<table>
<thead>
<tr>
<th>Adjusted Unrestricted Fund Balance</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Noteworthy: Districts Retained $0 Adj. Unrestricted Fund Balance</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &lt;4% Adj. Unrestricted Fund Balance</td>
<td>450 (67.1%) Avg. % of Budget= 3.0%</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &lt;3% Adj. Unrestricted Fund Balance</td>
<td>129 (28.6%) Avg. % of Budget= 1.7%</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &lt;2% Adj. Unrestricted Fund Balance</td>
<td>75 (11.2%) Avg. % of Budget= 1.1%</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &lt;1% Adj. Unrestricted Fund Balance</td>
<td>28 (4.2%) Avg. % of Budget= 0.38%</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &gt;=4% Adj. Unrestricted Fund Balance</td>
<td>221 (32.9%) Avg. % of Budget= 6.76%</td>
<td></td>
</tr>
<tr>
<td>Noteworthy: Districts Retained &gt;4% Adj. Unrestricted Fund Balance</td>
<td>115 (17.1%) Avg. % of Budget= 9.3%</td>
<td></td>
</tr>
</tbody>
</table>

Analysis of these data show that seven school districts declared no Adjusted Unrestricted Fund Balance at all. In total, 28 school districts (4.2%) have less than 1% cash on hand; cumulatively, 75 school districts (11.2%) have less than 2%. Those with less than 1%, the average amount is only .38% of budget and those with less than 2%, the average amount is just about 1% cash on hand as a ratio to budget.

The 129 school districts (28.6%) with less than 3% Adjusted Unrestricted Fund Balance maintain only 1.7% of budget as a cash flow source while 450 (67.1%) have less than the permitted 4% of budget as a cash source. The latter group averages only 3% of budget. As reported, less than a third (32.9%) of all school districts has an Adjusted Unrestricted Fund Balance equal to or greater than the 4% permitted. They average about 5.7% of budget for cash on hand.

The 115 school districts (17.1%) that reported an Adjusted Unrestricted Fund Balance in excess of 4% maintain an average of 8.2% of budget as cash. The reasons for this amount of cash are unknown. For about a quarter of these 115 school districts the amount over the 4% limit is only a few tenths of a percent at best, with about a third of these school districts still under 5%. None of which could be typified as a real issue. Many others have little dedicated to restricted fund reserves. Perhaps the constant use of cash to offset cash flow and loss of cash as appropriated fund balances due to continuous state aid cuts and escalating costs have made the creation, tapping or relocation of funds constantly an inefficient use of time and resources.

In many cases, the amounts of money above 4% are simply not a significant sum. For instance, some school districts have what appears to be significant cash on hand as percent of budget, but, in actuality, a small amount of money may look like a big percent of budget when the budget is small due to the size of the school district – and, as this study makes painfully clear, there are many small school districts.
There has also been a quick, but short-lived infusion of cash into some school districts due to such things as Windmill Farms, housing PILOTs (Payments In Lieu of Taxes), or other economic development in certain parts of the state. This phenomenon yields a significant amount of cash to the school district that is difficult to absorb instantly, yet may be needed to sustain the school district long after the short term PILOTs run out.

The Adjusted Restricted Fund Balance is made up of a number of “reserves.” Each reserve is dedicated to some future cost to be borne by the school district. For example, the Employee Benefit Accrued Liability Reserve (EBALR) is used to pay employees when they leave school district employment for such things as unused sick or vacation days. (For more information and an audit sample from the Office of the Comptroller see http://www.osc.state.ny.us/localgov/audits/swr/ebalr.pdf) Obviously each school district has such a liability and it must be determined by an actuarial study. However, not all school districts have created such a reserve.

Whether a school district has such a reserve or not, they will most certainly have a liability. Permissible uses of the reserve are provided under the General Municipal Law (GML 6-p). Those that have such a reserve have, over the past two years, been able to remove portions of the reserve amount with approval of the Comptroller if the reserve is determined to be overfunded. To be clear, a school district cannot simply remove monies from the EBALR funds to supplant a school district budget revenue shortfall and then redirected to an appropriated fund balance to offset tax increases at the will of the board of education. The use of the fund is specifically restricted. The Office of the Comptroller has provided significant guidance on the reallocation mechanisms required for 2012-13. Should a school district wish to reallocate such funds upon reassessment of actuarial needs, the amounts to be left in and removed from the fund are subject to the approval of the Office of the Comptroller.

Other reserves include, but are not limited to, for Employees Retirement System (ERS) payments, tax certiorari claims against the school district, and unemployment insurance. Such reserves also serve to fund school district liabilities that are believed to exist and into the future. These tend to be more fluid in nature as the school district continuously examines liabilities and exposure to financial issues related to each reserve. The Repair, Capital and Mandatory Reserve for Debt have specific functions and restrictions with regard to their creation, funding, use and transfer that make altering their use as an appropriated fund balance to offset taxes, for example, extremely more difficult and in some cases subject to voter approval.

Despite the fact that a district cannot move these “restricted” reserves around to merely reduce or eliminate tax increases, for the purposes of this research, such an exercise has nonetheless been undertaken. This will illustrate the point that no matter how much money some school districts have – or where they have it – there will not be enough to sustain their fiscal and educational programs.

<table>
<thead>
<tr>
<th>2011-2012 Adj Restricted Fund Balance</th>
<th>2012-2013 Adj Restricted Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,619,967,841</td>
<td>$3,333,506,277</td>
</tr>
<tr>
<td><strong>Year to Year Chg $</strong></td>
<td><strong>($286,461,564)</strong></td>
</tr>
<tr>
<td><strong>Year to Year Chg %</strong></td>
<td><strong>-7.9%</strong></td>
</tr>
</tbody>
</table>

According to the Property Tax Report Card the amount of Adjusted Restricted Fund Balance has dropped by $286.5 million (-7.9%) in a single year. The reason for this decrease is unknown.

A logical presumption for the decrease is that school districts actually may be using these funds for their intended purpose – to cover certiorari claims, pay down debt on buildings sold by the school district, cover ERS cost increases and the like. There may be another explanation upon further reflection and analysis. Funds
designated in some of these accounts do not need to be funded at current levels and the monies were transferred to the general fund to be used as an Adjusted Unrestricted Fund Balance to assist with cash flow. Yet another possible reason for the decrease is that regardless of the coverage afforded by these funds, that were created to offset long term liabilities, the school district, after careful analysis, has made the choice that the funds would better serve the school district as an offset to the tax levy (as an Assigned Appropriated Fund Balance). This could then assist the school district in its attempt to fill the gap created between revenues (state aid being among the largest other that the local tax levy, especially in low wealth school districts) and expenses the school district believes it will incur in the next fiscal year. Or it could be some combination of all of these strategies.

The last strategy that many districts have employed is the most problematic. If funds are taken from reserves where liabilities are known to exist, the school district will sooner or later have to fund those liabilities. Incurring additional debt would gain some relief from such a difficulty, but when a school district incurs debt, as in personal finance, there is a cost – for school districts, that cost includes issuance fees and interest charges, which then will become an additional cost to the school district’s expense burden. Granted, these costs in the short term will have less of an effect on school district finances, operations and the educational program than the immediate loss of a large sum of cash, but they will become a long term, albeit smaller, cost to the school district. The trade offs and choices are not good when the school district experiences significant differences between its revenues and expenditures and simultaneously either desires to or believes it must hold down the impact on taxpayers with little immediate relief to the expense escalation problems in sight.

