2006-07 Executive Budget Proposal

BUDGET ANALYSIS

New York State Council of School Superintendents **January 2006**

THE WRONG CAMPAIGN

Education leaders must face three imperatives:

1. **The Economic Imperative:** *Continue the pursuit of higher standards and achievement for all students.* The share of jobs not requiring at least some college will drop sharply over the next 15 years (Educational Testing Service (2003): *Standards for What?* p.48).
2. **The Moral Imperative:** *Close gaps in achievement between poor and minority children and their more successful peers.* As Marian Wright Edelman of the Children's Defense Fund said, "The future we hold in trust for our children will be shaped by our fairness to other people's children."
3. **The Practical Imperative:** *Manage resources effectively.* Superintendents must continually balance what students need and what taxpayers can afford.

Governor Pataki's proposed budget is framed as a campaign to ask schools to meet these challenges alone:

- *His budget shortchanges schools of the aid they need to keep up with rising costs, many of which result from state policies.*
- *It fails to address the order from the state's highest court to keep the promise of a sound basic education for all children.*
- *Despite a huge surplus, it nonetheless skips the chance to pursue comprehensive statewide school funding reform.*
- *It threatens lasting damage to one of the nation's best school systems by imposing unreasonable caps on spending and pitting taxpayers against school children.*

These recommendations jeopardize New York State's accomplishments:

Year after year, New York's standards and assessments are ranked in the very top echelon of all states by *Education Week.* More students are reaching those high standards: since 1996, the share of graduates earning rigorous Regents diplomas has risen from 42 to 57 percent.

New York has also made stronger progress than most states in closing achievement gaps, according to *Education Week* ("Big States, Big Results," January 5, 2006).

School districts are also highly accountable, publishing volumes on successes and shortcomings, and providing the public with many avenues for input. Only schools and libraries submit their budgets for voter approval. Legislation enacted last year further safeguards taxpayer funds and subjects district finances to more scrutiny through state audits.

Yet huge tasks remain. The greatest is to give all young people a fair chance at success in life beyond school. Currently, only 71 percent of students leave high school with a diploma within five years. Even outside New York City the figure is only 81 percent.

Schools cannot meet these imperatives alone. Elected officials bear responsibility as well. Speaking at the Regents' Summit in November, David Gergen warned that if America does not reduce dropouts and increase college participation, our standard of living could drop by 40 percent. A campaign against public schools is simply counterproductive.

The Big Picture:

- $634 million total increase
  - $375 million for "sound basic education" aid – to be allocated later
  - $259 million (1.6 percent) in traditional school aid
  - $182 million (1.2 percent) exclusive of Building Aid and available for operating costs
- Flex Aid (52 percent of total aid) – frozen for all districts.
- Cuts in BOCES and Private Excess Cost Aid -- $168.8 million
- Changes in Building Aid
- Aid increases, $530 million STAR Plus Rebates tied to spending caps.
- More charter schools, no relief for districts
- $400 million Education tax credit – a breakthrough for nonpublics
- Poorly conceived accountability mandates to be inflicted on all school districts
- Math & Science Initiatives
- Task Force on Public Pension Reform

SUMMARY OF AIDS FINANCES THROUGH SCHOOL AID APPROPRIATIONS
-- 2005-06 AND 2006-07 SCHOOL YEARS -- NEW YORK STATE

AID CATEGORY	2005-06 School Year	2006-07 School Year	Change Amount	Change Percent
I. Formula-Based Aids:	(------------- Amounts in Million			-------------)
Flex Aid	$8,499.69	$8,499.69	$0.00	0.00 %
Excess Cost - Public	2,397.11	2,528.40	131.29	5.48
Excess Cost - Private	218.03	120.07	(97.96)	(44.93)
Tax Limitation Aid	135.06	182.72	47.66	35.29
BOCES	546.37	536.25	(10.12)	(1.85)
Special Services (Career Ed./Computer Admin.)	141.50	142.63	1.13	0.80
Textbooks (Incl. Lottery)	186.29	186.51	0.22	0.12
Computer Software	46.00	46.73	0.73	1.59
Computer Hardware	28.84	29.03	0.19	0.66
Library Materials	19.27	19.31	0.04	0.21
Transportation (Including Summer)	1,209.57	1,299.55	89.98	7.44
Prekindergarten	202.00	202.00	0.00	0.00
Class Size Reduction	139.39	139.39	0.00	0.00
Building/Reorganization Building	1,520.81	1,597.37	76.56	5.03
Reorganization Incentive (Operating)	15.88	12.91	(2.97)	(18.70)
Full-Day K	3.82	2.19	(1.63)	(42.67)
Fiscal Stabilization Grants *	3.94	44.14	40.20	1,020.30
Teacher Support Aid	67.48	67.48	0.00	0.00
Formula-Based Aids Total	$15,381.05	$15,656.37	$275.32	1.79 %
II. Grant Programs and Other Aid Categories:				
Teachers of Tomorrow	20.00	25.00	5.00	25.00
Teacher Centers	31.00	10.33	(20.67)	(66.68)
Teacher-Mentor Intern	6.00	2.00	(4.00)	(66.67)
Engineers of the Future	0.00	5.00	5.00	NA
Summer Institutes for Math and Science	0.00	5.00	5.00	NA
School Health Services	0.00	5.77	5.77	NA
Growth Aid	16.60	7.73	(8.87)	(53.43)
Roosevelt	6.00	6.00	0.00	0.00
Categorical Reading	63.95	63.95	0.00	0.00
Improving Pupil Performance	66.35	66.35	0.00	0.00
Magnet Schools	137.60	137.60	0.00	0.00
Aid to Small City School Districts	81.88	81.88	0.00	0.00
Fort Drum	3.00	3.00	0.00	0.00
Urban-Suburban Transfer	1.13	1.13	0.00	0.00
Employment Preparation Education	96.00	90.00	(6.00)	(6.25)
Homeless Pupils	6.48	6.48	0.00	0.00
Incarcerated Youth	16.50	16.50	0.00	0.00
Bilingual	11.20	11.20	0.00	0.00
Education of OMH/OMR Pupils	34.00	34.00	0.00	0.00
Special School Districts	2.20	2.20	0.00	0.00
Chargebacks	(31.00)	(31.00)	0.00	0.00
Tuition Adjustment	1.18	1.18	0.00	0.00
CVEEB	0.92	0.92	0.00	0.00
BOCES Aid for Special Act Districts	0.68	0.68	0.00	0.00
Learning Technology Grants	3.29	3.29	0.00	0.00
Shared Services Incentive	0.20	0.20	0.00	0.00
Native American Building	2.50	2.50	0.00	0.00
Native American Education *	27.75	30.00	2.25	8.11
Bus Driver Safety	0.40	0.40	0.00	0.00
Addt'l Prekindergarten	2.68	2.68	0.00	0.00
Addt'l Class Size Reduction	0.58	0.58	0.00	0.00
Subtotal	609.07	592.55	(16.52)	(2.71)
SCHOOL YEAR TOTAL	$15,990.12	$16,248.92	$258.80	1.62 %
Sound Basic Education (SBE) Aid **	324.87	324.87	0.00	0.00
TOTAL Including SBE Aid	$16,314.99	$16,573.79	$258.80	1.59 %
Sound Basic Education Reserve	0.00	375.13	375.13	NA
TOTAL Including SBE Reserve	$16,314.99	$16,948.92	$633.93	3.89 %

