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Changes in Debt Payments in New York State School Districts 1993 – 94 to 2002 – 03

Introduction:

School districts usually incur long-term debt in order to make capital improvements. While this long term debt is necessary, too much of it can impair the financial stability of the district. State law also sets limits for many school districts as to how much they can borrow.[1] In addition, the issuance of debt by most school districts requires passage by the voters in that district.

Districts vary with regard to the frequency that they issue long-term debt instruments such as bonds. Some districts take on one project in one year and pay off debt over succeeding years. Some larger districts begin capital improvement projects every year and frequently issue bonds and other debt instruments. This leads to constant changes in debt payments year by year. Hence, annual changes were not calculated as a compounded rate in this paper.

This paper will demonstrate three types of growth patterns of debt payments among school districts during this period. One group of districts had a growth spurt in reaction to building aid incentives (the high need rural and average need districts). The second group's debt payments grew over this period, but with no noticeable upswing during the time that the building aid incentive was in effect. This group was comprised of the Big Four; high need urban/suburban, and low need school districts. The third group's growth rate pattern (New York City) was a nearly mirror image to group one. New York City saw a reduction in debt payments during the later part of this period. This reduction came after several consecutive years of moderate growth in debt payments and may be a residual effect of the terrorist attack of September 11, 2001.

Section 1: An Overview of Debt Payment Growth in NY State from 1993 –94 to 2002 – 03

Table 1 shows that school districts in New York State increased their debt payments significantly beginning in 1997-98. They peaked in 2000-01. Statewide total debt payments declined from 2000-01 to 2001-02, and had a slight increase from 2001-02 to 2002-03.

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[1] See 'School District Responses to Building Aid Incentives" April 2002 page 18, on the web at http://www.oms.nysed.gov.faru.articles.htm. The types of districts which are limited by law as to how much debt they may incur are: the Big Five (New York City, Buffalo, Rochester, Syracuse, and Yonkers), Small City school districts, Central, Union Free, and Common Districts. The limits for small city school districts are 5 percent of the average full value of the last five years of tax rolls. This limit may be exceeded if authorized by 60 percent of the voters and approved by the Board of Regents and State Comptroller. The limits for the Central, Union free, and Common districts are ten percent of the full value on the most recent tax roll. For the Big Four, this limit is nine percent of the five-year average of tax rolls. For New York City, the limit is ten percent of the five-year average of tax rolls.

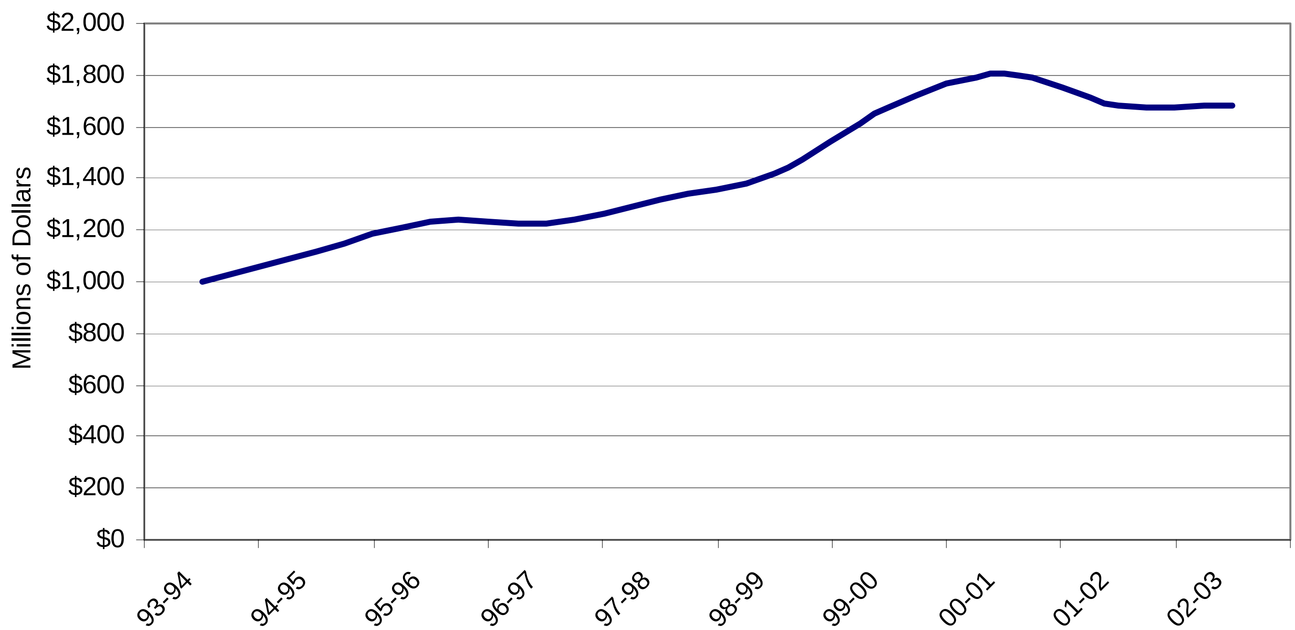
This ‘spurt’ from 1997-98 to 2000-01 was the result of a building aid incentives program passed into law in 1997 and which became effective in 1998.[2]