When one looks at disaggregated data, certain themes emerge. There were 412 (61.4%) school districts that reduced their Adjusted Restricted Fund Balance between 2011-12 and 2012-13 based on school district submissions for the Property Tax Report card. This reduction was significant. These school districts reduced funds by $394.5 million (a reduction of 16.1%) to an average reduction of almost $957,000 each. On a per student basis, these school districts reduced the amount of Adjusted Restricted Fund Balance by $2,027 (a 5% reduction). Simultaneously the Adjusted Unrestricted Fund Balance for 2012-13 was reduced over 13% from the previous year. Clearly the depletion of different fund balances is hitting a significant sum. (See data provided above in the first portion of Adjusted Unrestricted Fund Balance section.) In particular, these 412 school districts plan to deplete a considerable amount of cash.

A possible cause for a reduction of the Adjusted Restricted Fund Balance is that the school district, in part or completely, paid down some of their liabilities. For instance, they may have paid a tax certiorari claim, or paid a portion of their ERS liability or unemployment insurance liability with these reserves. Further, some of the funds could have been used in conjunction with EXCEL building aid funds for capital construction projects. Or, as has been articulated anecdotally, funds may have been used to recreate the same or increased amount of Assigned Appropriated Fund Balance. The result of this action is that it would offset tax levies as regular expenses continue to outstrip changes to state aid and/or other
revenues. Additionally, these funds could assist in the absorption of items that are eligible as exemptions under the Tax Cap in order to moderate the levy increase or to mute the affect of the portion of the tax levy limit calculation that can decrease the eligible tax levy limit due to certain PILOT agreements.

There are two cautions with the **Assigned Appropriated Fund Balance** strategy. First, the school district must understand that once this money is used as an **Assigned Appropriated Fund Balance**, the money then takes the place of a portion of the levy and is now gone. The **Assigned Appropriated Fund Balance** will need to be replenished to some degree with additional funds over time. Second, if the funds were secured from the properly funded or underfunded **Adjusted Restricted Fund Balance**, the liabilities for which the **Adjusted Restricted Fund Balance** were created still exist and will come due at some point and will need to be paid – which will further exacerbate the school districts’ financial situation. Regardless of which of these strategies a school district might use, if expenses continue to outstrip revenues, the school district will fall closer to structural deficit.

By contrast 190 school districts increase the overall amount in their **Adjusted Restricted Fund Balance**.

<table>
<thead>
<tr>
<th><strong>Adjusted Restricted Fund Balance</strong></th>
<th>190</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased from 2011-12 to 2012-13</td>
<td></td>
</tr>
<tr>
<td>Of the 190 That Increased: Amount Increased</td>
<td>$108,061,547</td>
</tr>
<tr>
<td>Of the 190 That Increased: Average Amount Increased</td>
<td>$568,745</td>
</tr>
<tr>
<td>Of the 190 That Increased: Amount Retained</td>
<td>$1,038,124,011</td>
</tr>
<tr>
<td>Of the 190 That Increased: Average Amount Retained</td>
<td>$5,463,811</td>
</tr>
<tr>
<td>Of the 190 That Increased: # of Students</td>
<td>394,549</td>
</tr>
<tr>
<td>Of the 190 That Increased: Amount per Student</td>
<td>$2,631</td>
</tr>
<tr>
<td>Of the 190 That Increased: Amount per Student to Average</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

This reflects a total and not an account of each reserve fund within the **Adjusted Restricted Fund Balance**. It is very possible that every currently funded reserve could have remained exactly the same but additional reserves were created to protect the school district against new or previously unfunded liabilities. Moreover, there could be changes in some or all of the reserve funds as increases and/or decreases in total represent a reallocation of the reserves based upon a new assessment of liability exposure.

Again, the reasons for such changes are unclear and no extensive data exists from which to discern themes or generalizations. However, there are possibilities. Perhaps liabilities against the school district grew and caution was taken to reserve money to cover an inevitable pay out. Conceivably, a school district may have had the opportunity to fully fund, or more appropriately fund, liabilities that already existed, but were underfunded compared to those already created to cover the known liability. It is also possible that reserves were bolstered to ensure greater amounts of “rainy day” funds and/or to shield the school district from criticism for an **Adjusted Unrestricted Fund Balance** in excess of 4%.

These latter strategies would have been an attempt to maintain the fiscal integrity of the school district long term and draw attention to the skepticism which many have about practitioner’s view the inadequate limits RPTL §1318 places on a school district’s **Adjusted Unrestricted Fund Balance**. School district operational expenses continue to escalate at greater rates than state aid increases or the ability of school districts to secure enough tax revenue to fill in the expense-to-revenue gaps that continue to grow. Additionally, as budgets get tighter due to expense escalations and revenue diminishments, the ability to recoup money to recreate the **Adjusted Unrestricted Fund Balance** becomes more difficult. Anecdotally, many school districts have reported that such strategies will be short-lived in any case as their fiscal condition worsens despite significant staff, educational program and operational cuts over the last few years. In many cases it has been reported that there is so little left to cut, so little to be
gained through consolidation of back office functions or other attempts as shared services, that the school district will simply cease to function as intended, required or desired.

Another phenomenon could be at work. It is possible that as a school district chooses to more fully fund their Adjusted Restricted Fund Balance liabilities at the expense of the Adjusted Unrestricted Fund Balance. It is equally possible that some school districts have insufficient funds to do either well – or well enough – to continue as a viable educational and fiscal entity over the long term. Of the 190 districts that increased their Adjusted Restricted Fund Balance, 43% (82) also simultaneously reduced their Adjusted Unrestricted Fund Balance. This is an indication of fiscal pressure and must be taken seriously.

There are school districts that have less Adjusted Restricted Fund Balance and less Assigned Appropriated Fund Balance from 2011-12 to 2012-13. A little over a third (33.5%) of all school districts contained in the Property Tax Report Card reported that they will reduce their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance simultaneously. These 225 schools districts reflect a total reduction of their school district funds by $333.95 million between 2011-12 and 2012-13. This is an average of $1.48 million per school district for this data set. The amount is significant when considerable staff and operational cuts were made by these school districts in almost every case.

The disaggregation of these data suggests that a substantial amount of funds were jettisoned by the affected school districts. For 30 (13%), these two fund balances were reduced by over $3 million. Put another way, 128 (57%) of these districts jettisoned over $500 in fund balances per student, While 40 districts (18% of the 225; 31% of the 128) reduced fund balances by over $1,000 per student. In some cases the loss of fund balance is the absolute value of the total amount of additional aid realized by these school districts in the enacted 2012-13 education aid budget. In such cases the implication is that their increase in aid was only half of what such school districts needed to maintain their budgets.

The wealth distribution of these 225 school districts points to a number of below average wealth/ high poverty school districts for which such a continued practice moves them closer to educational and fiscal insolvency. The average CWR for these 225 school
districts is .98 – this is below average. Further, of the 225 school district is this group, 160 (71%) are below average CWR; only 19 (8%) have a CWR greater than 2.0. Additionally, the average FRPL average for this group is .38, with 133 school districts (59%) having FRPLs equal to or higher than .35. Thus, of the school districts that reduced both their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance simultaneously, this group was of lower wealth than average and experienced considerable measures of poverty.

On the other hand, there were 85 school districts (12.7%) that increased both their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance from 2011-12 to 2012-13. These 85 school districts reflect a total increase of their school district funds by a mere $74,213 between 2011-12 and 2012-13. This is an average of $873 per student for this group. On average the amount added to school district coffers appears insignificant but is a curious anomaly considering increases in state aid and escalation in the expenses of most school districts that caused them to cut programs, service and operations.