* Previously appropriated outside of school aid.
** A total of $700 million in SBE Aid is recommended for 2006-07; the $375 million increase in SBE Aid will be placed in a reserve to be allocated pursuant to a plan to promote the provision of sound basic education in schools throughout the State.

Source: State Education Department computer runs and Executive Budget estimates of January 17, 2006.

SUMMARY OF SPECIFIC PROPOSALS

A. SCHOOL AID OVERVIEW

The Governor proposes a $634 million (3.9 percent) increase in total school aid. This is labeled as the largest ever proposed by a Governor (it is the largest in dollar terms, but not as a percent change). The total is made up of a $259 million (1.6 percent) increase in traditional school aid and $375 million in Sound Basic Education Aid, which is to be allocated later. Accordingly, school aid runs show only funding through the traditional aid categories. This means that in developing local budgets, districts can plan on an average total aid increase of 1.6 percent. Further, $76 million of the increase is due to Building Aid reimbursement for capital expenses. The increase for ongoing operating expenses drops to $182 million, or only 1.2 percent over last year. Unrestricted Flex Aid, which accounts for more than half of total aid, would be frozen at 2005-06 levels.

The Governor's proposed $182 million increase in aid for operating expenses falls over $800 million short of what districts need to meet basic ongoing costs.

***Reactions:** The Governor offers $4 billion in multi-year state tax cuts, but his school aid proposal would again force school district leaders to either burden taxpayers with big local tax increases or ravage student services, since a large share of costs are locked in by state policies.*

The Educational Conference Board – a coalition of superintendents, board members, teacher unions, PTAs, and other administrators – projected that state aid would need to rise by $1.076 billion in order to sustain existing services without overloading local taxpayers. The Governor's proposed $182 million increase in aid for operating expenses falls over $800 million short of what districts need. ECB's estimate was based on these assumptions:

- *Salary costs would increase by 4.1 percent, consistent with recent collective bargaining agreements;*
- *Fringe benefit costs (pension, health insurance) would rise by 12.5 percent – a very low estimate: given that the contribution rate for the State Teachers Retirement System will rise by 10 to 50 percent depending on district accounting practices and the employer contribution rate that the TRS Board adopts;*
- *Energy costs would rise by 35 percent, consistent with figures offered by major suppliers, and other non-personnel costs would increase by 3.2 percent, consistent with the Division of the Budget's projected increases in the Consumer Price Index;*
- *That state aid should support an average of 50 percent of the overall increase generated by the foregoing factors.*

The Governor has given up on pursuing comprehensive school finance reform to resolve the Campaign for Fiscal Equity litigation. In his State of the State speech, he said, "Let's start out by renewing our commitment to providing additional funding to high needs schools – in New York City and across the state." But he fails to tell how he would allocate $375 million in new Sound Basic Education Aid.

***Reactions:** If the state can find billions of dollars for tax cuts, it can find the money to keep the promise in its constitution – that every child will get the chance for an adequate education. The proposed funding falls way short of what either the court-appointed CFE referees or the Regents have identified as needed. The Regents proposed a $1.48 billion aid increase.*

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B. SPECIFIC SCHOOL AID PROVISIONS

Flex Aid: A year ago, the Governor took a welcome step by proposing to fold together six existing aid categories totaling $8.3 billion to create a new "Flex Aid" category of unrestricted operating aid. The Legislature accepted the Governor's proposal and added $66 million in aid to restore existing programs and give districts more operating funding. This year, the Governor proposes to freeze Flex Aid at 2005-06 levels.

Prospectively, districts that adopt budgets within a spending cap (the lesser of 4 percent or 120 percent of the increase in the Consumer Price Index for the preceding calendar year – 4 percent in 2006-07) would be eligible to receive an additional 2 percent in Flex Aid in the succeeding year. Additional Flex

Aid would also be available for districts demonstrate significant improvement on statewide tests.

Reaction: Keeping Flex Aid at 2005-06 levels means that districts would get almost no help from the state to pay for operating expenses such as teacher salaries, fuel bills, health insurance premiums, or pension contributions.

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Sound Basic Education Aid: $375 million in new Sound Basic Education Aid would be added to the $325 million provided in 2005-06. Unlike last year, the Governor does not propose a formula to allocate the increase. Instead, the new money is proposed to be distributed pursuant to a plan approved by the Governor's Budget Director "…to promote the provision of a sound basic education in schools throughout the state."

