

The New 3 Rs:

REDUCING,
RESTRUCTURING &
REDESIGNING

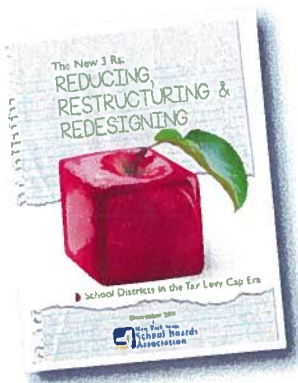


■ School Districts in the Tax Levy Cap Era

December 2011



New York State
School Boards
Association



This report was researched and written by **Paul Heiser** and **Gayle Simidian**, research analysts at the New York State School Boards Association (NYSSBA); **David Albert**, director of communications and research, and **Michael Fox**, senior legislative analyst at NYSSBA.

The report was designed by **Lisa Cooper**, NYSSBA's senior graphic designer.



Up Close

■ The Tax Cap

New York's property tax levy cap law establishes a limit on the annual growth of property taxes levied by local governments and school districts to 2 percent or the rate of inflation, whichever is less.

The cap applies to all independent school districts. The tax levy cannot exceed the cap unless 60 percent of voters in each school district approve such an increase.

The cap first applies to school district budgets in the 2012-13 school year. If voters reject the spending plan twice, schools must adopt a budget with the same tax levy as the prior year – a zero percent cap.

I. The New 3 Rs

While the traditional 3 Rs – “Reading, ‘Riting and ‘Rithmetic” – remain the staple of classroom learning, school leaders are applying a new set of Rs.

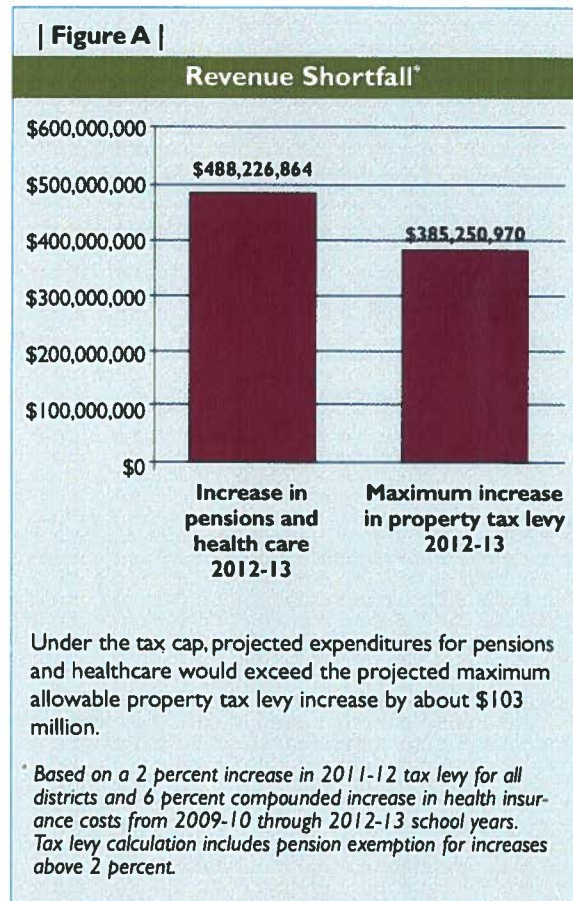
“Reducing, Restructuring and Redesigning” have become the New 3 Rs as school leaders work to preserve educational programs under New York State’s new property tax levy cap.

The New 3 Rs include many of the familiar budget strategies that school leaders have adopted over the past three years – drawing on reserves, cutting personnel, negotiating salary freezes, and using attrition and retirements to reduce costs. They also represent a move beyond these one- or two-year savings toward actions that will yield more long-term, sustainable cost-savings. These actions include reducing non-mandated programs, restructuring school buildings and grade configurations, and redesigning programs by sharing teachers and administrators with other districts. One school administrator summarized the New 3 Rs as “finding a different way to do business as we move forward.”

The reasons for the paradigm shift are clear. School districts and the tax levy cap are on a collision course. Projected expenditures for health insurance and pensions alone for all school districts subject to the tax levy cap would exceed the maximum allowable tax levy increase under the levy cap by \$103 million in 2012-13 (see Figure A).

An analysis by the New York State School Boards Association (NYSSBA) of revenue and expenditure data from 121 school districts for school years 2010-11 and 2011-12 clearly illustrates that if the tax levy cap had been in place this year:

- Nearly three-quarters of these districts (74 percent) would not have been able to raise enough property tax revenues to make up for increased expenditures and decreased state and federal revenues without going above the property tax levy cap and requiring 60 percent voter approval.



- The 121 districts in our sample collectively would have been allowed to exempt only \$11.1 million in payments to the Teachers’ Retirement System (TRS) and \$13.5 million in payments to the Employees’ Retirement System (ERS) in 2011-12. Those amounts pale in comparison to the total projected \$2.3 billion they are expected to pay into TRS and \$561 million into ERS pensions in 2011-12. The TRS exemptions amount to a mere 0.49 percent of all TRS payments, while the ERS exemptions represent just 2.4 percent of all ERS payments. The exemptions clearly will have little impact on school tax levies.

▮ The total average shortfall for the 121 districts would have been \$775,000 under the cap. These districts would have been allowed to increase their property tax revenues an average of \$679,000, but their total projected 2011-12 expenditures are expected to increase by an average of \$867,000 while their total non-property tax revenues (primarily state and federal aid) would decrease by an average of \$587,000 (see Figure B).