However, the disaggregation of these data suggests that generally this population of school districts are much wealthier and have less poverty than those school districts that simultaneously experienced losses in both their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance from 2011-12 to 2012-13. The average CWR for these 85 school districts is 2.12; this is over twice the average wealth of a school district in New York State. Further, of the 85 school districts in this group, 44 (52%) are above average CWR; 18 (21%) have a CWR above 2.0. Additionally, the FRPL average for this group is .29 with 37 school districts (44%) having FRPLs equal to or higher than .35. Thus, of the school districts that increased both their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance simultaneously, as a group they were of higher wealth than average and experienced, by comparison, moderate measures of poverty.
Alarmingly, while some school districts increased and/or decreased their Adjusted Restricted Fund Balance, five school districts reported NO Adjusted Restricted Fund Balance at all.

These scatter plots examine the amount of per student Adjusted Restricted Fund Balance. Note, AGAIN, the large concentration of school districts with low to slightly above average CWRs. Those with the lowest per pupil amounts (303 school districts or about 45% of the 671 that file the PTRC) are below average. These school districts are clearly those with the least fiscal capacity to recoup such funds.

As all school districts have liabilities for employee benefits upon severance from the district, workers compensation costs, ERS costs – and many also have tax certiorari liabilities pending that a single year’s budget cannot absorb, it is reasonable to assume that these numbers would be more robust. Clearly, this is an exceedingly difficult condition for those school districts that possess the least fiscal capacity in the state.

**What the Long-Term Fiscal Landscape Looks Like Based on Fund Balance Data**

It is important to keep in mind that each of the three fund balance categories has a specific purpose. As discussed earlier, the role of the Assigned Appropriated Fund Balance is to bridge the gap between revenues and expenditures and mitigate the impact of both on the tax levy. The tax levy is bound by Tax Cap statute that defines the rules for tax levy increases. The first part of the computation of the current year’s tax levy limit begins with the previous year’s tax levy. The previous year’s tax levy is directly related to an Assigned Appropriated Fund Balance for that budget year. The most recent approved tax levy was thus propped up by the Assigned Appropriated Fund Balance. As this cycle will continue under current circumstances, the Assigned Appropriated Fund Balance therefore must be recreated in whole or in part.

It is equally important to remember that the mission to recreate the Assigned Appropriated Fund Balance amount must be maintained year after year if expenses continue to outstrip revenues. Without the funds allocated in the Assigned Appropriated Fund Balance, the levy would be, in almost every case, significantly higher and unacceptable to voters. This means that as the Tax Cap computation for the 2013-14 tax levy begins and state aid revenues again are insufficient to meet the escalation of expenses
to maintain staff, programs and operations, school districts must find a way to replenish the Assigned Appropriated Fund Balance amount from 2012-13, or more cuts will be needed to meet the tax levy limit or to create a budget and levy voters will accept.

The reconstitution of the Assigned Appropriated Fund Balance is usually accomplished with the delta between actual revenues and expenditures and budgeted revenues and expenditures. The creation of appreciable amounts of funds from that delta is made more difficult as budgeting is more accurate or tight. (There is a difference—a budget is considered accurate if “in the end” the budgeted amounts are close to the actual expenditure and revenue amounts leaving little or no residual funds for future use, by contrast a budget is tight is when, in operation, there is no plan for variances, with little room for emergency expenses, unforeseen or unknown costs and revenue disappointments that tradeoffs may be necessary through triage that may lower educational or fiscal goals, drain future cash reserves and so on.) The absence of an Adjusted Unrestricted Fund Balance in particular and an Adjusted Restricted Fund Balance also hinders cash flow to such an extent that some districts must periodically borrow to pay bills. Increasingly, school districts make inter-fund transfers from the Adjusted Unrestricted Fund Balance to offset budget shortfalls as they occur – thus more cash is lost. Over time there has been a great reliance on the Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance as sources of funds for the replenishment of the Assigned Appropriated Fund Balance.

To test the ability of school districts to replenish their Assigned Appropriated Fund Balance with monies from either their Adjusted Restricted Fund Balance or Adjusted Unrestricted Fund Balance or both, the following data scenarios have been developed for analysis. The implications of these data scenarios are ominous.

The first data set scenario uses the Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance. These data are disaggregated so as to determine how many years the Adjusted Unrestricted Fund Balance could replenish the Assigned Appropriated Fund Balance as both are currently funded by each school district. Additionally, the average CWRs and FRPL percents are provided to determine if there are any wealth and/or poverty themes that emerge.

Based on data contained in the Property Tax Report Card it can be determined that 317 (47.2%) of all school districts have only enough Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than one more year. School districts in this group have an average CWR of 1.0 (at the state average) and a FRPL of .36 (enough to put a strain on below average and average wealth school districts).

Deeper disaggregation yields a dim picture for the neediest school districts, as noted. The neediest school districts have the least capacity to recover from state aid losses, revenue losses and cost escalations. The median CWR for these 317 school districts is well below average at .71. The median FRPL is well above average at .40. (Again, the state average for FRPL is about .345.) From this data set, 57 school districts (18%) have CWRs less than .5 (less than half the state average wealth) and 120 (38% of this data set) have CWRs less than .60. Furthermore, 75 school
districts (23.7%) have a FRPL percent higher than .5 and 27 (8.5%) higher than .6 (these are high poverty school districts).

Moreover, 539 (80.3%) of all school districts have simply enough Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than two full years. School districts in this group have an average CWR of 1.2 and a FRPL of .34 (enough to put a strain on below average and average wealth school districts). These data are about at the state averages.

Additional analysis reveals that the median CWR for these 539 school districts is well below average at .735. The median FRPL is above average at .357. From this data set, 101 school districts (15% of all reported) have CWRs less than .5 (less than half the state average wealth) and 192 (28.6%) have CWRs less than .60. Furthermore, 121 school districts in this data set only have a FRPL percent higher than .5 and another 46 are higher than .6 – these are high poverty school districts. Again, by and large, these school districts, are the least likely to have the capacity to replenish fund balances under any current fiscal arrangement.

Finally, 598 (89.1%) of all school districts have just enough Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than three full years. School districts in this group have an average CWR of 1.18 and a FRPL of .34. These data are close to the state averages.

However, the median CWR for these 598 school districts is well below average at .73. The median FRPL is well above average at .36. From this data set, 119 school districts (17.7% of all school districts where data appear in the Property Tax Report Card), have CWRs less than .5 (less than half the state average wealth) and 215 (32% of those reported) have CWRs less than .60. Further, 134 school districts have a FRPL percent higher than .5 and 48 higher than .6 (these are high poverty school districts). And these school districts are the least likely to have the capacity to replenish fund balances under any current fiscal structure.

By comparison, school districts with the least wealth and significant poverty, on average, have the least capacity to use their Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance. The first data set also points out that almost half of the school districts don’t have enough Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance for a single year. Over 80% of school districts are in the same dilemma covering a span of less than 2 years in this scenario. The caveat in the use of the Adjusted Unrestricted Fund Balance for this purpose is that it will virtually ruin a school district’s cash flow unless the level of these funds are significantly higher than allowed by law. Absent significant decreases in expenses and increases in revenues such as state aid,
fund balances, in general, will continue to dissolve and fiscal insolvency appears more like for many – sooner rather than later.

The second data set scenario uses the Adjusted Restricted Fund Balance to replenish the Assigned Appropriated Fund Balance for 2012-13. Remember that this can most probably occur only “on paper” and would be extremely difficult to actually carry out for most school districts, and due to EBALR reserves in particular – would be legally questionable at best. That said, for purposes of this “exercise”, these data too are disaggregated so as to determine how many years the Adjusted Restricted Fund Balance could replenish the Assigned Appropriated Fund Balance as both are currently funded. It should be noted that statewide, the total amount of Adjusted Restricted Fund Balance is 2.75 times larger than the total of the Adjusted Unrestricted Fund Balance; that is, the Adjusted Restricted Fund Balance totals over $3.33 billion and the Adjusted Unrestricted Fund Balance totals more than $1.21 billion.