Reaction: This proposal again illustrates the irresponsibility of the Court of Appeals decision expanding the Governor's power in formulating the state budget. If it is determined that the Legislature cannot alter this appropriation, an agent of the Governor would be left with unilateral authority to allocate $375 million in taxpayer funds.

BOCES Aid: Once again, the Governor proposes cuts and changes to BOCES Aid. For 2006-07, districts would receive the lesser of their 2005-06 BOCES Aid or what existing formulas would generate for 2006-07. This results in a cut of $60 million from what districts would receive under the existing formulas. The Legislature has consistently rejected cuts to BOCES Aid throughout Mr. Pataki's tenure.

Commencing in 2006-07 (for aid payable in 2007-08), BOCES would be required to demonstrate savings for services when compared to state contract prices and districts would not be eligible for BOCES Aid for technology, administrative, and itinerant teaching services that exceed the cost for comparable services provided by individual districts before aid is taken into account. BOCES costs for the coordination of cooperative purchasing and bidding would no longer be eligible for aid. On the positive side, the Governor has dropped his proposal of the last three years to eliminate BOCES Aid for "routine administrative expenses." Similar proposals have been rejected in the past by the Legislature.

Reaction: First, the proposed aid cut would deny school districts reimbursement promised under existing law. Second, the prospective changes would shift costs from the state to local taxpayers.

Excess Cost Aid (aid for special education) – The Governor proposes to replace the existing aid ratio for Private Excess Cost Aid with the ratio used in Public Excess Cost Aid, reducing the state share of costs for an average wealth district from 85 percent to 49 percent. As a result, districts would receive $108.8 million less than what existing formulas promise.

Public Excess Cost Aid would be preserved without changes.

Reaction: The proposed reduction in Private Excess Cost Aid would deny districts aid for expenses they legitimately incurred with the expectation of partial state reimbursement.

Proposed cuts in BOCES and Private Excess Cost Aid (for special education) would deny school districts over $168 million in help from the state promised under existing law.

Building Aid: The Governor proposes a series of reforms to state support for school construction and renovation, including: "simplifying the Building Aid formula to provide reasonable, realistic allowances for construction costs," exempting school districts from the Wicks law requiring the use of multiple prime contractors, expanding the state Dormitory Authority's role in assisting school districts with construction planning and management, and streamlining New York City procurement processes. Aid for new projects would be deferred if the district did not notify the Education Department by December 1, 2005 that a general construction contract had been signed (the 2005-06 state budget contained a February 15 deferral deadline). This deferral shifts $78 million in payments from the 2006-07 school aid year to the next. The assumed amortization model would be applied to BOCES building projects.

? ***Reaction:** More information is required in order to evaluate the Governor's proposed changes in Building Aid. The Governor's support for Wicks reform is again welcome, but will he make it a priority?*

LADDER Programs: Again, the Governor recommends that funding the Assembly Democrats major 1997 "LADDER" programs be continued. Universal Prekindergarten, Class Size Reduction, and School Safety/Violence prevention would receive the same funding as in 2005-06. The existing Full-Day Kindergarten Conversion Aid formula would be continued; due to declining use, this aid would drop by $1.2 million.

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***Reaction:** Quality early childhood education is just about the best public policy investment there is. With a $2 billion surplus, the state should resume expansion of Universal Prekindergarten.*

Aid Formulas Continued Without Change: These aid formulas would be continued without change:

- Textbook
- Computer Software
- Computer Hardware
- Library Materials
- Instructional Computer Hardware and Technology Equipment
- Transportation
- Special Services for Non-BOCES Districts
- Reorganization, Incentive (Operating and Building)

Small Cities Aid: The Governor proposes continuing Small Cities Aid at the 2005-06 level of $81.9 million.

Targeted School Aid Grant Programs: Funding for Categorical Reading, Improving Pupil Performance, and Bilingual Education Grants would continue at 2005-06 levels. Poughkeepsie and Utica would receive $500,000 increases for Magnet Schools and Amsterdam would receive first time Magnet School funding of $500,000.

Tax Limitation Aid: A three tier structure would be applied to Tax limitation Aid for 2006-07.

- Under tier one, every district would receive the same aid as in 2005-06.
- Tier 2 aid would be targeted to districts with combined wealth ratios below 1.5 and residential property tax levies that amount to more than 5 percent of residents' total adjusted gross income as reported on state returns (i.e., the district levy percent divided by the state average percent of 2.78 yields a result greater than 1.80).
- Tier 3 aid would be paid to districts with combined wealth ratios of less than 2.000 (i.e., wealth per pupil less than twice the state average) and approved operating expense per pupil greater than the state average of $9,250.

⇆ ***Reaction:** Tier 2 aid targets extra help to districts that strain to support their schools. Under tier 3, the more districts spend above the state average, the more aid they can receive. This is incongruous with the Governor's theme of pushing districts to hold down spending.*

Teacher Programs: Teacher Support Aid would be continued at its recent funding level. In candid prose, the Executive Budget school aid summary states, "Funding for Teacher Centers and Mentor-Teacher Intern programs for 2006-07 will reflect the Executive's one-third share of support for these programs." The Senate and Assembly are expected to contribute equal sums to restore the 2005-06 funding level. Last year, these programs were spared from cuts.

Employment Preparation Education Aid: the existing Employment Preparation Education Aid would be continued but funding would decline by $6 million reflecting declining participation.

Fiscal Stabilization Grant: New York City would receive a $40.2 million "Fiscal Stabilization Grant." Without this grant, New York City's aid would rise only 1.02 percent. Its share of the statewide increase would be around 30 percent (slightly more or less depending on categories are included), well below its share of pupils (36.7 percent) or its historical share of statewide aid increases (38.86 percent). With the grant, the City's share is just over 40 percent.

