

## **Overview of the Statewide Fiscal Profile of New York State School Districts**

This report is the twentieth edition of a report produced by the State Education Department depicting five-year trend data on school district expenditures and revenues. Major financial trends during the 2002-03 to 2006-07 time period are discussed at the statewide level.

### **Changing Trends**

Fiscal trends in school district revenues and expenditures constantly change. For example, the fiscal profiles began during a period of fiscal prosperity for the State. Throughout much of the 1980s, the State was able to provide substantial increases in aid to school districts. Between 1982-83 and 1988-89, State aid increased by approximately \$3.5 billion (an average yearly increase of \$576 million).

These trends dramatically changed in the late 1980's and early 1990's. The fiscal health of the State declined and a series of fiscal year deficits occurred, which substantially impacted the distribution of State Aid. Between 1991-92 and 1994-95, State aid increased by only \$82 million. The \$27.3 million average yearly increase in State aid for this period was noticeably lower than the \$576 million average yearly increase in the mid to late 1980's.

However, as the State's finances improved, revenues from the State aid increases became larger. Between 2002-2003 and 2006-07, revenues from State sources increased by about \$4.4 billion. These years witnessed an increase in State Aid (approximately \$3.5 billion) and the growth of the School Tax Relief Program (STAR), which in 2006-07 provided almost \$3.6 billion in State revenues to school districts to help reduce the property taxes of homeowners.

Patterns in school district enrollments also change. A long decline in K-12 enrollment in upstate urban districts expanded into suburban and especially rural districts. New York City has experienced a small but steady decline in enrollment in recent years. As a group, only the downstate suburban districts have experienced enrollment growth. Even when record increases in revenues from the State are provided, increasing pupil counts dampen the effect of such increases on individual students. The effects of inflation and enrollment growth can perhaps be best understood with a few examples. The \$8.1 billion (25.6 percent) increase in total expenditures between 1999-2000 and 2003-04 translated into an increase of \$2,786 (25.2 percent) per pupil. However, after adjusting for inflation, 2003-04 expenditures were worth \$12,578 per pupil in 1999-2000 dollars. In short, after adjusting for inflation the statewide average expenditure per pupil was \$1,538 more (13.9 percent) in 2003-04 than it had been in 1999-2000. Thus, a 25.6 percent increase in the total expenditures after adjusting for inflation represented a per pupil increase about half that size.

The fiscal profile reporting system was designed to answer questions of interest to policymakers. For this reason, profile data are presented so that comparisons can be made for a five-year period.

### **Use of Fiscal Profile Data**

Fiscal Profile data are used in a variety of ways. Some of the ways include:

- To provide data to State agencies, members of the Legislature and their staff, school districts, educational interest groups, the press and the public;
- To assist in the development of the Regents State Aid Proposal;
- To serve as the source of fiscal data reported in *New York the State of Learning: A report to the Governor and the Legislature on the Educational Status of the State's Schools*;
- To serve as a source of expenditure data for the *School Report Card*;
- To serve as the data source for the calculation of the cost of general education per pupil and special education per pupil;
- To assess the spending and revenue trends of districts; and,
- To suggest further analyses needed to better understand the spending and revenue trends of a particular district or group of districts.

### **Brief Description of the Fiscal Profile Tables**

The tables displayed in this report are based on school districts as they existed for the 2006-07 school year. Thus, any districts that combined (e.g., consolidation, merger, annexation) between July 1, 2002 and July 1, 2006 are treated as a single district for the entire time period.

The Fiscal Profile tables allow school district data to be analyzed from a variety of perspectives. Tables 1, 2, and 3 provide alternative methods of examining revenues by source and expenditures by selected categories. The row titles and columns of the tables are defined and explained in the Appendix.

Table 1 displays the total dollars associated with the revenue sources and expenditure categories. Table 2 displays each revenue source and expenditure category in terms of dollars per pupil. Table 3 displays each revenue source and expenditure category in terms of total revenues or total expenditures for the first and last years of the reporting period. Table 4 describes important State Aid, district and instructional program characteristics.

The pupil count used throughout the report is called duplicated combined adjusted average daily membership (DCAADM). This pupil count consists of: pre-kindergarten pupils (weighted at .5), the average daily membership of a district (1/2 day kindergarten pupils weighted at .5), pupils attending BOCES, pupils for which the district pays tuition to another district, pupils in approved private placements, pupils attending the State schools at Rome or Batavia, residents of the district attending charter schools and incarcerated youth for districts responsible for providing the program.