▮ Nearly one-third (30 percent) of the districts facing budget gaps would not have had enough undesignated reserve funds to cover the shortfall. Their only choices would have been to cut programs and staff or propose budgets that exceed the cap and therefore require a supermajority (60 percent) voter approval.

▮ Districts that would not have had enough undesignated reserve funds to cover the shortfall tend to be districts with less property and income wealth than average districts based on their combined wealth ratios.

| Figure B |

The Budget Gap under the Tax Cap

Average allowable increase in property tax revenue under the cap:	\$ 679,000
Average expenditure increase:	(867,000)
Average reduction in non-property tax revenue:	(587,000)
Difference:	\$ (775,000)

▮ Districts that had enough reserve funds to cover the shortfall would have needed to use more than one-third (38 percent) of their reserves. That would place districts at risk in the event of an unexpected event – such as flooding, emergency damage to school facilities, slow tax collections or delayed state aid. Without sufficient reserves to cover these scenarios, schools might resort to short-term borrowing, thereby incurring interest and passing that cost along to taxpayers.

▮ Exemptions for court orders/torts in excess of 5 percent of the total tax levy would have applied to only three of the 121 districts in our sample.

The New 3 Rs

■ REDUCE

Measures to cut or eliminate from schools

- Reduce number of class periods
- Leave vacant positions open
- Reduce music classes
- Eliminate non-mandated teacher aides
- Eliminate equipment and furniture purchases
- Reduce hours and personnel
- Eliminate or reduce use of BOCES programs and services
- Reduce funding for extracurricular activities
- Eliminate funding for modified sports
- Eliminate field trips
- Cut elective courses
- Cut overtime
- Freeze salaries
- Reduce clerical positions to 10 months and redistribute work

■ RESTRUCTURE

Measures to fundamentally change the organizational make-up of schools

(from the top down)

- Close school buildings and realign building configurations
- Purchase goods and services through BOCES
- Privatize food services
- Redistrict school attendance zones
- Increase class sizes
- Restructure nursing services
- Share services and personnel
- Merge sports teams
- Restructure maintenance/cleaning workforce
- Restructure administrative duties and positions
- Merge with one or more school districts

■ REDESIGN

Measures to reclassify, rethink, and re-engineer positions, roles and services

(from the bottom up)

- Reclassify positions when applicable and appropriate
- Move from full-time to one-half and three-quarter time positions
- Change the number of steps and increments between steps in salary schedules
- Design green schools
- Use cost-effective measures such as virtualization
- Use technology to offer online courses and track absentee students
- Implement “green” initiatives – i.e., paperless meetings, etc.

II. The *New Normal*: Life Under a Tax Cap

Right now, school districts across New York are preparing budgets for the 2012-13 school year, their first ever under the state's new property tax levy cap.

Here are four predictions for how districts will adapt to the new era:

1. School districts will seek structural changes as opposed to one-time savings.

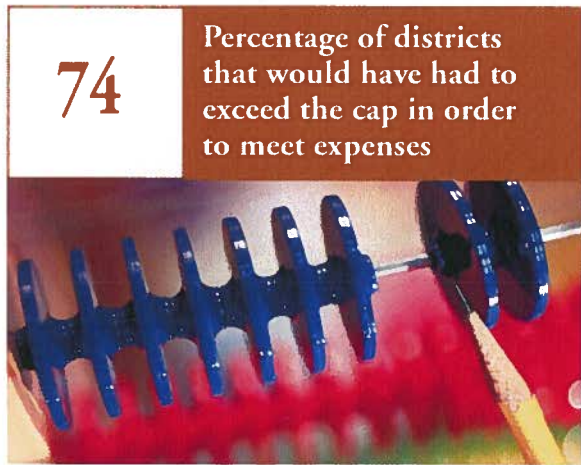
Longer-term savings will be derived from school closings and staff reorganizations. One school district in Lewis County in 2011-12 reduced three full-time positions to three half-time positions and reduced its class schedule from 10 periods to nine periods. A school district administrator in Rensselaer County explained that while eliminating a teacher may result in a reduction in electives, sharing a teacher with another district allows a teacher to remain full time based on a shared schedule with the other district – and allows both districts to maintain programs, albeit at a reduced level. Greater use of shared services will occur in non-mandated areas targeted for reductions, such as art, music, art, sports and electives. Districts may still offer these programs, but at a reduced level as teachers move to half-time and three-quarter time positions.

2. School districts will continue using reserve funds, attrition and retirements to control costs. Especially in the first two years under a levy cap, districts will rely heavily on reserve funds in order to keep tax levies lower and try to stay within the 50 percent

threshold for budget passage. Districts with revenue-expense shortfalls under the cap most likely will continue to seek concessions from employees – including salary freezes – and propose budget reductions based on attrition, retirements and layoffs of both instructional and non-instructional staff, including administrators.