<table>
<thead>
<tr>
<th>Adjusted Restricted Fund Balance to Replenish Assigned (Appropriated FB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disaggregated Data</strong></td>
</tr>
<tr>
<td># Under 1 Year</td>
</tr>
<tr>
<td>% Under 1 Year</td>
</tr>
<tr>
<td>CWR Average</td>
</tr>
<tr>
<td>FRPL Average</td>
</tr>
<tr>
<td>CWR Median</td>
</tr>
<tr>
<td>FRPL Median</td>
</tr>
<tr>
<td>CWR &lt; .5</td>
</tr>
<tr>
<td>CWR &lt; .6</td>
</tr>
<tr>
<td>FRPL &gt; .5</td>
</tr>
<tr>
<td>FRPL &gt; .6</td>
</tr>
</tbody>
</table>

Property Tax Report Card data analysis reveals that 130 (19.4%) of all school districts have merely enough Adjusted Restricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than one more year. School districts in this group have an average CWR of .90 (below the state average) and a FRPL of .39 (more than enough to put a strain on below average and average wealth school districts).

The median CWR for these 130 school districts is well below average at .67 (only two thirds of the state average wealth). The median FRPL is well above average at .40. From this data set, 34 school districts (5.1% of the all school districts with data in the Property Tax Report Card) have CWRs less than .5 (less than half the state average wealth) and 57 (8.5% of all reported) have CWRs less than .60. Furthermore, 40 school districts have a FRPL percent higher than .5 and 17 higher than .6 (these are high poverty school districts). These school districts have severely diminished capacity to replenish fund balances.

Additionally, 279 (41.6%) of all school districts have just enough Adjusted Restricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than two full years. School districts in this group have an average CWR of 1.1 (slightly above the state average wealth) and a FRPL of .36 (enough to put a strain on below average and average wealth school districts).

The median CWR for these 279 school districts is well below average at .75 (only three quarters of the state average). The median FRPL is about average at .36.

From this data set, 52 school districts (7.7% of all school districts with data in the Property Tax Report Card) have CWRs less than .5 (less than half state average wealth) and 96 (14.3% of those reported) have CWRs less than .60. Furthermore, 70 school districts have a FRPL percent higher than .5 and 31 higher than .6 (these are high poverty school districts). These school districts also have severely diminished capacity to replenish fund balances.
Finally, 390 (58.1%) of all school districts have only enough Adjusted Restricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than three full years. School districts in this group have an average CWR of 1.14 (slightly above the state average) and a FRPL of .35.

The median CWR for these 390 school districts is well below average at .75 (only three quarters of the state average wealth). The median FRPL is about average at .36. From this data set, 76 school districts (11.3% of the entire school district data set in the Property Tax Report Card) have CWRs less than .5 (less than half the state average wealth) and 131 (19.5% of those reported) have CWRs less than .60. Furthermore, 91 school districts have a FRPL percent higher than .5 and 39 higher than .6 (these are high poverty school districts).

By comparison, again, school districts with the least wealth and significant amount of poverty on average have the least capacity to use their Adjusted Restricted Fund Balance to replenish the Assigned Appropriated Fund Balance. The first data set also points out that almost 20% of the school districts don’t have enough Adjusted Restricted Fund Balance to replenish the Assigned Appropriated Fund Balance for a single year; almost 42% of school districts are in the same predicament in less than 2 years in this scenario. The caveat in the use of the Adjusted Restricted Fund Balance for this purpose is that these funds almost always represent known and calculated school district liabilities or other specific purposes. Those liabilities and purposes will remain even if these funds are removed.

The third data set scenario uses both the Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for 2013-14 and beyond. Congruent data sets are used for comparison purposes. The same caveats are in place for the use of any or all of these funds. The total amount of funds available for this exercise is $4.54 billion.

Property Tax Report Card data analysis suggests that 37 (5%) of all school districts have merely enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than one more year. School districts in this group have an
average CWR of .80 (below the state average) and a FRPL of .40 (easily more than enough to put a strain on below average and average wealth school districts).

The median CWR for these 37 school districts is well below average at .61 (less than two thirds of the state average wealth). The median FRPL is well above average at .44. From this data set, 11 school districts (1.6% of the entire school district data set in the Property Tax Report Card) have CWRs less than .5 (less than half the state average wealth) and 19 (2.8% of those reported) have CWRs less than .60. Furthermore, 13 school districts have a FRPL percent higher than .5 and five are higher than .6 (these are high poverty school districts). Please note again that this exercise uses every penny of cash these school districts have. They have reached a funding cliff. They are below average wealth, have significant poverty and there is little relief in sight to regain their fiscal foundation.

In addition, 148 (22.1%) of all school districts have only enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than two full years. School districts in this group have an average CWR of .97 (below the state average wealth) and a FRPL of .39 (enough to put a strain on below average and average wealth districts).

The median CWR for these 148 school districts is well below average at .69 (about two thirds of the state average). The median FRPL is about average at .39. From this data set, 32 school districts (4.8% of the entire district data set in the Property Tax Report Card) have CWRs less than .5 (less than half the state average wealth) and 58 (8.6% of those reported) have CWRs less than .60. Furthermore, 44 school districts have a FRPL percent higher than .5 and 18 higher than .6 – these are high poverty school districts. Again, the theme repeats itself. Clearly a significant number of school districts face fiscal structural issues with few prospects for improvement of their current trajectory.

Finally, 261 (38.9%) of all school districts have basically enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the 2012-13 Assigned Appropriated Fund Balance for less than three full years. School districts in this group have an average CWR of 1.11 (above the state average) and a FRPL of .35.

The median CWR for these 261 school districts is well
below average at .75 (only three quarters of the state average wealth). The median FRPL is about average at .36. From this data set, 46 school districts (6.9% of the entire school district data set in the Property Tax Report Card) have CWRs less than .5 (less than half the state average wealth) and 85 (12.7% of those reported) have CWRs less than .60. Furthermore, 60 school districts have a FRPL percent higher than .5 and 26 higher than .6 (denoting that these are high poverty school districts). These data are alarming in light of this exercise that simply eliminates every penny of cash a district possesses. No plan cover the next three years has seriously discussed – or even mentioned publically by any state legislator or the governor that could remedy this intensified fiscal, educational and operational conundrum.

By comparison, even through the use of all available fund balances, school districts with the least wealth and an appreciable amount of poverty on average have the least capacity to use their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance. This third data set scenario also points that 5% of school districts don’t have enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance for a single year; over 22% of school districts are in the same quandary in less than 2 years using this scenario; and almost 39% of all school districts are in the same predicament in less than three years. These data point to a significant and shocking danger signal that warns of the real potential for an educational catastrophe in the not too distant future. The simultaneous and complete use of the Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance for this purpose would be an unmistakable disaster because absent these funds a district cannot operate.

**The Pace of Fiscal Change**

Our research begs another direct question – “What will be the pace of fiscal change?” This expression represents the rate at which school districts spend state aid money, their own reserves and still attempt to raise tax levies over a given period of time to support their programs and operations. To illustrate the point examine the chart below.