Table 1: Total Debt Payments of School Districts 1993-94 to 2002-03 (in Millions of Dollars)

Year	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Total	$997	$1,116	$1,231	$1,228	$1,319	$1,461	$1,672	$1,804	$1,683	$1,685
Change	-	$119	$115	-$3	$91	$142	$211	$132	-$121	$2
Change		11.9%	10.3%	-0.2%	7.3%	10.8%	14.5%	7.8%	-6.7%	0.1%

Figure 1 below graphically represents what Table 1 has demonstrated, that over time the total debt payments statewide have grown and declined at varying rates.

Figure 1: Total Yearly Debt Payments for all NYS Public Schools 1993 - 94 to 2002-03



<u>Section II</u>: Debt Payment Changes by Need Resource Category 1993-94 to 2002-03.

NYSED classifies school districts by a measure that takes into account both their degree of pupil need and their fiscal capacity. This measure is the need/resource capacity (NRC) index. While the need/resource capacity index is a continuous measure, NYSED uses it as a categorical variable as well. SED has defined six need/resource categories: New York City, the Big Four City School Districts (Buffalo, Rochester, Syracuse and

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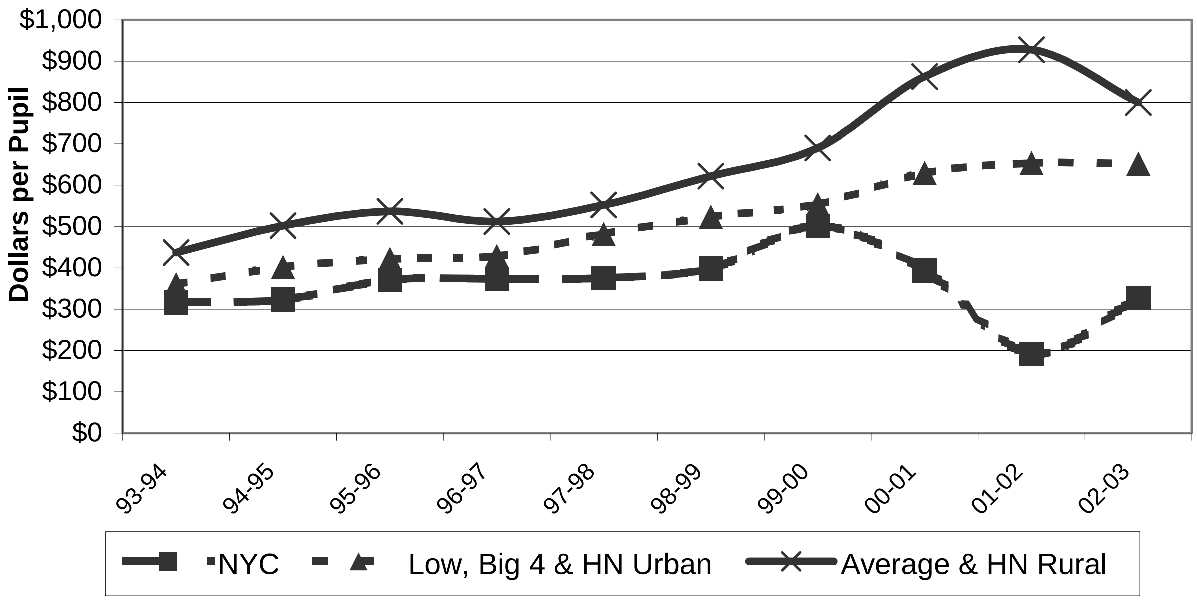
[2] For further information regarding this spurt in debt payment growth see ‘School District Responses to Building Aid Incentives” April 2002 on the web at http://www.oms.nysed.gov.faru.articles.htm.