3. Many districts will forgo tax levy cap exemptions. Under the tax cap law, school districts are allowed certain exemptions, such as a portion of pension costs, that may boost their tax levy increases to more than 2 percent while still requiring only a simple majority for budget passage. Because school leaders realize their communities are acutely aware of the 2 percent tax levy cap, they may opt to stay within 2 percent even if it means adopting a budget with a property tax levy increase that is actually below what the law would

allow after exemptions. School leaders know that if voters twice reject their budgets, they face a zero percent cap on the tax levy. One administrator from a district in Genesee County observed, "There is no easy or effective way to communicate the exemptions to the general public ... so my recommendation will be stay within the 2 percent (or CPI – whichever is less)."



allow after exemptions. School leaders know that if voters twice reject their budgets, they face a zero percent cap on the tax levy. One administrator from a district in Genesee County observed, "There is no easy or effective way to communicate the exemptions to the general public ... so my recommendation will be stay within the 2 percent (or CPI – whichever is less)."

4. Budget votes will become more contentious, with more organized opposition, especially in districts seeking to exceed the cap. In an informal poll of school board members conducted in October 2011, about two-thirds of respondents thought they could not gain the 60 percent approval needed among voters in their communities for a tax levy increase above the cap. An overwhelming 78 percent of respondents expect greater-than-usual organized opposition to their budget if it exceeds the tax levy cap.¹ Districts that exceed the tax levy cap, especially in the early years, will likely see more opposition to their budgets as tax levy cap advocates monitor school spending. As a result, many districts may try to keep within the calculated tax levy limit so that the passing percentage for the budget will be at the 50 percent threshold.

The stage is thus set for highly contentious budget votes (and school board elections). Those who support exceeding the tax cap must secure a supermajority of voters to vote in favor of the budget. At the same time, opponents of any tax increase will see their opportunity to succeed by organizing to defeat the budget proposal. Defeated twice, the tax levy remains flat.



Keeping Tax Levies at 2 Percent Means Less Revenue in Poorer Districts

CWR Range*	Additional revenue from a 2 percent increase in the tax levy:
0.00 to 0.499	\$ 172,356
0.50 to 0.999	\$ 512,994
1.00 to 1.499	\$ 996,141
1.50 and greater	\$ 1,386,753

The average dollar amounts per a 2 percentage point increase in the tax levy for the 121 districts in our sample, organized by combined wealth ratio, shows that a maximum tax levy of 2 percent brings in less revenue in poorer districts compared to wealthier ones.

* Combined wealth ratio (CWR) is a measure of school district fiscal capacity based equally on the income of school district residents and the value of property in the school district. The average school district in New York has a combined wealth ratio of 1.0; ratios of less than 1.0 are below the statewide average. Data is from the 121 districts in our sample.

¹ Results are from October 2011 NYSSBA Pulse Poll. Questions garnered 598 and 629 respondents, respectively.

III. The Role of State Government

School leaders are going to need help from state lawmakers in three areas: adequate state aid, flexibility for innovation and mandate relief.

State Aid

Districts in New York have absorbed three straight years of state aid cuts and freezes, and 90 percent of districts are receiving less aid from the state than they were in 2008-09.² At the same time, expenditures for items such as pensions and health insurance have risen dramatically. Moreover, it appears the economic outlook will become even grimmer. The state Division of the Budget estimated in November that the General Fund would have a budget shortfall of \$3 billion to \$3.5 billion in FY2013. That shortfall was reduced by \$2 billion through legislative action in December that raised tax rates on New Yorkers earning more than \$2 million per year.³ And State Education Commissioner John King predicts that in 2016-17 there will be a nearly \$20 billion gap between school district expenditures and revenues if the historical school district spending growth rate of 5.3 percent continues.

If school districts are going to survive – let alone thrive – in the tax cap era, adequate state aid is critical. While state lawmakers provide some \$20 billion annually in aid to schools, New York is a vast and diverse state with pockets of low wealth where state aid is the primary form of school district revenue. New York also has high cost areas that drive up school expenses; state aid allows districts in those areas to maintain educational programs without further driving up local property taxes.

\$103 Million Amount by which pension and health insurance costs for all districts will exceed tax levy cap

In comparison to other states, New York is in the bottom third for state funding as a percentage of all funding. New York's percentage (44.8 percent) is below the national average of 48.3 percent.⁴ Much of that funding comes in the form of nondiscretionary, categorical aid, meaning that schools must use the funding for specific purposes. More state aid – and greater discretion in the use of that aid – would help schools, students and taxpayers considerably in the tax cap era.

The amount of discretionary, unrestricted state funding that schools receive is key for how well they will survive under the tax levy cap. In order to keep its promise of providing a sound, basic education for New York's school children, state lawmakers need to either find ways to increase revenues or reallocate scarce revenues from other budgetary areas.

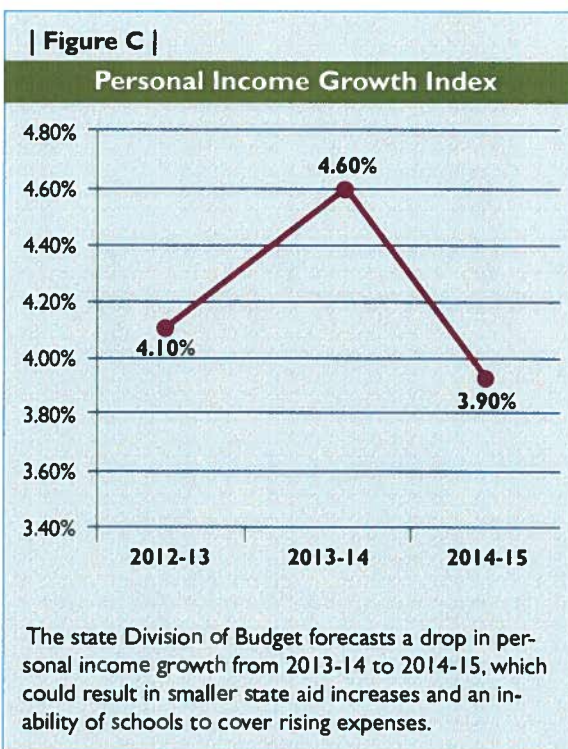
Some hope lies ahead, but it may not be enough to avoid some of the program cuts and actions needed to balance school district budgets under the tax cap. The 2011-12 state budget included a two-year state aid appropriation that pledged to increase education funding by about \$805 million for school year 2012-13.