Tables 1, 2, and 3 are based on data from the *Annual Financial Report* (Form ST-3, hereafter referred to as the ST-3). The ST-3 is an unaudited document, which displays a district's reported expenditures and revenues. It does not necessarily reflect changes

that have occurred after the initial review process. It is important to note that the ST-3 is a document designed to provide fiscal accountability; it is not an educational program document. Although the State's intent with the ST-3 is for school districts to provide a uniform statement of revenues and expenditures, the possibility exists that school districts will interpret the instructions and account codes differently.

In some districts, particularly high-need districts, an important element of the educational program is the Special Aid Fund. Originally, the Special Aid Fund was used to account for educational projects supported by the Federal government. Today, the Special Aid Fund includes revenues from all sources and expenditures to support State and Federal categorical programs.

Table 4 provides data on district wealth, the unreserved fund balance, local effort and the instructional expenditures of school districts.

### **Presentation of the Findings**

The data are described in terms of statewide trends. It should be noted that statewide trends may be quite different from district trends or trends at aggregation levels other than the State. Any reference to inflation-adjusted dollars or constant dollars is based on the methodology described in the Appendix.

## **Section II: Major Trends 2002-03 Through 2006-07**

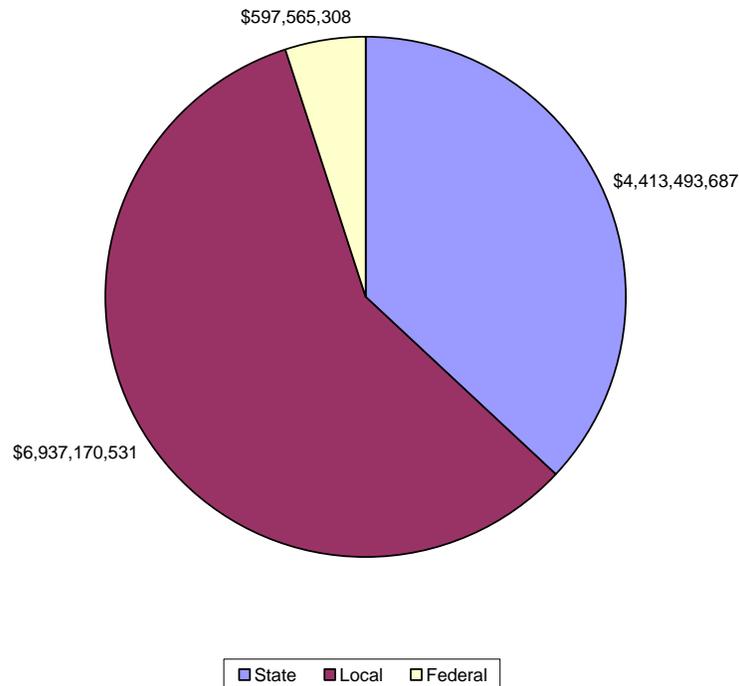
### **General Revenue and Expenditure Trends**

#### **Grand Total Revenues**

Total revenues for the period increased by 32.3 percent, reaching a total of \$49.3 billion in 2006-07. Total revenues per pupil increased by \$4,599 or 35.4 percent.

Figure 1 displays the dollar change for each of the revenue sources and for total revenue between the 2002-03 and 2006-07 school years. The figure shows that the total revenue of school districts increased by \$12.0 billion and revenue from State sources increased by \$4.4 billion or 36.6 percent of the total.