Yonkers), high need urban/suburban districts, high need rural districts, average need districts, and low need districts. [3]

Figure 2 shows three types of need resource categories, grouped according to their behavior in terms of growth or decline of debt payments in this period. From 1997-98 to 2001-02, the average need and high need rural districts debt payments (upper group) grew at an accelerated rate. This group's debt payments per pupil declined during 2001-02 to 2002-03. New York City on the other hand was almost the mirror image of this group and per pupil payments actually declined during 1999-00 to 2001-02 with an up swing between 2001-02 and 2002-03.

The middle group comprised three need resource categories; the Big Four, high need urban/suburban, and low need categories. ***Although these need resource categories are very different from each other, their respective behaviors during this period were similar.*** These three need resource categories (the middle group) had a pattern of steady debt payment growth from 1993-94 to 2002-03 (Figure 2). ***All the need resource categories (except New York City), and 544 school districts out of 680 had an increase in total debt payments during this period***.

Figure 2: Per Pupil Debt Payments of Six Need Resource Categories Combined Into Three Groups Along with NYC 1993-94 to 2002-03



On a per pupil basis the upper group comprising the high need rural and average need districts had the highest per pupil debt payments in the base year, 1993-94 and this pattern continued throughout this period. As Figure 2 suggests these two types of districts saw a period of accelerated debt payment growth from 1997-98 that peaked in 2001-02 and declined thereafter. During this period, the high need rural districts lost enrollment. The increase in debt payments per pupil for the high need rural districts is partially explained by the drop in enrollments**.**

[3] See the New York State Education Department's Similar Schools: A Descriptive Overview, available on-line at: http://www.emsc.gov/repcrdfall2004/information/similar-schools/guide.html

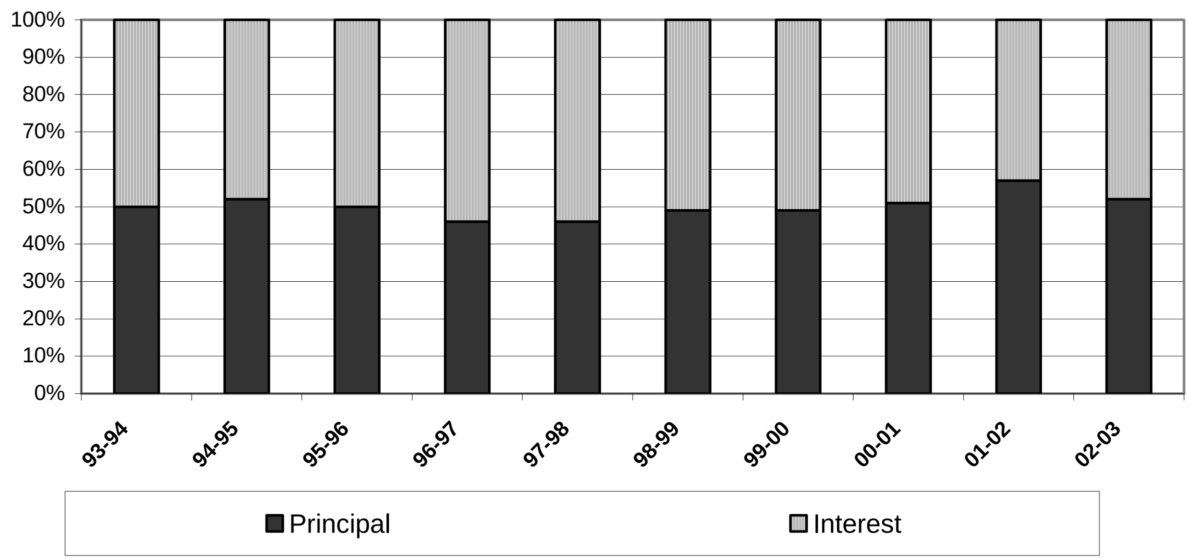
The low need resource category had an enrollment growth three times greater than any other category. The low need category generally includes the wealthiest districts in the State by most measures. Hence, low need districts were able to finance capital improvements with local resources. The most recent building aid incentives had little effect upon the growth in debt payments in this type of district. This increase was most probably a function of enrollment growth.