However, non-discretionary, reimbursable aids (such as BOCES, Building Aid, Transportation Aid and Special Education Aid) would consume more than \$300 million of the increase, leaving a potential \$500 million increase in unrestricted aid. An

² "At the Edge: A Survey of New York State School Superintendents on Fiscal Matters," The Council of School Superintendents, October 2011.
³ "Budget Division Releases Mid-Year Update to the Financial Plan." New York State Division of the Budget. November 14, 2011.
⁴ U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2007-08.

additional \$50 million is expected to go toward new competitive grant programs that reward school districts for improving student performance or reducing costs through long-term structural changes; and another \$40 million is expected to go toward summer programs. The end result is that slightly more than \$400 million could be allocated to schools for more discretionary purposes, in the form of Foundation Aid. This would be roughly equivalent to the amount of federal funds New York school districts will be losing after the 2011-12 school year, effectively canceling out the state aid increase.

Another concern for school districts is the new limit on education aid going forward. State lawmakers have tied future increases in state education aid to the rate of growth in New York state personal income. As personal income continues to drop in New York, this could eventually lead to lower – or even flat – state education funding. The state Division of Budget's forecast is for personal income growth to drop over the next three years⁵ (see Figure C). Because of this change, state aid increases could be smaller (due to the ongoing recession) and therefore not sufficient to cover rising expenses in later years.



Flexibility for Innovation

In order to implement major structural changes, school leaders will need help from state government. The recommendations below will provide schools with the flexibility they need to operate more efficiently and foster innovation in New York's classrooms:

I. Allow regional transportation initiatives.

School districts currently spend approximately \$2.8 billion for pupil transportation and receive \$1.5 billion in state aid, approximately 54 percent of these expenses.⁶ By moving to a regional transportation model, school districts might realize personnel savings by sharing transportation supervisors and safety training staff, along with savings in the purchasing of school buses, repair and maintenance equipment and construction of garage and bus bay facilities. Further, regional transportation could result in lower cost and higher capacity utilization of school vehicles. But such an initiative would require a change in state law. Currently, there is no legal authority for a public school to transport the pupils of another school district who are attending a public school in their home school district. According to the State Education Department, eliminating constraints on pupil transportation may save \$30 million to \$60 million statewide in the first year and \$60 million to \$120 million upon full implementation.⁷ Nassau BOCES conducted a study of potential cost-savings initiatives with a grant from the state and estimated that school districts in Nassau County could save an estimated \$200,000 per year by creating a county-wide out-of-district transportation consortium.⁸

In 2010, lawmakers authorized the commissioner of education to conduct one or more pilot programs to assist school districts in the formation of regional transportation systems. The law provides that beginning with the 2010-11 school year the commissioner will invite school districts, BOCES, and other entities to participate in local regional pilot programs to

⁵ New York State Enacted Budget Financial Plan for Fiscal Year 2012, State Division of the Budget, May 6, 2011.

⁶ State Education Department, School Operations and Management Services, Pupil Transportation Services.

⁷ State Education Department, Memo from Johanna Duncan-Poitier to Subcommittee on State Aid, February 3, 2009.

⁸ Nassau BOCES, Nassau School and Municipal School Services Initiative.

estimate and analyze the extent to which savings may be achieved through the formation of regional pupil transportation systems. This is a good first step in allowing school districts the flexibility to experiment with their provision of pupil transportation services.

2. Amend New York State law to allow for regional high schools in upstate New York. Currently there are three central high school districts in Nassau County which serve students in grades seven to 12 and a regional high school (Tech Valley High School) in Rensselaer County operated by BOCES. Tech Valley High School accepts students from any of the component school districts of Capital Region and Questar III BOCES. Districts sending students to the school receive BOCES Aid on that expense. The central high school districts are independent districts that operate the secondary school of two or more school districts with the authority to borrow and award high school diplomas. Component K-6 districts operate the elementary schools and levy taxes to support both the central high school district and the elementary schools. Amending state law to allow for additional regional upstate high schools would help increase access to enriched coursework for students while maximizing efficiencies of scale for school districts and taxpayers. Central high school districts offer a viable model for regions of the state with school districts with small student enrollments. They answer a need for small enrollment districts that don't want to merge and are a way to create a larger, more educationally viable high school unit. The state Senate passed legislation sponsored by Sen. Catherine Young (R-Olean) that authorizes two or more districts to operate regional high schools. The bill awaits action in the Assembly.

3. Amend the Taylor Law to allow regional labor relations. A regional approach to negotiations could help level the playing field among school districts so that a less-wealthy district does not continually lose teaching talent to wealthier neighboring districts that can afford to pay higher salaries. It would also create economies of scale in such areas as health insurance, as a larger number of employees in

the bargaining pool could allow districts to realize lower health premiums and prescription prices through economies of scale.

