

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

This report is the twenty-fifth 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 2007-08 to 2011-12 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. These trends dramatically changed in the 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. Similarly, a period of prosperity after the turn of the millennium was followed by a nationwide downturn. Between 2007-08 and 2011-12, revenues from State sources decreased by about \$0.5 billion. The School Tax Relief Program (STAR) in 2011-12 provided \$3.2 billion in State revenues to school districts to help reduce the property taxes of homeowners. Declining property values in many areas of the State reduced the value of this program by about \$475 million from the 2007-08 year.

Beginning in the 2009-10 aid year, the State budget included a Deficit Reduction Assessment which cut school aid by more than \$1 billion, which was restored with federal ARRA funds. Implementation of the Foundation Aid program enacted in 2007-08 was stalled. In 2011-12, the Gap Elimination Adjustment cut aid by more than \$2.5 billion, which was only partially offset with federal aid. Rapidly rising costs put additional financial stress on school districts. Stagnant property values limited districts' ability to increase local revenues.

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.

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 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 2011-12 school year. Thus, any districts that combined (e.g., consolidation, merger, annexation) between July 1, 2007 and July 1, 2011 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: 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. Beginning with the 2007-08 school year, full-day Pre-K students are weighted at 1 and ½ day Pre-K weighted at .5.

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.

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 2007-08 Through 2011-12

General Revenue and Expenditure Trends

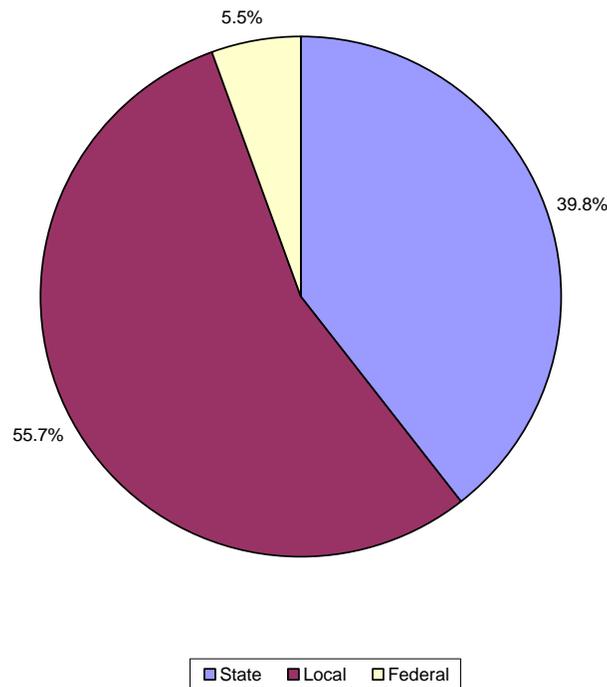
Grand Total Revenues

Total revenues for the period increased by 11.3 percent, reaching a total of \$58.06 billion in 2011-12.

Revenues: State Sources

The State sources increase can be viewed as having two distinct components. The first component consists of revenue traditionally provided by the State, which decreased by a relatively small \$33 million from 2007-08. The second component consists of School Tax Relief (STAR) payments from the State to school districts for exemptions provided homeowners and provided \$3.2 billion in revenue to school districts in 2011-12, a decrease of \$475 million from 2007-08. The 2011-12 Enacted Budget included a change in permanent law which limits future growth of aid to public schools to the growth in personal income in the state.

Distribution of Total Revenue 2011-12



Revenues: Local Revenues

Statewide, revenues raised locally increased by \$5.8 billion or 22.3 percent. The local revenue picture was complicated by several developments during this time period. Property values were volatile. A major purpose of the STAR program is local tax relief; STAR is successful if the raising of school district local revenue is restrained. Effective in the 2012-13 school year, a property tax cap will limit the growth of local revenue to two percent, with certain exceptions.

Revenues: Federal Sources

Overall, federal revenue increased by \$630 million or 24.5 percent from 2007-08 to 2011-12. Districts were cautioned that this increase was temporary and should be used judiciously.