C. OTHER PROGRAMS

STAR Plus Rebates: A new $530 million STAR Plus program would provide $400 school tax rebate checks to taxpayers in school districts that adopt a spending cap limiting increases to the lesser of 4 percent or 120 percent of the increase in the Consumer Price Index. Proposals to tie enhanced STAR benefits to spending caps have been rejected by the Legislature before.

***Reaction:** Seemingly frustrated by the continued willingness of most voters to support school district budgets, the Governor now proposes to buy "no" votes by offering a $400 "STAR Plus" bounty to taxpayers. The proposal would force school district leaders to choose between denying their taxpayers a benefit and cutting student programs to accommodate fixed costs within an unreasonable cap. It is worth noting that the Governor's proposed budget would increase general fund spending by 5.1 percent, and all state funds spending by 6.6 percent.*

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STAR Cost of Living Adjustment for Senior Exemption: The enhanced STAR exemption for eligible seniors (over age 65, with incomes below $66,050) would be increased by 13.6 percent to reflect increases in the cost of living since the inception of the program. Automatic COLAs would be applied prospectively. This change would yield state funded school tax reductions totaling $72 million.

***Reaction:** This change would assure that the exemption offsets a more or less constant share of the school tax bill for eligible seniors. Still, an expanded circuit breaker in the personal income tax could provide greater relief to needier taxpayers at the same cost.*

Education Tax Credit: Starting with the 2006 tax year, a $500 refundable income tax credit would be available to families with incomes below $90,000 in school districts with one or more under-performing school as determined through the No Child Left Behind Act. The credit could be used for school tuition, tutoring, after-school programs, and other education expenses. The estimated first-year cost of the program is $400 million.

***Reaction:** Variations on this proposal have been circulating for at least 12 years. The Governor waited until his final budget to advance one – a pitch to a national conservative audience? The amount of the credit would limit its value to the neediest families. On the other hand, a school district could use the pooled value represented by the credits to hire teaching assistants to give struggling children extra help, or to buy more up to date instructional materials.*

Academic Achievement Awards: The Governor recommends $500,000 to reward districts for high educational performance and operating efficiency. A similar proposal was rejected a year ago.

Advantage Schools: Funding for the Governor's Advantage Schools which provide extended day and community service programs would increase by $7.3 million, to $27.5 million.

Math/Science Initiatives: In his State of the State message, the Governor referenced Thomas

Freidman's bestseller, *The World is Flat*, and the need to prepare students for the global marketplace. In his budget, he recommends:

- **"Partnership for Prosperity":** This new program would create a Science and Technology Taskforce to develop a comprehensive statewide plan to strengthen science and technology education. It envisions public/private partnerships.
- **"Engineers of the Future":** Engineers of the Future would allocate $5 million to enable 500 middle and high schools to offer pre-engineering programs. The Governor lauded the BOCES created high school in his State of the State message and called for more such schools elsewhere.
- **Math/Science Summer Institutes:** Another $5 million would be allocated to math/science summer institutes, programs focused on middle school students and partnerships with community colleges.
- **Teachers for Tomorrow:** This perennial favorite would receive a $5 million increase to provide recruitment incentives and tuition reimbursement to expand the pool of math/science teachers entering the teaching profession via alternative certification.
- **STEP/CSTEP:** $9.5 million would be used to double existing funding for the Science and Technology Entry Program/Collegiate Science and Technology Program. These efforts target under-represented group students pursuing math and science programs at the secondary and postsecondary levels.
- **Math and Science Teaching Initiatives:** The Governor proposed 500 new scholarships to be provided annually for up to five years. The scholarships would be up to the total amount of SUNY tuition and provided to those who commit to teaching math and science in New York Schools for at least five years.

⇆ ***Reaction:*** *The Governor's focus on the global economy is right and some of the new initiatives above could be a shot in the arm. However, while we share the concern about the labor force of the future and our shortfall of math/science graduates entering teaching, it is not clear that teaching scholarships are effective. New York educates some 20,000 teachers a year of whom only 7,000 are hired. To some degree, scholarships would merely reward people who would have gone into teaching anyway. More reflection is needed to determine whether the proposals comprise a coherent and effective strategy to boost the quality and quantity of math and science graduates.*

School Health Services: The Executive Budget recommends $5.8 million to support student health services in the Big Four School districts.

Reaction: *The Governor vetoed a similar proposal last year because it authorized the Big 4 to purchase health services from BOCES. The Executive would now instead provide direct grant funding. NYSCOSS welcomes support for school health services in the Big Four Cities. Nonetheless, these districts would benefit from greater involvement with BOCES, supported through state reimbursement and it is regrettable that the Governor resists that strategy.*

Non-School Aid Special Education Programs: Generally, funding for preschool special education, summer school-age special education, and 4201 schools would be continued under established methodologies.

School districts would be denied reimbursement for preschool evaluations conducted by providers – only district-conducted evaluations would be reimbursed.

A task force jointly chaired by the state health and education Departments would be established to improve the transition of children between the Early Intervention (birth to age 2) and Preschool Special Education (ages 3 to 5) programs.

Reaction: *Denying school districts reimbursement for preschool evaluations conducted by private providers would punish them for the state's unwillingness to prevent parents from using private evaluators.*

D. STATE EDUCATION DEPARTMENT

State Education Department Operating Budget: For once, the Governor does not seek to whack the State Education Department operating budget, nor to reassign major parts of its portfolio to agencies under his control. No lump sum cut is recommended. The Intermediate care Facility attached to the State School for the Blind in Batavia would be transferred to the Office of Mental Retardation and Developmental Disabilities.

Reassignment of 3020-a Proceedings to Local School Districts: As proposed last year, the Governor again seeks to shift the cost burden of 3020-a tenure proceedings from the State Education Department to local school districts.