4. Create a statewide health insurance plan for school district employees.

Health insurance for active and retired school employees is a cost area that has tripled over the past 15 years. The state should explore the potential of a statewide health insurance plan under New York State Health Insurance Partnership (NYSHIP) for all school employees. One of the best ways to lower school district health care insurance costs would be to establish a single statewide health insurance pool. The current state plan is economically feasible only for downstate municipalities. The size of a statewide all-school districts group would drive down costs through increased purchasing power, standardize benefits for all participants, allow the state to set employee contributions and co-pays, and enable prescription drug savings, among other benefits.

5. Eliminate subcontracting as a mandatory subject of collective bargaining.

School districts are prevented from contracting out bargaining unit work without the consent of the union, despite the fact that some schools could save substantial amounts of money by subcontracting transportation or cafeteria services, for example. One district went from a \$5,000 loss to an \$80,000 profit by contracting its cafeteria services to an outside vendor. Unions can prevent districts from realizing such savings by not agreeing to subcontract. If state lawmakers remove the requirement that subcontracting be a mandatory subject of collective bargaining, it would pave the way for school districts to give taxpayers a break.

6. Allow state aid for regular school session days after the June Regents examination period. According to State Education Department state aid guidelines, school year session days counting toward the 180 day requirement may not be scheduled on any day in July or August. This means school districts wishing to restructure their class schedules and extend the school year may not receive state aid (beyond aid for summer school), preventing a major obstacle to innovation.

Mandate Relief

The **NYSSBA Essential Fiscal Reform Playbook**, issued in May 2011, highlights seven key areas of mandate relief where state lawmakers can help school districts survive under the property tax levy cap. They are:

► **Reform New York State’s Triborough Amendment so that school districts are not required to pay wage increases under an expired contract.**

The Triborough Amendment to the state’s Taylor Law requires school districts to pay salary increases in the form of “step” and “lane” increments to employees – even after a collective bargaining agreement expires. Because teachers’ pay continues to increase under an expired contract, unions have an advantage in collective bargaining and may hold out longer or reject proposals brought to the table by the board of education. By excluding wage increases from the Triborough Amendment, NYSSBA estimates that school districts in New York could save as much as \$93.5 million annually.⁹

► **Allow school districts to consider factors other than seniority when making decisions regarding teacher layoffs.**

When schools are forced to make teacher layoffs, seniority is the sole deciding factor. The so-called “last in, first out” policy is mandated by state law. Imposing layoffs is always a difficult choice and typically the last resort for school leaders. However, if layoffs become necessary, the guiding issue should be what is best for the students. Amending state law to allow schools to consider factors other than seniority – such as teacher performance and credentials – will give schools the ability to retain the most effective instructors when making layoff decisions. Only 14 states have seniority layoff policies. Recently, Arizona, Colorado, Oklahoma and Utah prohibited last-in, first-out policies when reducing staff.

► **Streamline the tenured teacher disciplinary process to make it less time-consuming and less expensive.**

Two measures would accomplish this: have the State Education Department appoint hearing officers and hear appeals in disciplinary cases; and provide for the automatic removal of teachers who have been convicted of child abuse or certain felonies, had their license to teach revoked, or do not obtain permanent certification in the time required by law. The current process for removing tenured teachers is too time consuming and costly. Between 2004 and 2008, it took an average of 502 days and a cost of \$216,588 to conclude a full 3020-a hearing from the date charges were levied to the date a decision was issued by a hearing officer or panel. According to a NYSSBA survey, 32 percent of districts considered bringing 3020-a charges against a teacher but decided not to do so because the process was either too cumbersome or too expensive.¹⁰

► **Establish statewide maximum health care contributions for school districts and Boards of Cooperative Educational Services.**

As school districts work through collective bargaining to reduce the cost of employee health insurance to taxpayers, rate increases can outpace the gains achievable at the bargaining table. Moreover, existing law makes it difficult for schools to negotiate health insurance packages that include higher employee contribution rates. Putting in place a statewide maximum employer contribution rate of 85 percent for individual coverage and 75 percent for family coverage would set a ceiling for negotiations with employee bargaining units, bring New York schools closer to the national employer contribution average of 81 percent for single coverage and 70 percent for family coverage,¹¹ and save school districts as much as \$2,169 per active employee and \$2,507 per retiree, depending on the type of plan.¹²

⁹ Analysis of NYSSBA’s 2010 Teacher Contract Survey data.

¹⁰ “3020-a process remains slow, costly,” Patricia Gould, *On Board*, May 11, 2009.

¹¹ “2011 Kaiser/HRET Employer Health Benefits Survey,” The Henry J. Kaiser Family Foundation, 2011.

¹² Analysis of NYSSBA’s 2010 Teacher Contract Survey data.