The sum of all Adjusted Restricted Fund Balances and Adjusted Unrestricted Fund Balances in New York State school districts for 2011-12 was just over $5 billion. By 2012-13 that amount had diminished to roughly $4.5 billion; that’s a decrease of almost half a billion dollars ($482 million) in a single fiscal year. This 9.6% decrease in fund balances was due, to some degree, to the use of a portion of these monies to
create an Assigned Appropriated Fund Balance. Simultaneously, school districts acquired almost $752 million in new state aid for 2012-13. In this same period they also cut staff, operations and programs. Yet they tried to raise their levies concurrently. All this was done to ensure that school districts could continue to finance programs and operations.

With the loss of almost half a billion dollars of reserves and a gain of $752 million in new state aid directly to school districts, it can accurately be asserted, that (not counting the actual budgets) accumulated expenses or anticipated expenses school districts will consume at least $1.2 billion – even after taxes are raised for 2012-13. This is the pace of change and absent these consumed fund balances school districts will not be able to keep up this pace. This pace of change will be especially complicated in 2013-14 as state aid that is directly sent to school districts is expected to be reduced to about $712 million according to recent estimates by the Office of the Comptroller. At this rate, clearly, school districts will not be able to keep up and will continue down a slippery fiscal and educational slope to insolvency.

Also note the pace of change to “fully fund” Foundation Aid statewide and eradicate the entire GEA cuts identified, calculated and analyzed earlier in this paper. When the rate of infusion of funds into the school district revenue stream is compared to the continuous escalation of costs and the resultant loss of staff, programs, reserves and the ability to accomplish the mission of the school district, there can be little to no doubt that a real disaster is on the horizon for many communities and the eco-educational foundation of the state will be placed into serious jeopardy.

With no significant modifications made to the education aid formula, a significant number of school districts will not have the cash reserves to sustain themselves over the next two years as they face state-created mandates, contractual obligations, and health insurance and pension costs. Simply put, in many locales residents will not be able to fund their school district.

Other Challenges School Districts Face

Why is next year’s possible scenario worse than the current condition? By law, state aid to school districts was allowed to increase by 4.1% -- roughly $805 million. As noted earlier in this paper, some funds are skimmed off for grants, teacher centers and the like. By the time direct aid was distributed, $752 million (just 93.4%) of that money found its way directly to school districts across New York State. The way the $752 million is doled out is clever. First from the $752 million comes expense driven aids. The remainder is left for use as a GEA cut reduction and/or to increase Foundation Aid as the Governor and legislature see fit. Foundation aid made up and additional $111.5 million of the state aid; the GEA cuts were reduced by $400.2 million and expense driven aids made up the balance at about $240.1 million.

Next year only a 3.5% increase in total aid is in the offing. That’s only about $712 million. The following is possible extrapolation from the 2012-13 aid distribution. To start – for argument’s sake let us again
leave last year’s 93.4% payout rate of the original amount aid increase for direct distribution to school districts after grants, teacher centers and the like are subtracted out.

<table>
<thead>
<tr>
<th>Program</th>
<th>2010-11</th>
<th>2011-12</th>
<th>$ Change</th>
<th>2012-13</th>
<th>$ Change</th>
<th>% Change</th>
<th>2012-13</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Aid</td>
<td>$14,894</td>
<td>$14,893.6</td>
<td>$0.0</td>
<td>$15,005.2</td>
<td>$111.5</td>
<td>0.7%</td>
<td>$15,005.2</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Building Aid</td>
<td>$2,489</td>
<td>$2,633</td>
<td>$144</td>
<td>$2,721.0</td>
<td>$88.0</td>
<td>3.3%</td>
<td>$2,811.0</td>
<td>$90.0</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other Aids</td>
<td>$4,479</td>
<td>$4,288</td>
<td>-$191</td>
<td>$4,439.7</td>
<td>$152.0</td>
<td>3.5%</td>
<td>$4,594.7</td>
<td>$155.0</td>
<td>3.5%</td>
</tr>
<tr>
<td>Gap Elimination Adjustment</td>
<td>-$2,138</td>
<td>-$2,556</td>
<td>-$418</td>
<td>-$2,266.7</td>
<td>$289.8</td>
<td>-11.3%</td>
<td>-$1,846.7</td>
<td>$420.0</td>
<td>-19.5%</td>
</tr>
<tr>
<td>Restoration of GEA</td>
<td>$0</td>
<td>$0</td>
<td>$110.4</td>
<td>$110.4</td>
<td>$0</td>
<td>0.0%</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Federal Offset to 2010-11 GEA</td>
<td>$726</td>
<td>$0</td>
<td>-$726</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
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<tr>
<td>Federal Education Jobs Fund</td>
<td>$608</td>
<td>$0</td>
<td>-$608</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>FMAP Reduction (State Medicaid Shortfall)</td>
<td>-$132</td>
<td>$0</td>
<td>$132</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
<td>$0</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Aids</strong></td>
<td>$20,925.1</td>
<td>$19,257.8</td>
<td>-$1,667.3</td>
<td>$20,009.6</td>
<td>$751.8</td>
<td>3.9%</td>
<td>$20,564.2</td>
<td>$665.0</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Possible Extrapolation

All 2012-13 Aid to Education was $20.34 billion; “Formula Driven Aids” are noted above (All aids for 2013-14 will increase $712 million (PIT=3.5%); Formula Aid averaged 93.4% of that or about $665 million.)

That leaves $655 million. Subtract $245 million in expense driven aids from that and you get $420 million left over for GEA reductions (the most equitable plan) and potential increases to the inequitable Foundation Aid amount. That’s about 19.5% less “operational” aid to directly to school districts.

Another problem by all accounts is that the expense increases for pensions and medical insurance, and in some school districts, labor costs continue to escalate at a far greater rate that the rate of inflation or the ability of the Tax Cap to absorb. These pensions are extremely problematic in that they are tied to salary, have increased dramatically recently and are anticipated to continue to increase considerably. We look forward to pension updates from the Teachers’ Retirement System, the Employees’ Retirement System (who have already noted a 2 percentage point increase for next year -that’s about an 11% expense increase on average), and analysis and projections from the Office of the Comptroller and the Empire Center for New York State Policy. Tax Cap exemptions could also be an issue here.

Medical insurance is a factor not only for active employees but legacy costs for retirees. Some school districts offer little health coverage after retirement, but a vast number do and a significant number of those that do require little or no retiree contribution. School districts have made serious attempts, some successful and some not, to control these costs. They have negotiated settlements with unions that increased co-pays for health visits, treatment and prescriptions, changes to plan documents and coverage, self insurance plans and insurance cooperatives. These efforts notwithstanding, school districts find the savings are often marginal and/or short lived.

This creates an exceptionally difficult situation for school districts as they try to balance their budgets and secure voter approval for their annual financial plan. Voter anxiety over school expenses, collective bargaining agreements and other issues have changed the strategies of many school districts as they try to stem voter dissatisfaction by cutting staff, programs and using more fund balance – if any still exist.

A school district’s financial plan is tied to its educational programs, student demographic and performance issues, co-curricular and interscholastic programs, community initiatives, use of its grounds and buildings, capital improvement, maintenance and bus purchase plans. And these in turn are inextricably linked to community politics and the often overlooked desirability of the school district/community as a magnet for increased economic development. As queried earlier in this paper,
what business or industry wants to relocate or continue business in a school district/community that is in decay?

Care should be taken to understand that while New York State may be “Open for Business”, many struggling school districts/communities are not attractive business location targets. Annually less appear attractive as business locations after reports of fiscal and educational problems, community discord and associated political strife and recognition by business enterprises over the absence of a sound short and long term plan for rapid and decisive remedies to such conditions. Without adequate funds, the proper distribution of those funds, and greater cost efficiencies, performance effectiveness and economies of scale, this trend will continue.