Unreserved Fund Balance

In previous years, the unreserved fund balance (General Fund) consisted of the funds appropriated for the following year's budget, the unappropriated fund balance, and investments frozen by a bankruptcy court. Beginning in 2010-11, in response to changes in GASB rules, this item became Total Unexpended Surplus Funds AT0994. When the Big Five Cities (Buffalo, Rochester, New York, Syracuse and Yonkers) are excluded, the unreserved fund balances of districts decreased by about \$350 million or 18.4 percent.

Total Expenditures

The pattern in total expenditures was similar to the patterns discussed for revenues. Statewide, total expenditures increased by \$6.5 billion or 12.7 percent.

Specific Expenditures

Instructional Expenditures

Teacher Salaries

The single most important component of the statewide increase in total expenditures was teacher salaries. In 2011-12, expenditures for teacher salaries were approximately \$18.9 billion. This figure was an increase of \$1.0 billion from 2007-08 (5.9%), but also a decrease of \$41 million from 2010-11.

PPS Instructional Salaries

PPS instructional salaries increased by approximately \$52.7 million or 8.1 percent during the period.

Curriculum Development/Supervision

Curriculum development/supervision instructional salaries dropped by \$112 million from 2007-08 to 2011-12, the only outright drop among instructional staff.

BOCES Instructional Expenditures

BOCES instructional expenditures increased 5.7 percent overall during the period, but actually dropped by \$50 million or 2.3% from 2010-11.

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 32.2 percent during the period.

Other Instructional Salaries

Other instructional salaries, which includes librarians, media specialists and others increased by 0.7 percent during the period. Rapid increases in this function early in the period slowed considerably in the final year.

Other Instructional Expenditures

Other instructional expenditures increased by about \$770 million or 22.4 percent. Other Instructional Expenditures include instructional technology and payments to charter schools, both areas of substantial growth during this period. Additional federal funds encouraged spending for durable goods by many districts. The temporary nature of the federal support was reflected in a decrease in spending for this function of \$138 million from 2010-11.

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 \$2.8 billion. Each of the three categories of benefits grew substantially; retirement benefits grew at the highest rate. It is anticipated that fringe benefits will continue to grow in future years.

Employee Benefits: Teacher Retirement

One of the major developments during this period was the increase in teacher retirement expenditures of \$1.2 billion, or 41.9 percent. 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 \$1.1 billion or 24.7 percent.

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 quite as quickly as retirement and health benefits did, they did rise by 15.1 percent during this period.

Debt Service

Many districts invested in new buildings or renovations during this period. Others wisely paid down existing debt. Expenditures for debt service (principal) increased by 41.7 percent. Expenditures for debt service (interest) increased by a more modest 8.3 percent statewide.

Wealth Measures

Beginning with the 2007-08 school year the main source of state general purpose aid became Foundation Aid, which combined more than thirty previously-existing aids. However, in the 2010-11 school year a district's Combined Wealth Ratio for Foundation Aid was based on a selected Actual Valuation and a selected Adjusted Gross Income. For the purpose of consistency over the years in this report, the traditional method of calculating the Combined Wealth Ratio (a 50/50 combination of Actual Value/TWPU and Adjusted Gross Income/TWPU, presented as an index) is maintained. This calculation was used for Excess Cost Aid. Other aids may use values which differ from those presented here.

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) for the specified school year. Between 2007-08 and 2011-12, the State average AV/TWPU increased from \$527,900 to \$755,900.

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. Some areas of the state experienced decreases in property value, which lead to a decrease in STAR payments.

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) for the specified school year. From 2007-08 to 2011-12, the State average income/TWPU increased from \$169,000 to \$217,800.

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 slightly statewide to \$16.10 per thousand) in 2011-12. As noted earlier, a major purpose of the STAR program is to replace local dollars with state dollars. Increases in property values will also allow a district to generate local revenue at a lower effort rate.

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 data 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; the total came to \$32.1 billion. This figure was essentially unchanged from the previous year. Total expenditures are defined as the total expenditures displayed in Table 1.

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 2011-12 such instructional expenditures were \$44.9 billion out of total expenditures of \$58.0 billion (77.5 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 2011-12, instructional expense was \$44.6 billion out of total adjusted expenditures of \$49.6 billion (89.9 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.