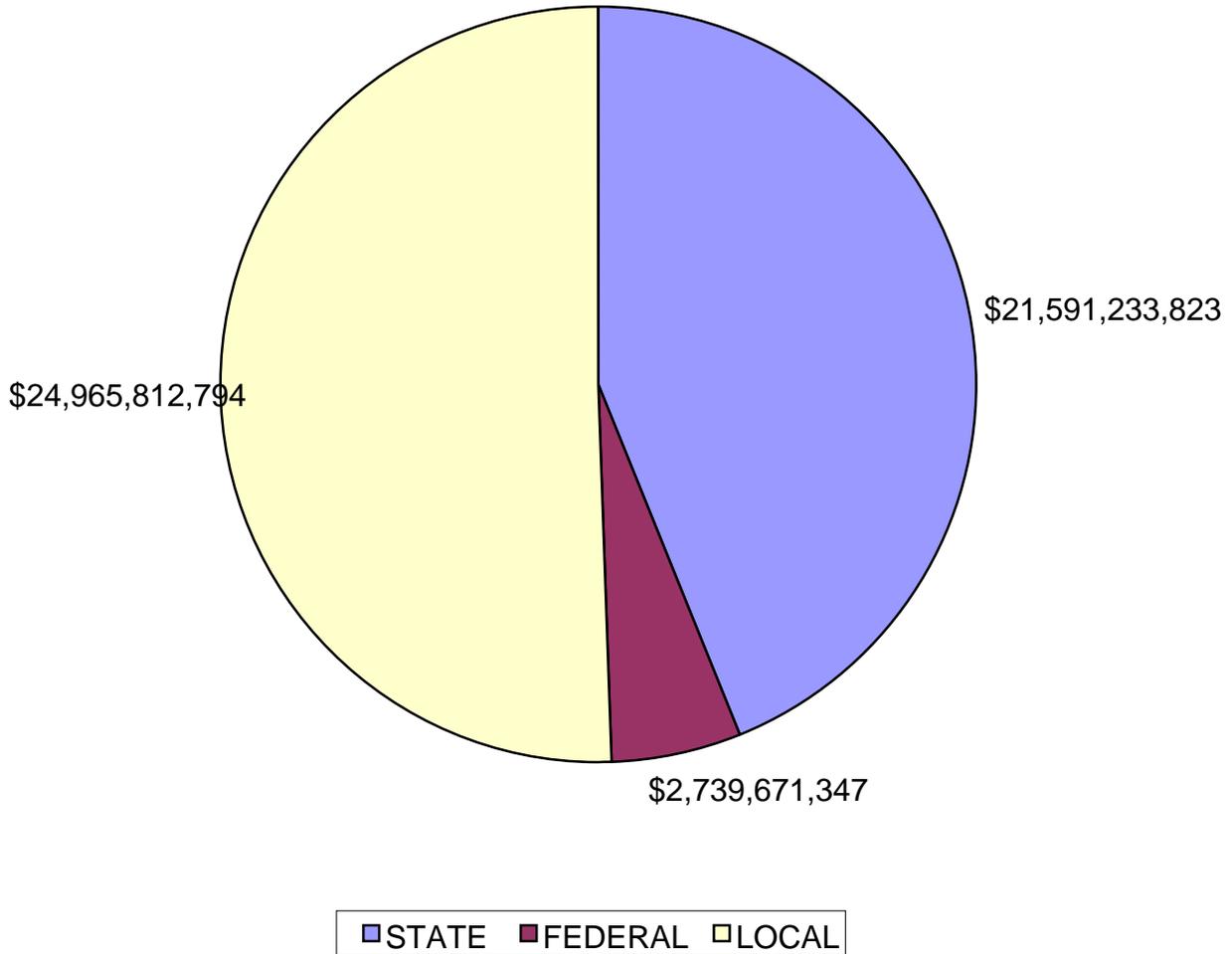
### Distribution of Change in Revenue, 2002-03 to 2006-07



The State sources increase can be viewed as having two distinct components. The first component consists of revenue traditionally provided by the State, which increased by \$3.5 billion. The second component consisted of School Tax Relief (STAR) payments from the State to school districts for exemptions provided homeowners and provided \$3.6 billion in revenue to school districts in 2006-07, an increase of \$900 million in this time period.

Revenue from local sources increased by \$6.9 billion (39.2 percent) between 2002-03 and 2006-07. Out of a total increase in revenue of \$12.0 billion, revenue from Federal sources accounted for \$0.6 billion (about 5.0 percent) of the increase. Revenues from State sources traditionally constitute approximately two-fifths of the total revenues of school districts. Revenues from State sources (including STAR) accounted for 43.7% of total revenues in 2006-2007.

### Distribution of Total Revenue 2006-07



#### Revenues: State Sources

During this period, revenues from State sources increased by \$4.4 billion or 25.7 percent. STAR was responsible for 20.1 percent of the increase in revenues from State sources.

#### Revenues: Local Revenues

Statewide, revenues raised locally increased by \$7.1 billion or 38.5 percent and accounted for 58.1 percent of the increase in total revenues. On a per pupil basis, local revenues increased from \$5,582 to \$6,941, a change of \$1,359. After adjusting for inflation, the change in local revenues per pupil for the period was an increase of \$733.