Reaction: The Council opposed this measure last year and does again this year. Decision-making on whether to dismiss a tenured employee would be dictated more by finances than pedagogy. Knowing it would be responsible for paying the cost of hearings, school districts would be less inclined to pursue already cumbersome and costly tenure proceedings and instead accept the less than professional quality of some employees. The Council believes the tenure process could benefit from some reform – the Governor's simple cost shifting mechanism is not the way to achieve this. To their credit, NYSUT and NEA-NY also opposed this initiative.

E. GOVERNOR'S LEGISLATIVE INITIATIVES

Charter Schools: The Executive Budget recommends increasing the charter school cap by 150 to permit a total of 250 charter schools. Further, the Executive proposes clarifying the manner in which the charter school cap is calculated, to exclude schools authorized by the New York City Chancellor. The Budget also proposes authorizing not-for-profit agencies approved by the State University to grant charters. Charter school facility projects would also be eligible for building aid reimbursement in the same manner as special act school districts, and to use the Dormitory Authority for financing and construction management.

Reaction: NYSCOSS has never opposed charter schools in general, but we do insist that whatever might be gained from the experiment should not come at the expense of traditional public schools – where the vast majority of children are educated. The Governor persists in failing to offer fiscal relief to school districts hurt by charters. His proposals would likely spark a swift expansion in charter schools. The proposal to permit not-for-profit agencies to authorize charter schools constitutes taxation without a fig-leaf of representation – private groups would be empowered to force taxpayers to fund schools they do not want.

Task Force on Public Pension Reform: The Governor proposes an 18 member Task Force on Pension Reform with members representing public employees, employers and pension systems. NYSCOSS would be given one appointee to the Task Force. Topics to be discussed in the report would include benefit designs to support long-term workforce planning strategies; alternative and more affordable benefit designs; alternative defined benefit funding methodologies; establishment of a new defined contribution or hybrid defined benefit/defined contribution pension plan; and alternative governance and oversight structures and given a reporting deadline of October 31, 2006.

Reaction: The news of recent months have been filled with reports of private sector employers reducing pension benefits or defaulting on their promises altogether. Private sector failures are no model for public policy. But, at the same time, private workers cannot be expected to permanently support retirement plans for public employees that are more generous than their own – especially when pension costs are a prime factor in driving up their taxes. That caution is especially pertinent for school districts that must obtain voter approval for their annual budgets.

private workers cannot be expected to permanently support retirement plans for public employees that are more generous than their own … the Governor's pension task force offers hope for changes that would be fair to both employees and taxpayers

The Governor's proposal offers hope for recommended changes to pension policies that would be fair to employees and taxpayers alike. ***If lawmakers are unwilling to help contain pension costs, then they must assure schools fair funding for those state imposed costs.*** *The school workforce is sufficiently different from* *general purpose governments that an education-only task force should be considered.*

Retirement Incentive: The Executive Budget proposes a retirement incentive that would be open to state agencies, local governments and school districts, that would give employees one month of credit for every year worked up to a maximum of three years, require the position to be eliminated, and prohibit participation by employees in positions whose elimination would jeopardize health or safety or have adverse budget effects.

⇆ ***Reaction:** Passage is not assured and districts should exercise caution in offering retirement incentives. Over-reliance skews retirement decisions, leading some employees to stay longer than they would otherwise in hope of an incentive, thus increasing district costs.*

Strengthen Code of Ethics: The Governor would require each district adopt a code of ethics and file it with SED and the Office of the State Comptroller. Codes would be required to specifically prohibit the use of school resources such as credit cards, computers, cell phones, and travel reimbursement for personal gain. School officials would be required to provide written certification of adherence to the codes.

⇆ ***Reactions:** This proposal is: (a) perhaps well intentioned; (b) at worst harmless; (c) beside the point; (d) all of the above. (d) is correct. Using public resources for personal gain is already against the law and superintendents annually sign an oath of office to uphold the law. It is a good practice for districts and employees to review and update policies, but much of that is already underway as a result of the fiscal accountability legislation and State Comptroller audits initiated last year. NYSCOSS and other education groups are advising members to do so. All educators are also currently held to a Code of Ethics and can lose their certification, permanently, for failing to conduct themselves in a proper manner (Commissioner Regulations Part 83 – Moral Conduct).*

Strengthen Qualifications of School Business Officials: New school business officials would be required to earn master's degrees, and complete a school finance-related internship. All business officials would be required to participate in on-going professional development. Current business officials hired through the civil service route would be permitted to continue so long as they pass a state test by June 30, 2010. BOCES Aid would not be available for shared business officials who have not met the requirements.

***Reaction:** After a lengthy and thoughtful review, the Board of Regents is on the cusp of adopting new, tougher entrance requirements for all school leaders, including business officials. Statutory changes are not needed.*

Reforming School Voting: To "encourage increased voter participation and confidence" the Governor proposes limiting school districts to one try at passing a budget and a single day for voting on bond resolutions. Separate propositions would no longer be allowed. Polls would be required to be open from 6 a.m. to 9 p.m., be staffed by those who do not have conflicts of interest, and be overseen by county boards of elections. The Governor's legislation would also require that ballots expressly state that a "no" vote would require the district to adopt a budget with spending increasing by no more than the lesser of 4 percent or 120 percent of the increase in the Consumer price Index.

Requiring all bond votes to occur on a single date is wildly impractical – it would drive up taxpayer costs by forcing districts contract for the same engineering and architectural services at the same time.