For most of this period, the pattern for New York City was similar to other districts. A clear drop in payments per pupil occurs in the 2001-02 period and is followed by an upswing in 2002-03. It is likely that the 2001-02 decline reflects the catastrophic effects of September 11th.

Section III: Are Districts Able to Pay off Long Term Debt?

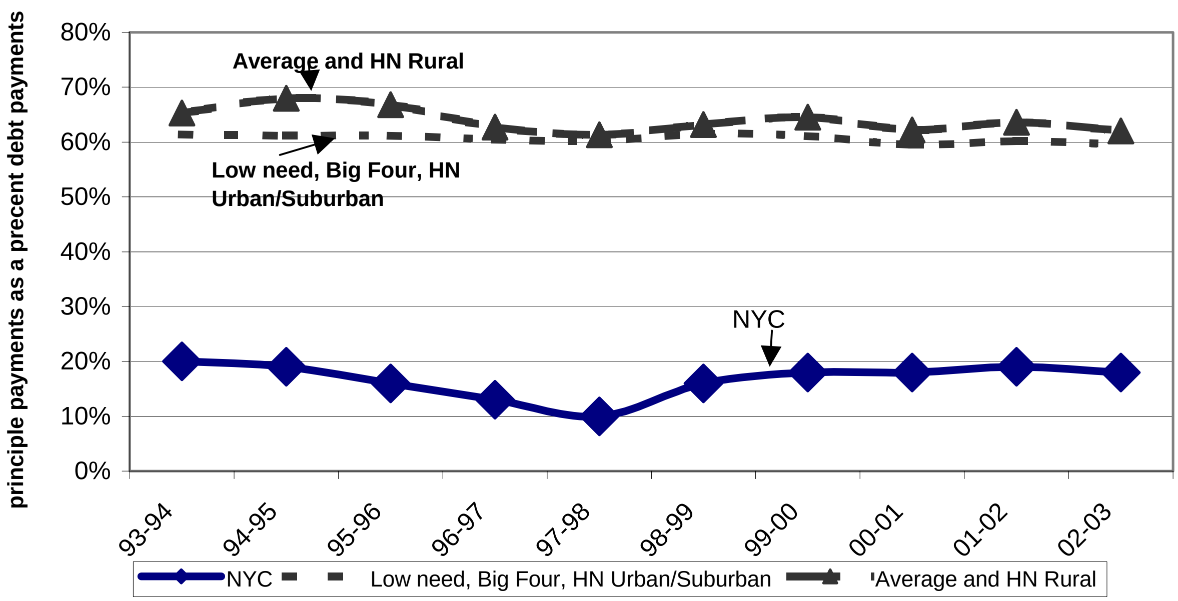
School district payments include both interest and principal. The more paid on principal the sooner long-term debt is retired. Figure 3 below shows that on a statewide basis about half is going to interest and half to principal payments over the 1993-94 to 2002-03 period and the ratio was fairly constant.

Figure 3: Interest and Principal Payments Statewide 1993-94 to 2002-03 as a Percent of Total Payments



Is the pattern found in Figure 3 the same for all need/resource categories? While the other groups of need resource categories paid more on principal than interest, New York City's school district paid approximately one fifth of their total debt payments towards principal (Figure 4).

Figure 4: Principle Payments as a Percent of Total Debt Payments For Three Groups of NRC's 1993-94 to 2002-03



Most school districts are paying roughly two dollars on principal to every dollar paid on interest. This means that most districts are paying down debt loads and hence improving their future fiscal outlook. The New York City school district is a dependent school district with finances of the district controlled by the city. The future prospect of the New York City school district may depend on the economy and finances of the city as a whole, rather than on the overall debt load of the school district.

In addition, New York City issues 30-year bonds rather than 20-year bonds that are common practice among New York State school districts. Since these bonds have a longer maturation period, they have higher interest rates than 20-year notes. The rates of each bond issue vary according to market conditions.

It is the practice of New York City to pay debt as a lump sum at the end of each fiscal quarter or year. In this manner New York City can if it chooses pay more than specified payment amounts of outstanding bond issues. The economy slipped into recession in the spring of 2000 and along with the events of 9/11 New York City temporarily ceased paying more than the minimum required. Hence, the sudden drop in debt payments seen in the 2000-01 and 2001-02 years.

<u>Conclusions</u>:

Most school districts within the state appeared to have issued long-term debt instruments in a conservative manner. These districts were keeping ahead of the game by paying more on principle than on interest. The sudden drop in payments by New York City is unusual and expected to be temporary.