- **Provide new public school employees with the choice of a defined contribution retirement plan or a hybrid defined benefit/defined contribution plan.** This initiative could be accomplished through a new tier in the state pension system and would help stabilize pension costs. School districts currently have no control over the employer contribution rate for the state retirement systems – and since contribution rates are based on stock market performance, they can be volatile. The state Employee Retirement System alone lost approximately \$29 billion in revenue due to adverse stock market conditions during the period from August 2008 to September 2010. That \$29 billion must be made up by increased contributions by school districts and other public employers in the state pension system. According to a recent study by the Empire Center for New York State Policy, tax-funded annual contributions to the state Teachers' Retirement System over the next five years will quadruple.¹³
- **Reduce the costs of special education by eliminating state mandates that exceed federal Individuals with Disabilities Education Act (IDEA) requirements.** New York State has more than 200 special education mandates layered on top of federal mandates.¹⁴ New York State superimposes a host of duplicative and excessive procedures onto the fully-functioning federal IDEA requirements. NYSSBA recommends bringing New York more into line with federal law by, among other initiatives, placing the burden of proof in an impartial due process hearing on the plaintiff rather than with school districts, reducing the statute of limitations on the commencement of an impartial hearing from two years to one year, and reforming the state's "dual enrollment" law, which entitles home-schooled students to a range of special education services.
- **Allow schools to leverage the aggregate purchasing power of large, national procurement cooperatives and contracts entered into by other states and local governments.** Authorizing school districts and local governments to "piggyback" on contracts entered into by other states and localities, along with allowing the option to purchase through national purchasing cooperatives and contracts, could yield potential savings of \$540 to \$770 million to New York State schools. According to the National Association of Counties (NaCO), savings resulting from cooperative purchasing ranged from 7 percent in larger agencies to as high as 30 percent savings for smaller entities. On average, municipal organizations and entities saved about 10 percent by purchasing through national cooperative contracts. New York is the only state that does not allow or authorize the use of out-of-state or national cooperative contracts by schools and local governments as another purchasing alternative.

¹³ "New York's Exploding Pension Costs," Empire Center for New York State Policy, E.J. McMahon and Josh Barro, December 2010.

¹⁴ New York State Commission on Property Tax Relief, Final Report to Governor David A. Paterson, December 1, 2008.

IV. The Way Forward

10

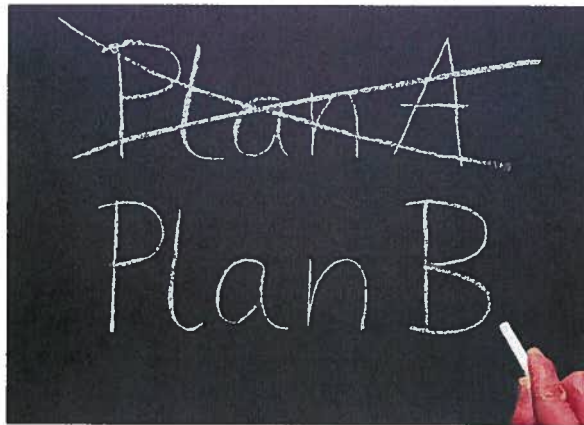
School boards must play a key role in leading their districts, especially in the first few years under the tax levy cap.

State Education Commissioner John King, in an October 2011 address to school board members at NYSSBA's Annual Convention, laid out the fundamental challenge: The economic picture five years out is worse than today. In 2016-17, there will be a nearly \$20 billion gap between school district expenditures and revenue if the historical school district spending growth rate of 5.3 percent continues.¹⁵

For many districts, the days of slow, gradual change are largely over. The low-hanging fruit on the vine has already been picked. Districts are now in the realm of dramatic change that will force them to reconsider the way they deliver educa-

tional programs and services. Echoing the sentiment of school administrators, the commissioner said in his remarks that, rather than do more with less, district leaders are contemplating how to do things differently with less.

As a result, now is the time to rethink fundamental assumptions about how schools deliver educational programs and services in New York State. That means challenging the status quo and budgeting from a new perspective: not just cost, but establishing productivity measures and student learning outcomes as well. Here are five ways that school board members should consider resource needs and allocations:



I. Extend the school day/school year.

While many districts have negotiated salary freezes or increased health insurance contributions, which save money, extending the school day or year is another possible concession that would improve productivity. While such a move would understandably affect fam-

ilies as well as employees, districts wishing to move in this direction can opt for a smaller pilot program rather than a district-wide program.

Districts can use amendments to collective bargaining agreements, staggered work days, and opt-outs for teachers to transfer to schools without the extended time.¹⁶

Currently, school dis-

tricts may exceed 180 days but may not schedule session days in July and August,¹⁷ so changes to State Education Department guidelines are needed in order to allow schools to extend the regular school year beyond June. But with higher cut scores required to achieve proficiency on state reading and math exams, school leaders should be thinking about ways to increase learning time, not just save money. The National Center on Time and Learning (NCLT) concluded in a November 2011 report that improving U.S. student achievement in science requires a more in-depth, multi-layered approach to science instruction that, in turn, requires more

¹⁵ "School Finance For High Achievement: Improving Student Performance in Tough Times," New York State Education Department.

¹⁶ "Union and District Partnerships to Expand Learning Time," Melissa Lazarin and Isabel Owen, Center for American Progress, November 2009.

¹⁷ State Education Department memo dated Sept. 2, 2011, "Attendance and the School Calendar: Guidelines and Reporting for State Aid Purposes."

time in the school calendar, particularly for high-poverty students.¹⁸ One benefit of extending the school day itself is the positive impact it can have on learning. A September 2011 report from NCTL found that additional instructional time allowed for the formation of small-group academic support classes that better address individual student learning needs. Schools were able to convene small clusters of students grouped by ability in order to support each student at the appropriate level.¹⁹

2. Share central business office services.

School boards should consider shifting their districts' business functions – i.e., budgeting, accounting, accounts payable, purchasing, payroll, etc. – to a central location through BOCES. Such a move could reduce costs and duplication of services among districts. Districts could take advantage of either a full-service central business function or select services on an à la carte basis. Another option is a shared school business official. In addition to curtailing administrative costs, sharing central business office services can provide districts with specific expertise in areas such as budgeting, multi-year forecasting, and internal controls. The savings may not be immediate, though, as districts would have to navigate through existing contractual obligations with business office personnel.