***Reaction:** Single budget votes would limit democracy and deny school leaders a second chance to satisfy voters. A single vote date for construction bonds is impractical; it would drive up taxpayer costs by forcing districts contract for the same engineering and architectural services at the same time, and it would generally preclude districts from taking advantage of the first summer construction season after a vote. The other proposals are "solutions in search of problems" – no evidence is offered to justify their need.*

Budget Notice and Report Card Reform: The proposal recommends expanding the budget notice to include comparisons between the spending and tax levy increases and tax rates that would occur under the proposed budget and a budget within the spending cap. For the property tax report card, districts would be required to report the three-year change in school tax levy compared to the change in the CPI, and three years of figures on surpluses in excess of 2 percent, regardless of source.

***Reaction:** These proposals would shamefully deny voters critical pieces of information – what has happened to state aid and state mandated costs? Adding fund balance data reiterates the mistake of the current 2 percent limit – local governments have no limit (and less voter accountability – no budget votes, for example) and credit rating agencies fault governments for having such low reserves. The state's reserves would total 6.5 percent inder the Governor's budget. A higher limit would have helped schools manage through spikes in pension and energy costs.*

COMMENTARY

The 2006-07 budget cycle begins with an odd mix of hope and trepidation. The hope: state revenues are surging – the Governor projects a surplus of $2 billion for the current year, even while accelerating $1.3 billion in payments into the current year budget. While cutting taxes by nearly $1 billion in 2006-07 and increasing general fund spending by 5.1 percent, he would also build the state's reserves from $5.4 to $7.2 billion. Also, historically, the Governor's Budget Division has been conservative in their revenue forecasts.

The trepidation: while there are fewer budget cuts than in some years, there are more proposals that could fundamentally damage schools through changes in funding mechanisms. And there seems to be almost no interest in undertaking comprehensive, statewide school finance reform to satisfy the *Campaign for Fiscal Equity* decision.

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SCHOOL AID VS. SCHOOL COSTS

Mr. Pataki claims credit with his budget for offering the largest school aid increase ever recommended by a Governor -- $634 million. (There have been larger percentage increases; Governor Cuomo proposed a 7 percent increase in 1986, for example). In any event, $375 million of that total would be for new Sound Basic Education Aid to be allocated later by his Budget Director. For now, school district leaders can count only on a 1.6 percent increase in total aid, and only a 1.2 percent increase ($182 million) in aid for operating costs (when Building Aid increases are extracted).

Hard to control costs. Increases in just a few hard or impossible to control categories will exceed the Governor's proposed increase in aid for operating expenses. The table below provides an illustration for districts outside New York City.

School aid outside the City would rise by $81 million, while teacher pension costs would rise by between $110 million and over $300 million (actual payments will rise by the larger figure, but some districts use the accrual method accounting and budgeted the increase in last year's budget). Health insurance costs will rise by more than $200 million.

School Aid vs. School Costs School Districts outside of New York City	
Proposed School Aid Increase (excluding Building Aid)	$81 million
Employer contributions to NYS Teachers Retirement System	+$110 to $325 million, depending on approved employer contribution rate and school district accounting practices)
--assumes 4% per year increase in payroll and adjusts actual 2004-05 contributions by changes in employer contribution rates	
Health Insurance Premiums	+$280 million
--assumes increases above 2003-04 reported costs consistent with national figures compiled by Hewitt Associates	

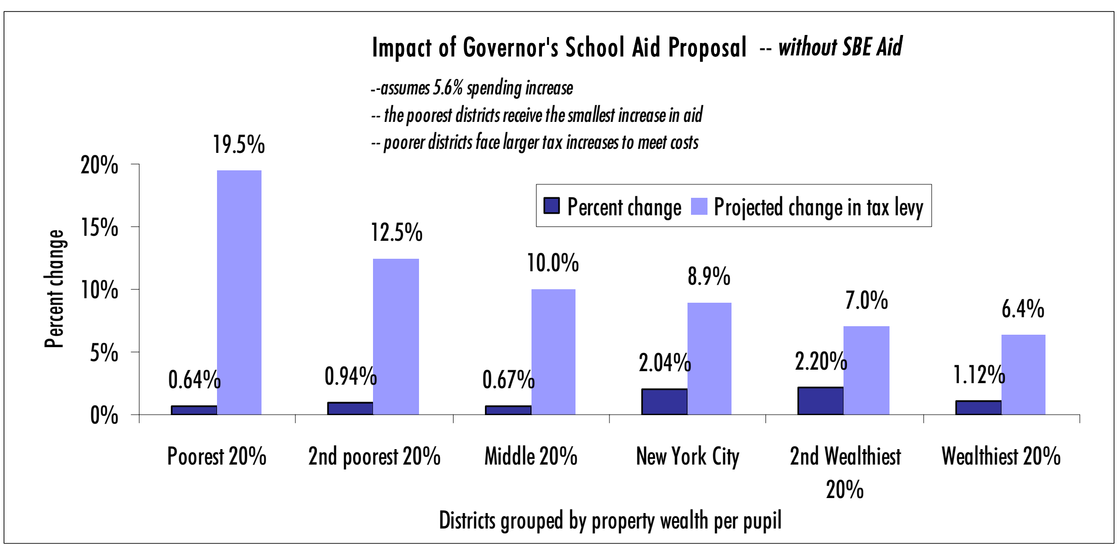
Further, like all enterprises, school districts are also coping with surging energy costs. A survey by the state associations of School Business Officials and Superintendents of Buildings and Grounds found that 82 percent of districts anticipate operations budget shortfalls *this year* for energy totaling $96 million (www.nysasbo.org). Districts will have to budget those higher levels in their spending plans *next year* as well.

Voters may have grown weary of hearing about rising fixed costs, but school district leaders must persist in speaking about them, because they remain hard to control, if not impossible. Pension contributions are fixed by state law. Health insurance costs are driven by the market and by collective bargaining; they cannot be unilaterally reduced by districts. Still, an informal NYSCOSS survey found that 60 percent of districts have obtained cost reductions in health care costs or are trying to, and nearly 90 percent have implemented energy conservation measures.