The local revenue picture was complicated by several developments during this time period. A major purpose of the STAR program is local tax relief; STAR is successful if the raising of school district local revenue is restrained. Conversely, New York City and many other districts substantially increased local revenues for education during this period.

### **Revenues: Federal Sources**

Statewide, revenues from Federal sources increased by \$600 million, or 27.9 percent (percent after adjusting for inflation). Unfortunately, Federal revenue actually decreased by \$84 million from 2005-06 to 2006-07. Figure 1 (above) shows that the Federal increase in revenue was noticeably lower than the State's increase. On a per pupil basis, revenues from Federal sources increased from \$498 to \$901 (80.9 percent). After adjusting for inflation, the per pupil increase was \$322 or 64.7 percent.

### **Unreserved Fund Balance**

The unreserved fund balance (General Fund) consists of the funds appropriated for the following year's budget, the unappropriated fund balance, and investments frozen by a bankruptcy court. When the Big Five Cities (Buffalo, Rochester, New York, Syracuse and Yonkers) are excluded, the unreserved fund balances of districts increased by about \$280.0 million or 28.0 percent.

### **Total Expenditures**

The pattern in total expenditures was similar to the patterns discussed for revenues. Statewide, total expenditures increased by \$10.9 billion or 29.1 percent. After adjusting for inflation the increase was 13.4 percent.

### **Specific Expenditures**

#### **Instructional Expenditures**

##### **Teacher Salaries**

The single most important component of the statewide increase in total expenditures was teacher salaries. In 2006-07, expenditures for teacher salaries were approximately 35.0 percent of all expenditures by school districts. During the period, expenditures for teacher salaries increased 18.9 percent. On a per pupil basis, expenditures for teacher salaries increased by \$1,097 or 22.0 percent.

##### **PPS Instructional Salaries**

PPS instructional salaries increased by approximately \$83.8 million or 15.9 percent during the period. This increase was somewhat lower than the percentage increase in teacher salaries.

##### **Curriculum Development/Supervision**

Curriculum development/supervision instructional salaries increased by 19.3 percent during the period. On a per pupil basis, expenditures increased by \$73.

### **BOCES Instructional Expenditures**

BOCES instructional expenditures increased 21.5 percent during the period. On a per pupil basis, expenditures increased by \$130 or \$51 after adjusting for inflation.

### **Tuition**

Although two distinct tuition categories are displayed in the tables, for the purpose of this analysis, tuition expenditures for the two categories will be combined. Tuition expenditures increased by 37.7 percent during the period. On a per pupil basis, expenditures increased by \$134 or \$78 after adjusting for inflation.

### **Other Instructional Salaries**

Other instructional salaries increased by 6.6 percent during the period. On a per pupil basis expenditures increased by \$90 ( a drop of \$38 after adjusting for inflation).

### **Other Instructional Expenditures**

Other instructional expenditures increased by 31.0 percent. On a per pupil basis, expenditures increased by \$282 (\$149 after adjusting for inflation). Other Instructional Expenditures include instructional technology and payments to charter schools, both areas of substantial growth during this period.

### **Employee Benefits**

Expenditures for employee (fringe) benefits are an important component of school district expenditures. The total increase in employee benefit expenditures was more than \$3.7 billion; this figure represents 34.0% of the increase in total expenditures. Each of the three categories of benefits grew substantially; retirement benefits grew at the highest rate.

#### **Employee Benefits: Teacher Retirement**

One of the major developments during this period was the increase in teacher retirement expenditures of \$1.8 billion, or 257.2 percent. On a per pupil basis, expenditures for teacher retirement rose by \$650. The increase in expenditures was due, at least in part, to changes in accounting practices. Projections by the New York State Comptroller indicate that these expenditures will remain high for several years.

#### **Employee Benefits: Health**

Statewide, expenditures for health insurance increased by 45.1 percent. On a per pupil basis, expenditures for health insurance increased by \$472. Health insurance expenditures continue to be one of the fastest growing categories of expenditures.

#### **Employee Benefits: Other Employee Benefits**

The category “Other Employee Benefits” covers a wide range of items, including benefits mandated by law such as unemployment insurance and worker’s compensation. While the cost of these benefits did not rise as quickly as retirement and health benefits did, they did rise by \$660 million, or 24.9 percent during this period.

### **Debt Service**

Many districts invested in new buildings during this period. Expenditures for debt service (principal) increased by 78.9 percent. Expenditures for debt service (interest) increased by 48.7 percent.