Some point to the efficacy of regional high schools and school district mergers (also called consolidations and reorganizations) as a way to get a “better bang for the buck”. There is no credible evidence that in New York State, under the current laws and regulations that govern the actions and obligations of school districts, that there will be any increase in efficiencies, effectiveness or economies of scale. Perhaps there are rare exceptions yet to be studied of some of the smallest school districts, with similar demographics and tax base and tax burdens, and a manageable geography that have produced the economic goals proponents seem to believe will exist. The rules by which school districts live, the political realities that exist with employees and community expectations, in fact, support increased per student costs, not less.

Current law permits the “unification” of two school districts into one school district, not a dissection or division of a school district into two or more neighbor school districts with the end product the creation of two school districts from three. Perhaps the state will develop other models that allow reorganization whereby school districts could be divided up into logical demographic, geographic, topographic and tax base units that would make more sense than the only legal and current “merge complete school districts together or forget about it” method.

School districts turn to such mechanisms as a means of fiscal and educational survival – guaranteed for a time by a significant influx of state Reorganization Incentive Aid (“Merger Aid”). For some school districts it will be the only place to turn – if they can find a willing partner. As with all such initiatives, there are advantages and drawbacks. The process is cumbersome, long and filled with political discord – as well as hope for a better future for the children of the affected school districts as pros and cons of such a move are formally studied and then discussed, lines drawn and multiple votes taken.

Additionally, regardless of the merits or drawbacks to a merger, there is the question of the cost to the state of mergers, regional high schools and other potential monetary incentives to get schools to consolidate services. Reorganization Incentive Aid (Merger Aid) comes in two forms – operational (Reorganization Incentive Aid) and building aid (Reorganization Building Incentive Aid). If 56 school districts from the southern tip of the Adirondacks, through the Mohawk Valley, to the northern school districts around the State Route 88 corridor were to merge into 28 consolidated school districts – what would be the cost in just the Reorganization Incentive Aid state aids? Clearly it depends on the sizes and characteristics of the school districts affected. In this case it could be about $752 million in total over 14 years (The same amount of all the direct formula driven state aid to school districts in the Education Budget for 2012-13.). Where would that money come from? It would require “new money”. Otherwise would it come from the same finite pool of money that all state aid comes from? Would this additional $752 million in just regular Reorganization Incentive Aid be subtracted from the same state aid pie that
expense driven aids are subtracted from to get the final yield amount for distribution as a reduction to the GEA cuts or increased Foundation Aid? That will not work.

For instance, to work a “no new money” scenario, using the enacted 2012-13 state aid data, would one would start with the original $752 million and subtract the $79 million (the first year’s portion of a total of $752 million total over 14 years of Reorganization Incentive Aid) from the remaining $512 million left after expense driven aids were taken into account. This would leave only $433 million for distribution to all school districts. That would be an average reduction, when compared to the current amount of increased direct aid distributed, of 15.4%. That is, the loss of $79 million from the $512 million “pie” would be a loss of 15.4%; this would also represent 10.5% of the entire $752 million increase in state aid. The only alternative to this unwelcome loss of state aid revenue that would not diminish the non-merged school districts would be “new money.”

(The best source to obtain quick, helpful and accurate data about Reorganization Incentive Aid amounts and actually “artificially” merge districts is from Dr. John Sipple of Cornell University. His merger aid calculations and maps are available at: http://pad.human.cornell.edu/schools/reorg.cfm. He directs the Cornell Program on Applied Demographics in cooperation with the New York State Center for Rural Schools.)

Summary of Implications and Challenges

This paper has revealed the deterioration of the fiscal condition of school districts of different capacity, but common mission. It has clearly pointed out that the economically poorest and moderate wealth school districts in the state face fiscal and educational insolvency in the near future based on current trends. And everyone should already know that school districts are a major factor in the economic climate of every region of the state.

Over the last four years the state plan seems to have been to solve its own self-inflicted fiscal woes by reneging on promised support for school districts and municipalities, distancing itself from legislatively enacted mission creep, increased unfunded mandates and a general disassociation with what’s actually going on – or not going on – “on the ground” in communities across the state.

School districts have endured much pain over this period. They have paid the price for years of benign neglect by state government, characterized too often by complicit politics that resulted in low productivity, efficiency, and student performance results. Even now elected officials are congratulating themselves for their most “productive” two years in office. When it comes to the education of our children, it is not the number of bills that become law, or the perceived amount of cooperation, compromise and political maneuvering that counts.

What counts is the measureable improvement of conditions, the lack of further damage and getting the most important things done well. For the over 400 public school districts that comprise the Statewide School Finance Consortium, and many other education advocacy organizations who are our partners in this struggle, it is difficult to say that things are looking better. Some things are a bit better, but many other things show no improvement – and a few significant things are worse. But school districts are nowhere near where they could have been, should have been, and must be.
The most recent damage includes the transfer of costs, creation of additional costs, expansion of mission, absence of reform or mandate relief and the denial of aid driven by legislative alterations designed to abrogate responsibility by the use of authority. All of it, so fast, so furious, has brought school districts, especially those with marginal capacity, and the biggest mission lift, to their knees.

The current algorithms used by state government have failed to make school districts more fiscally effective or efficient through the use of state aid incentives, disincentives or levels of funding. Strong data over the years and in this paper continues to suggest that even the 2007-08 Foundation Aid formula was inequitable, unsustainable and more of a political initiative than a “fiscal-educational” one. As has been articulated throughout the media in news reports and in editorials, as well as by many legislators, their leadership and the Governor – the distribution of state aid is patently inequitable. Undeniably, absent significant changes to state aid funding volume, sufficiency and distribution, the calculus of school district finance will force many school districts into or further into educational and fiscal insolvency in very short time. Like it or not, this situation is common knowledge in all corners of New York State.

Worse yet, the Foundation Aid algorithms remain flawed especially for the school districts with the least wealth and the most poverty. The state’s fiscal woes of recent years notwithstanding, inequitable state aid funding formulas are only exacerbated by the more virulent, deceptive and clever metrics carved into the artificially and politically contrived state aid cuts known as the Deficit Reduction Adjust (DRA), and its more destructive and harmful successor, the Gap Elimination Adjustment (GEA). Again, the most seriously disadvantaged by these cuts are the school districts with the least capacity to cope with revenue loss and those that struggle with the heavy educational lift afforded them by large amounts of poverty.

Nothing created by state government has currently affected the expense escalations experienced by school districts in every region of the state. There has been no meaningful mandate relief, no changes in statute, no diminishment of requirements in recent memory to reduce the monetary burden on school districts. In fact, legislation passed for school year 2012-13 only heaped increased unfunded and expensive mandates on the backs of school districts. They include legislation for teacher and principal evaluation processes with problematic implications for students, parents, taxpayers and school districts. School districts want to improve student performance. With this in mind, is this the best statewide plan New York can offer, or is this the best it is politically willing to offer? Mandating labor negotiations between almost 700 school boards and teacher unions is the latest narrow-minded, misguided and costly abrogation of state responsibility.

Attempts at state aid reform and mandate relief have gone nowhere in recent years, even though there have been countless suggestions by the Statewide School Finance Consortium, New York State Council Of School Superintendents, Rural Schools Association, Citizens Budget Commission and others. These suggestions are continuously either kept off the table, out of mind, can’t be done, lack political support or will, are not a priority, devoid of a sponsor or simply discussed, mentioned in passing, dismissed, introduced as a bill with no intention of promotion toward passage or, laughed at, maligned and easily dismissed because there is nothing in it for state policymakers in the cost benefit analysis that continues to take precedence in Albany.