3. Negotiate the elimination of longevity step increases through collective bargaining.

School district salary schedules, primarily for teachers, provide employees with

annual “step” pay increases that reward longevity and graduate credits. Under this scenario, employees continue to receive step increases – which average around 2.4 percent²⁰ – even when a labor contract expires. Moreover, salary schedules can be cumbersome. One upstate district, for example, has 28 steps on its schedule – an unsustainable model under a tax levy cap during a long-term recession. School leaders, of course, cannot simply abolish or overhaul salary schedules on their own; they need to accomplish this through the collective bargaining process.

\$775,000

Average shortfall when loss of state and federal aid is considered



In July 2006, the Greater Southern Tier (GST) BOCES was established when the Steuben-Allegany BOCES and Schuyler-Chemung-Tioga BOCES were combined. When GST BOCES negotiated a new contract for its teacher aides, officials needed to figure out how to keep the aides from the lower-paying BOCES on the salary schedule of the higher-paying BOCES while

still maintaining the lower-paid aides' years of service. So, GST BOCES agreed to do away with the salary schedule completely and pay the aides based on an across-the-board salary increase. However, in order for the aides to agree to mothballing the salary schedule, BOCES had to give a guarantee of some salary increase in the event a successor contract was not agreed upon.

School leaders have other creative options to bring to the bargaining table. Split schedules, for instance, are negotiated agreements setting forth one salary schedule or compensation system that would apply to teachers/unit members hired on or after a certain date, and

¹⁸ “Strengthening Science Education: The Power of More Time to Deepen Inquiry and Engagement,” Kathleen Traphagen, National Center on Time and Learning, Fall 2011.

¹⁹ “Harnessing the Power of Expanded Time to Improve Schools: A Study of Three Districts,” David Forman, National Center on Time and Learning, September 2011.

²⁰ New York State School Boards Association, 2011 Teacher Contract Survey, May 2011.

a second schedule or system that would apply to teachers/unit members hired before that date. The newer schedule typically has lower beginning salaries and fewer step movement increases for the newer teachers than the schedule for veteran teachers. Another option is to phase out salary schedules altogether for all employees over a several-year period. In addition, districts might consider freezing salary steps and paying only a cost-of-living adjustment. For districts unable to obtain four- or five-year contracts with reasonable salary terms, yet another option is shorter employee contracts – say, two or three years, in order to avoid getting locked into a contract that the district cannot afford down the road.

- 4. Decide if a school district merger makes sense.** State leaders often point to districts with enrollments below certain thresholds – such as 1,000 students – as prime candidates for consolidation. Notwithstanding enrollment, several formidable obstacles exist to consolidation. Transportation, for example, can present major challenges in large, dispersed rural schools. So too can community opposition. It's no coincidence that only four reorganizations have occurred in the past decade, despite there being more than 200 districts with enrollments of fewer than 1,000 pupils. Still, for some school districts with depressed tax bases, merging with a neighboring district may be the only viable option to surviving under a tax levy cap. For these districts, conducting a feasibility study on the possibility of a merger, in order to determine if it would result in operational efficiencies and lessen the tax burden or increase academic opportunities for students, might be worthwhile. In addition to transportation and community opposition, other factors to consider are how to combine employee salary schedules. Reorganized districts typically level up teacher salaries so that the higher salary schedule is applied to the new, merged district, which eliminates savings. Also, districts need to examine whether the proposed consolidation would require building and renovation proj-

ects resulting in debt service expenditures. And the study must address whether school district reorganization would result in true, long term cost savings as opposed to shorter-term taxpayer savings resulting from an influx of state reorganization incentive aid.

- 5. Consider merging sports programs.** As an alternative to a full-scale district merger or consolidation, merging sports programs with another school district may provide cost savings and result in more opportunities for students. In trying financial times, sports programs and extracurricular activities are often areas that districts must cut in order to preserve other instructional areas. This fall, the Union Springs and Port Byron central school districts merged their wrestling and indoor track teams. Six wrestlers from Union Springs joined Port Byron's full wrestling team, while about six runners joined the Union Springs indoor track team. Port Byron saved an estimated 25 percent on wrestling costs, while Union Springs has saved 10 to 15 percent on wrestling and 25 to 30 percent on indoor track, according to the districts' business administrators.²¹ The districts, which border one another, plan to survey students to gauge student interest for Fall and Winter 2012 sports. According to the New York State Public High School Athletic Association, members of interscholastic athletic teams must be "bona fide" students of the school districts for which they compete, i.e., they have to be full-time registered students in the district. When two or more districts merge sports programs, student-athletes are deemed to be representing the school districts in which they are enrolled. In order for school districts to merge athletic teams, they must first receive the approval from their league and the section to which they belong.
- 6. Leverage technology to increase student achievement and cost effectiveness.** Technology provides school districts with opportunities to rethink the way they deliver educational program and services. Changes

²¹ "Union Springs, Port Byron merger working," *Auburn Citizen*, November 12, 2011.