### **Wealth Measures**

#### **Actual Value per Total Wealth Pupil Unit**

The property value per pupil displayed in Table 4 consists of the Actual Value (AV) Per Total Wealth Pupil Unit (TWPU) used in the Operating Aid Formula for the specified school year. During the period, the State average AV/TWPU increased from \$264,200 to \$382,200 or 44.6 percent.

Change in property value per pupil does not occur evenly across the State. The growth in property value was particularly concentrated in the New York City/Long Island/Westchester area. It should be noted that a decrease in property value per pupil could also occur if the growth in pupils is greater (on a percentage basis) than the increase in property value.

#### **Income per Total Wealth Pupil Unit**

The income per pupil displayed in Table 4 consists of the Adjusted Gross Income (AGI) Per Total Wealth Pupil Unit (TWPU) used in the Operating Aid Formula for the specified school year. During the period, the State average income/TWPU increased from \$110,100 to \$121,800.

#### **Local Effort Rate**

The local effort rate is similar to but different from the property tax; the local effort rate calculation includes all sources of local revenue. The State average local effort rate decreased statewide by \$1.76 (from \$16.86 per thousand to \$15.10 per thousand) from 2002-03 to 2006-07. As noted earlier, a major purpose of the STAR program is to replace local dollars with state dollars.

#### **Expenditures for Providing Instructional Services**

This report has traditionally calculated instructional costs according to three definitions. The definitions differ because of limitations with ST-3 or differences in how instruction can be defined.

#### **Instructional Expenditures (Excluding Employee Benefits)**

One way to define instructional expenditures is to sum ST-3 account codes clearly associated with the provision of instructional services. Such a definition, however, excludes employee (fringe) benefits paid from the General Fund. The General Fund account codes for employee benefits are single line entries that do not distinguish between the instructional program and other programs. Since employee benefits paid for out of the General Fund would have to be excluded from the definition of instruction under this approach, employee benefits paid from another fund (which can be identified) were excluded from this definition of instruction.

For this report, instructional expenditures (excluding employee benefits) were defined as the sum of the following Table 1 categories: Teacher Salary; PPS Instructional Salaries; Curriculum Development/Supervision; BOCES Instructional Expense; Tuition 1 and 2; Other Instructional Salaries and Other Instructional Expenditures. Total expenditures are defined as the total expenditures displayed in Table 1.

The figure below shows that in 2006-07 such instructional expenditures were \$27.9 billion out of total expenditures of \$48.6 billion (57.5 percent).

### **Instructional Expenditures (Including Employee Benefits)**

The exclusion of employee benefits can be criticized for understating the true cost of providing instructional services. A methodology has been developed to estimate employee benefit expenditures associated with the instructional program (see Appendix). The estimated expenditures for fringe benefits for individuals associated with the instructional program was then added to the instructional expenditures previously calculated. In determining the percent that this definition of instructional expenditures was of total expenditures, total expenditures were defined as the total expenditures displayed in Table 1.

After accounting for employee benefits, in 2006-07 such instructional expenditures were \$36.7 billion out of total expenditures of \$48.6 billion (75.5 percent). Thus, more than three out of every four dollars spent by school districts is used to provide the instructional program.

### **Instructional Expense**

Regulations of the Commissioner have been developed which define instructional expense and provide for an adjustment to total expenditures. For this report, instructional expense can be defined as instructional expenditures (including employee benefits) minus the expenditures displayed in Table 1 for Tuition 1. The regulatory definition of adjusted expenditures excludes expenditures for tuition to other school districts (excluding special act districts); transportation; debt service; and transfers to the Capitol Fund. This definition of expenditures provides a more stable definition of expenditures than does total expenditures since major increases or decreases attributable to one-time building projects or capital spending are not included. In 2006-07, instructional expense was \$36.2 billion out of total adjusted expenditures of \$42.6 billion (85.0 percent).

Thus, the overwhelming majority of the expenditures of school districts are for providing instructional program. When fringe benefits are included in the definition of instructional expenditures approximately three out of every four dollars spent by school districts is spent on the instructional program. Furthermore, when building and transportation expenditures are removed from the calculation, the instructional program accounts for more than four out of every five dollars spent by school districts.

### **Section III: Statistical Tables**

Statistical tables are provided for all major districts and for Statewide totals. The minor districts (districts with less than eight teachers) and special act districts are excluded.