There are two tactics in play. First, there is the denial of meaningful and significant fiscal nourishment to the school districts that need it the most. As illustrated repeatedly in this research paper, slow starvation is unattractive and identifiable. The most astute community must surely recognize that their
ability to create, maintain and promote local prosperity is in large part hindered by the economic and educational starvation of the school districts in the region. After all, they have experienced higher taxes; diminished current and future opportunities for students to be prepared for and live in a post-high school world. Certainly increased unemployment of local professionals, a product to some degree from thousands of school district layoffs, will have a deleterious effect on the local economy and its attractiveness to the maintenance of current business enterprises and/or new business or industrial development.

Clearly, the fiscal condition of school districts overall continues to deteriorate as the state puts its finances in order. As the fiscal condition of a school district weakens, so does its operational program, then its organizational program and ultimately its educational program. The school districts with the least capacity, those with the least wealth and greatest poverty all the way to those of average means, find themselves losing a grip on all of these programs; the very programs that kept the school district and the community it serves vibrant. At this point even the students in such school districts have realized what many adults have ignored or withdrawn from; the future of their school district and its students grows more bleak each year and that left untreated these school districts and their communities will be less attractive to residents and potential economic development and thus, less sustainable until they both disappear.

Second, state government and others who demand reform of the public school system offer few if any consequential or major long term solutions. Therapies have been introduced in various ways to ailing school districts. Regional high schools have been articulated, mergers have been mentioned, and the consolidation of “back office” functions has been stressed. Yet the increased funding to accomplish these therapies or savings that could be gleaned from them remains elusive and largely imaginary. As policy makers and politicians discuss or ignore their own advice, the inequitable distribution of state aid, continues. Additionally, inequitably applied state aid cuts and escalations of mandated costs continue to “bleed the patient.” As each therapy fails to attract the funding or the level of analysis it needs to be evaluated for merit and, unfortunately and more importantly, for political support, the school district “patients” get weaker. Unless solutions are found and instituted quickly the low to average wealth and higher poverty burdened school district patients will not recover and the State Education Department will be saddled with the role of reluctant, understaffed and emasculated hospice provider.

Anecdotal information and new reports point to an improved, but marginal, recognition about the fiscal and educational operations, problems and challenges of the management of almost 700 community school districts. Many stakeholder groups and individuals with power to control, guide and influence school district operations, policies and practices are not cognizant of the short and long term dilemmas faced by their school district or as school district employees. This situation must be remedied immediately by the school district’s leadership team of school board members, superintendent and business official. This must be completed as efficiently and quickly as possible. Difficult decisions are ahead and the education of stakeholders must begin immediately.
The state will not continue to send money to inefficient, ineffective or non-performing school districts much longer.

School boards, superintendents, and business officials will have to tackle new roles as defender of the rational, thoughtful, efficient and effective school district operations, practices and policies as they face unprecedented scrutiny. Cost effectiveness, efficiencies and economies of scale will be paramount to public and political support. The immediate selective abandonment of ineffective and inefficient operations, practices and policies will be required for such support.

In any political sense, the state is currently incapable of solving the problems of school funding. Therefore it is our belief and strong recommendation that a separate, completely non-political commission, made up of those who study school finance and equity issues, be immediately convened to create and forward for legislative action by December 1, 2013 a new state aid formula based on:

- Fiscal capacity and poverty levels of school districts;
- A minimum local share of educational costs to be borne by every school district;
- A comprehensive state aid formula that account for demographic, geographic and regional factors, and;
- Appropriate measures of cost effectiveness, efficiency, and economy of scale required to maintain new state aid levels.
Summary of Conclusions

As with all of the research the Statewide School Finance Consortium has conducted over the past 21 years, our objectives remain the same – Undertake a thorough analysis of New York State’s own data to develop a deep understanding of the historic and current processes, trends and impacts of how public education is financed in the state. Then utilize our findings to provoke conversation and advocacy that will lead to change in what has stubbornly remained a largely insidious, unfair and politically-manipulated function of state government for much too long.

If, as the adage goes, that “numbers don’t lie” – the data presented and the conclusions raised in this study will provoke such a debate because, in the clearest and most direct of terms, public education in New York is on the threshold of nothing short of a disaster.

At the present time there is much discussion and unease about the quantifiable devolution into a have/have-not public education system incapable of success for all children. SSFC and its membership of over 400 public school districts believe that New York is already well down that road and that the key conclusions reached by this study will inspire the legislature and executive to support and lead the real reform that is so desperately needed.

Key Conclusions of this study:

1. While in 2007-08 Foundation Aid formula was acclaimed as the state’s answer to the constitutional responsibility to provide a meaningful and “sound, basic education” for all students, it has been incessantly and undeniably found to be inequitable, unfair, unreliable and fiscally unsustainable from its inception.

2. Unfair state aid distribution is not, as some say, a geographic issue that pits Upstate vs. Downstate. There are over three dozen Downstate school districts that share similar wealth and poverty factors as those Upstate – and the same bleak future as SSFC member school districts. The inequities in the distribution of the Foundation Aid formula and the massive state aid cuts over the past several years were an intentional, politically-motivated redirection of money to wealthier school districts at the expense of the less wealthy. Indeed, the needs of these school districts are as underrepresented as SSFC school districts.

3. Recent efforts to provide fiscal support to school districts are artificially misguided and lack direction. The failure of the state to rethink the Foundation Aid formula, the impact of the Gap Elimination Adjustment (GEA) cuts, the Tax Cap law and the inequities instilled into the fiscal and economic fabric of school districts will continue to diminish, if not doom, economic recovery in a significant portion of the state.

4. The resolve to garner the fiscal resources to “keep the promise” of a Fully Funded Foundation Aid formula as articulated in 2007-08 are more remote than ever. The state will insist on greater efforts by school districts to cut expenses within current law and regulation without regard to the irrationality and barriers presented by both. Thus, the state will begin to hedge on state aid alteration, increases and distributions rather than to send money to inefficient, ineffective or non-performing school districts with the oversimplified assumption that as such an effort is unsustainable and lacks merit.

5. Precarious state resources are an unacceptable excuse for paralytic politics. The state’s fiscal condition is identified by the newest fiscal outlook provided by the state into its own long term fiscal condition. The report, FIRST QUARTERLY UPDATE TO THE FINANCIAL PLAN FOR FISCAL YEAR 2013 PROJECTIONS FOR FY 2013 THROUGH FY 2016, suggests that the state faces General Fund deficits of

6. Based solely on the most recent and most propitious increases to Foundation Aid and diminishments to the GEA cuts:

   o It will take 50 years to “fully fund” Foundation Aid at the rate of improvement exercised last year.
   o It will take 6 years to eradicate the GEA at current levels of decline.
   o It will take over $5.5 billion to get to “full funding” in the Foundation aid formula.
   o It will take over $2.2 billion to eradicate the GEA cuts
   o It will take nearly $8 billion to “fully fund” Foundation Aid and eradicate the GEA cuts and account for expense driven aids

7. Half of the distribution of both the GEA reduction and Foundation Aid for 2012-13 was based on various poverty measures, and the other half on an inequitable formula. Until aid is distributed on a fiscal capacity and poverty formula of some reliability and balance, the Foundation Aid formula will never attain true equity.

8. With no changes in the education aid formula, a significant number of school districts will not have the cash reserves to sustain themselves over the next two years as they face state-created mandates, contractual obligations, and health insurance and pension costs. Simply put, in many locales residents will not be able to fund their school district.