Low aid especially hurts poor districts. The impact of low state aid is always greatest on the poorest school districts. The chart below illustrates the distribution of state aid among districts grouped by property wealth per pupil and the resulting projected tax levy increase, assuming the 5.6 percent spending increase projected by the Educational Conference Board using *conservative* assumptions of fringe benefit costs.

The distribution of aid increases appears largely random, although poorest 20 percent of districts would receive the smallest aid increase – 0.64 percent. New York City's 2.04 percent increase would drop to 1.28 percent, without the special $40.2 million stabilization grant bestowed in the Executive Budget.

Because the base of state aid was once progressively distributed based on wealth, poorer school districts are more reliant on state aid as a revenue source and their taxpayers



confront larger local tax increases when state aid runs short. But they cannot ask their residents for tax increases of the magnitude required to replace the missing state aid. Gaps in spending and opportunity widen.

Potential impact of Sound Basic Education Aid. The figures above use so-called "computerized aids," a standard approach analyzing results from the aids presented on computer-generated school aid runs. They also omit the Governor's proposed $375 million in new Sound Basic Education Aid – because no allocation is proposed.

Reportedly, the Executive has stated that 60 percent of the SBE money would go to New York City, as it did last year. If so, New York City would enjoy a total aid increase of 5.3 percent and the balance of the state would see increases averaging 3 percent.

If negotiations follow the same course as a year ago, the total increase could be greater than $1 billion.

The role of "shares." The decision to not offer an SBE allocation formula, as the Executive Budget did last year, may have been intended to hold down the cost of the final settlement. As we explained in our analysis of the 2005-06 enacted budget, the Executive's refusal to permit reallocation of its SBE funds, the Legislature's adherence to regional "shares", and a desire to give schools more unrestricted aid, led the Legislature to add over $160 million to school aid outside New York City. This offset the targeting of SBE funds and lowered the City's share of the total increase to 38.86 percent, the level it has held almost every year since the latter 1980s.

By not proposing a formula for SBE Aid, the Governor may be signaling an intent to be flexible in its allocation. If so, the total cost of school aid might be held down.

Conversely, if negotiations follow the same course as last year, with the Legislature restoring BOCES and Private Excess Cost Aid, and the City receiving 60 percent of the SBE funds, the total aid increase this year could be over $1 billion, with the Legislature restoring the two cuts for $168.8 million and adding at least another $180 million outside the City to lower its share of the increase to the mystical 38.86 percent.

TAXPAYERS VS. SCHOOLCHILDREN

Twice before, the Legislature has rejected "STAR Plus" proposals by the Governor aiming to tie enhanced property tax relief to spending restraint by school districts, targeting benefits to residents in school districts that hold spending to the contingency budget level. NYSCOSS and other education groups condemned those proposals: they would put school district leaders in the impossible position of choosing between their taxpayers and their students.

With large portions of school spending driven by hard-to-control costs, schools would have no choice but to cut student services to live within the cap. In recent years, many districts have reported that increases in pension and health insurance costs alone pushed them over the caps, even if they could have frozen every other expense.

This time, the Governor has advanced a more insidious proposal – a $400 rebate to be mailed in October, just before elections, to residents in districts that adopt budgets within the cap – in effect a bounty for "no" votes. Another difference: in the past the Governor seemed to toss the proposals out, then forget about them. This time, he has traveled to Long Island and Western and Central New York to promote the idea, joined by Republican State Legislators, at each stop complaining about excessive school spending and tax increases.

This is a cynical and reckless initiative. Cynical because, first, the Governor does not honor a 4 percent threshold in his own budget – proposed state general fund spending would rise by 5.1 percent. Cynical even more because the Governor once again fails to propose any initiatives to help schools restrain costs the costs that drive spending above inflation.

STAR Plus would put school leaders in the impossible position of choosing between their taxpayers and their students.

It is reckless because of the harm it might do to the state's public schools. School district leaders cannot rest in striving for higher performance and greater efficiency. But whatever those challenges, New York remains home to many of the nation's finest public schools. One example: earlier in January, the Intel Science Talent Search announced that more than a third of the 300 national semi-finalists are from new York public schools. New York also scores favorably on broader measures of performance.

Once, California was renowned for superior public schools as well, but that state's system has been badly hurt through voter imposed property tax caps. On the National Assessment of Education Progress (NAEP) 4th and 8th grade reading math tests, California ranks between 45th and 49th among the states. New York ranks in the upper half on all four tests.