9. By law, 2012-13 state aid to districts was allowed to increase by 4.1% -- roughly $805 million. By the time the aid was distributed only $752 million (just 93.4%) of that money was targeted directly to school districts. After accounting for expense driven aids (BOCES, Transportation, Building and Aid for Students with Disabilities), just the remaining $512 million found its way to school districts as Foundation Aid increases and reductions to the GEA cuts.

10. In the 2013-14 state budget, only a 3.5% increase -- about $712 million -- of total aid has been projected by the executive. One possible extrapolation from the 2012-13 aid distribution process appears reasonably predictive. After grants, teacher centers and the like are subtracted (for arguments sake, again using the 2012-13 rate of 93.4% of the originally designated amount for distribution), only $655 million remains. Then subtract a further $245 million in expense driven aids and all that remains is $420 million for GEA reductions (under the most equitable distribution plan) and potential increases to the inequitably-distributed Foundation Aid amount. That represents about 19.5% less “operational” aid to be sent directly to school districts.

11. Comparatively, even by using all available fund balances, school districts with the least wealth and an appreciable amount of poverty on average have the least capacity to use their Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance. Additionally, 5% of all school districts don’t have enough Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance to replenish the Assigned Appropriated Fund Balance for a single year; over 22% of school districts are in the same quandary in less than 2 years in this scenario; and almost 39% of school districts in less than three years. These data raise a significant danger signal that warns about the real potential for an educational calamity in the not-too-distant future. The simultaneous and complete use of the Adjusted Restricted Fund Balance and Adjusted Unrestricted Fund Balance for this purpose would be an unmistakable disaster because absent these funds a district cannot operate.

12. School districts chose to absorb over $138 million worth of allowable exemptions to stay within the “psychological” Tax Cap. This is also unsustainable. Unless tax levies are raised that include these exemptions, school districts will be forced to cut other items from their budgets as a way to absorb the exemptions for which they qualify, but have chosen not to include in their tax levy.
13. The property Tax Cap law guarantees that those school districts with less wealth, fiscal capacity and the greatest poverty will not prosper educationally or fiscally. When coupled with past state aid freezes and cuts, and the recent insufficient state aid reduction of those cuts, it is nearly impossible for many school districts to survive fiscally or educationally over the next few years. Many school districts are in fiscal and educational jeopardy. The quality of life in these communities – as well as economic development opportunities – will severely diminish as the school district diminishes. New residents or businesses are not attracted by a school district that is in fiscal or educational decay.

14. Under the new Tax Cap law wealthier school districts that are less dependent on state aid will be able to raise more money per percent of tax levy than average or below average wealth school districts. Thus, the attainment of the 60% super majority to go above the “tax levy limit” mandated in the new law will be an unrealistic outcome in most communities; average and below average wealth school districts – those that rely much more heavily on state aid – will be forced to continue to cut staff and programs and use reserves to stay in operation. This is an unsustainable process.

15. The Tax Cap for next year is problematic. Inflation is running at 2.93%. The Tax Cap inflation factor calculation for 2013-14 holds at 2%. If inflation actually keeps outstripping the tax cap inflation factor as it did this year and is expected to do again next year, school districts will actually fall further behind in fiscal balance – revenues to expenses. Additionally, the exemptions by many districts will not be reclaimed. The tax levy limit will not be enough to offset cost escalations by school districts. Further cuts in many school districts will instill some level of fiscal and/or educational dysfunction rather than prohibit it. Such a strategy is unsustainable.

16. The use of PILOT agreements in a school district’s Tax Cap formula is bad for economic development and bad for school districts. The ability of a school district to levy taxes that are necessary to sustain it is hampered by the PILOT as the PILOT does nothing to increase the tax base and thereby provide adequate support for the school district. It is unrealistic to assume that any business will be enticed to move to a community whose school district lacks fundamental fiscal capacity.

17. Absent significant, solid and expansive recommendations for a new Foundation Aid formula, and acceleration of the eradication of GEA cuts through a more equitable distribution of those funds and viable initiatives to advance cost efficiencies and effectiveness in school districts by the current New NY Education Reform Commission in its preliminary report for December of 2012, the commission must be immediately disbanded. A reconstituted commission must be solely formed of those familiar with the workings, success opportunities, and failures of school districts fiscally and educationally and have a firm grasp of the concept of equity. The reconstituted commission must then immediately examine state aid to schools and school district mandates and make recommendations for legislative action on their continuance, modification or abandonment. New recommendations must be developed and then passed and signed into law by April 1, 2013 so that they will take effect in the 2014-15 school year and every school district can include them in their planning for the 2014-15 school district budget.

18. Given the political machinations that have pervaded public school finances for so many years, the state is currently incapable of solving the problems of school funding. A separate completely non-political commission, made up of those who study school finance and equity issues should be immediately convened to create and forward for legislative action by December 1, 2013 a new state aid formula based on:

- Fiscal capacity and poverty levels of school districts;
- A minimum local share of educational costs to be borne by every school district;
- A comprehensive state aid formula that accounts for demographic, geographic and regional factors, and;
- Appropriate measures of cost effectiveness, efficiency, and economy of scale required to maintain new state aid levels.
19. All of the data presented in this paper, as well as other research undertaken by Rutgers University, Cornell University, Syracuse University, the Rural Schools Association, the Citizens Budget Commission, the Alliance for Quality Education and others, point to the same conclusions about New York State government: It is not paying serious enough attention to this issue and while it is empowered to act on funding equity it has chosen not to do so. Why?

20. Many stakeholder groups and individuals with the power to control, guide and influence school district operations, policies and practices are only minimally aware of the short and long term problems that confront their school district. This situation must be corrected immediately by the school district’s leadership team of school board members, superintendent and business official. Difficult decisions lie ahead and the education and enlistment of school district stakeholders must begin immediately.

21. School Boards, superintendents, and business officials will have to tackle new roles as defenders of rational, thoughtful, efficient and effective school district operations, practices and policies as they face unprecedented scrutiny. Cost effectiveness, efficiencies and economies of scale will be paramount to public and political support. The immediate selective abandonment of ineffective and inefficient operations, practices and policies will be required for such support.

22. “Bullet Aid” is a wrong-minded process that is an extension of political authority at its most cynical. School districts that receive Bullet Aid are always grateful for any new funding. However, some are needy and some are not. Our data suggest that the distribution of these funds is mixed at best. It is distributed to the wealthiest and the poorest school districts or, as we see it, to the “high need school districts” and to the "no need school districts.” We can identify no statistical correlation between indicators of need, such as poverty or wealth fiscal conditions, or anything else in the amount of funds given to school districts in general. The details of the distribution of these funds run the gamut from politically calculated to haphazard by any measure. Bullet Aid is beyond a flawed system; it is wrong – and should be redirected to provide an equitable distribution of such funds.

23. State government has offered no formal, recognizable or constitutionally suitable plan moving forward that addresses the short and long term reform and fiscal sustenance of the state’s nearly 700 school districts. Rather, there is a jumble of vague and improvisational strategies aimed at the survival of hundreds of battered and bruised fiscal and educational entities having low fiscal capacity and higher levels of poverty. The issue will not wait.
About The Statewide School Finance Consortium

The Statewide School Finance Consortium (SSFC) is an organization of over 400 New York public school districts whose mission is to bring equity to the distribution of New York State educational aid. SSFC membership is largely comprised of school districts from average and low-wealth communities that receive an insufficient and disproportionate allocation of state funding in comparison to high-wealth regions of New York. The reform of the state aid process will help ensure that all of New York’s children receive the same educational opportunities regardless of the wealth or location of their community.

Please visit SSFC at www.statewideonline.org