STAR VS. SCHOOL AID

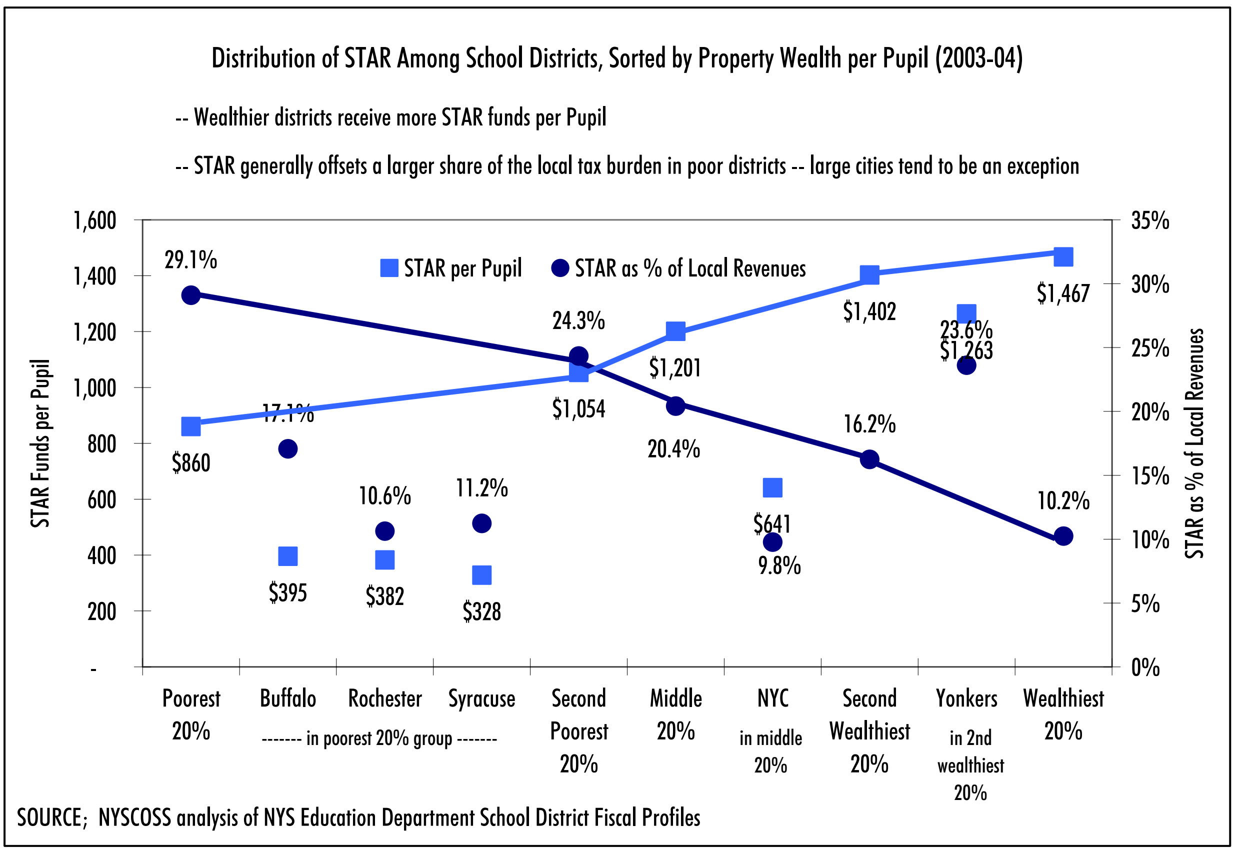
School district leaders do not need polls to tell them that property taxes are a sore point with voters. In last May's initial round of school budget votes, "no" votes were up by 16 percent, with eight of 10 regions seeing double-digit increases in votes against budgets.

The Senate Majority has proposed a comprehensive property tax relief package with a $1.9 billion "Rebate-NY" program as its centerpiece. It would entitle beneficiaries rebate checks equal to a share of their STAR benefit the year before, starting with 30 percent in 2006 and rising to 75 percent in 2008.

No doubt STAR helped propel the progress toward higher standards by helping to sustain the high school budget pass rates of the late 1990s and beyond. But whether an expansion of STAR now is the best use of $1.9 billion, or the best approach to property tax relief is debatable.

The current distribution of STAR between high need and other districts is roughly the inverse of school aid. The chart below shows that, on average, the wealthier the district, the more STAR benefits its taxpayers enjoy measured on a per pupil basis.

The chart also shows that STAR does cover a higher percentage of local tax bills in poorer districts (at least outside the large cities), but a smaller share of the proposed Senate add-on is likely to go to low wealth communities, since the existing STAR program already fully pays school taxes for some homeowners in



depressed upstate small cities and rural hamlets. But taxpayers in those communities still strain to give their children the chance for a quality education. Large urban districts typically benefit even less from STAR, because of the greater prevalence of renters who do not directly pay property taxes but whose landlords nonetheless do pass on taxes built into rents. All these communities, and others, could fare better from an increase in traditional school aid or some other form of property tax relief.

TAX CUTS VS. COMPREHENSIVE SCHOOL FINANCE REFORM

Resolving the Campaign for Fiscal Equity litigation seems to be off the table. With the lawsuit under appeal, and a lame duck in the Governor's office, lassitude is predictable. But what is most troubling is that the opportunity for effective statewide and comprehensive reform could be permanently lost.

As the *Albany Times-Union* reported, Frank Mauro, director of the Fiscal Policy Institute, warned that the Governor is proposing to so many back-loaded tax cuts ($4 billion worth by 2008-09), that budgeting for a CFE resolution will be impossible. Mauro said, "It's really putting a lien on future resources," and added, "It's not good multiyear planning. It sounds like not only does he not want to address the CFE case this year, he doesn't want the state to have the resources to address it when he's gone."

CONCLUSION

The state constitution calls for "*a system of free common schools, wherein all the children of this state may be educated*" – a promise through the ages that all children will get the chance for an adequate education. In 2003, the state's highest court found that New York City schoolchildren had been denied that promise due to defects in the state's education finance system. All state leaders have said that statewide reform is required.

With an order from the state's highest court, with a surplus of $2 billion, and with the apparent capacity to afford billions in tax cuts, state leaders should work to keep the constitution's promise and fulfill their commitment to statewide reform.

Ultimately, the state will need to resolve CFE with whatever resources are available. State leaders should assure they can apply resources needed to deliver sound, comprehensive reform that fairly responds to the needs of all communities.

Another risk is that state leaders could adopt significant increases in state aid and property tax relief yet still avoid making the necessary fundamental changes. In the late 1990s, the Governor and Legislature launched STAR and enacted three successive record school aid increases. But they did not seize the chance to make purposeful and comprehensive funding reforms even as CFE's challenge was progressing through the courts.

Comprehensive, statewide school finance reform would give all children a chance for an adequate education, give districts better ability to fund education without overburdening local taxpayers, and give school leaders a simpler, more predictable, more flexible funding system. It would help those school district leaders to better serve students and taxpayers. State leaders should not evade or defer another chance for progress.

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The New York State Council of School Superintendents is the professional association of school district executives, helping members succeed though professional development, advocating sound public policy on behalf of school-children and taxpayers, and defending the leadership role of the superintendency.

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