to instructional methods – such as virtual schools or “flip models” of teaching and learning – and virtualization of workspace environments are just some examples of how districts can leverage new technologies to both save money and improve learning. Online learning enables multiple schools to share teachers, so cost-effectiveness is a tangible product of this paradigm. It also allows districts to preserve programs. For example, at a time when school districts are cutting elective courses, a district in Cayuga County offers an online AP American History class through its BOCES. Flip models incorporate online learning at home, followed by more practice-based discussion in the classroom. The Khan Academy recently paired with the Los Altos School District in California to pilot this model. While evaluation of the Academy is limited, an article in *Education Week* said, “Before the start of the pilot, only 23 percent of the seventh grade remediation students were proficient on the state mathematics test, but after the first year, the proficiency rate climbed to more than 40 percent, according to district data.”²² Beyond the classroom, through videoconferencing such as Skype, districts can offer virtual “field trips” and alleviate the transportation costs associated with traditional field trips. An Albany County school dis-

trict, for example, has used videoconferencing stations to take students on “field trips” to the National Baseball Hall of Fame in Cooperstown, New York and the Cleveland Zoo.

“Cloud computing” and virtualization also offer districts opportunities for cost savings and increased productivity. With cloud computing, computer applications are delivered through the Internet rather than individual computers. Instead of large investments in capital expenditures for expensive hardware, customized software, or other services that users might need, all that is required is an Internet connection. There may, however, be some drawbacks, including concerns about security and privacy, loss of data, and slow Internet connections. Virtualization of workspace environments, in which servers are located on-site and computing is handled on the server level rather than the PC level, is another way school districts can save money. The Queensbury School District exemplifies the use of this system. Through virtualization, the district reduced its number of computer servers from 40 to 11, with an additional three servers to maintain the new model. The reduction of 26 servers saved approximately \$12,000 per year in electricity costs.²³

Conclusion

School leaders are doing their part to keep costs down by employing the strategies in this report.

They can do even more by considering the recommendations outlined in this report. State leaders can do their part as well by providing schools with adequate state aid, meaningful mandate relief, and flexibility to do new and innovative things. With these measures in place, the state and school districts can work in tandem to reduce the property tax burden while New York’s economy makes a comeback. And when the economy does rebound, New York will be ready for business with a skilled, educated workforce.

²² “Lectures are homework in schools following Khan Academy lead,” Sarah D. Sparks, *Education Week*, September 28, 2011.

²³ “Hey, You, Get Onto My Cloud! How Cloud Computing & Web-Based Technologies Can Benefit School Districts,” New York State School Boards Association and New York State Association for Computers and Technologies in Education, September 2010.

Appendix

A: Calculating the Inflation Factor

New York's property tax cap law establishes a limit on the annual growth of property taxes levied by local governments and school districts to 2 percent or the rate of inflation, whichever is less. The rate is then used to help determine how tax levies may go up from one year to the next.

According to the law, the inflation rate for schools is determined through the following formula:

- A)** Determine the average of the national Consumer Price Index (CPI) from the U.S. Dept. of Labor for the 12-month period preceding January 1 of the current school year. This calculation uses the CPI-U, the consumer price index for all urban consumers – unadjusted, which is published each month by the Bureau of Labor Statistics.
- B)** Subtract from the amount in step A the average of the national CPI for the 12-month period preceding January 1 of the prior year.
- C)** Divide the amount in step B by the average of the national CPI for the 12-month period preceding January 1 of the prior year.

Based on the above formula, the inflation rate for 2011-12 would be 1.64 percent. That is the allowable levy growth factor used in the tax cap calculations for 2011-12.



B: Calculating Pension Exemptions

In years in which the average contribution rate of the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS) increase by more than 2 percentage points from the previous year, any portion of the contribution rate increase that exceeds two percentage points may be excluded from school districts' property tax levy limits. In such instances, the amount of the average contribution rate increase that exceeds two percentage points is multiplied by the total payroll for each pension plan to determine how much may be excluded from the property tax levy limit.

In the 2011-12 school year, which this report analyzes, the average contribution rate of both ERS and TRS increased by more than 2 percentage points, thus triggering the pension exemptions. The ERS average contribution rate for 2011-12 is increasing by 4.4 percentage points and the TRS average contribution for 2011-12 is increasing by 2.49 percentage points. As a result, the ERS exemption is 2.4 percentage points and the TRS exemption is 0.49 percentage points. These exemptions are calculated by subtracting two percentage points from the year-to-year increases in the ERS and TRS average contribution rates (4.2 and 2.49 percentage points, respectively).

For a hypothetical employer with a \$1 million ERS salary base and a separate \$1 million TRS salary base, the ERS exemption would be calculated by multiplying 2.4 percent by the \$1 million salary base (\$24,000), and the TRS exemption would be calculated by multiplying 0.49 percent by the separate \$1 million salary base (\$4,900), for a total pension exemption of \$28,900. All other pension costs fall within the property tax cap limitation.

Methodology

16

The New York State School Boards Association (NYSSBA) obtained financial data from 121 school districts for 2011-12 – the current school year – and ran that data through the tax levy cap formula. Because projections for 2012-13 – when the tax levy cap goes into effect – would have relied on a number of assumptions, we chose the current school year because actual data was available.*

In the 2011-12 school year, the inflation rate would have been 1.64 percent, making that the effective property tax levy cap. School districts provided data on their total expenditures and all sources of non-property tax revenues (mainly state and federal aid) for the 2010-11 and 2011-12 school years, in order to make direct comparisons between these categories and the amount in property taxes districts may raise under the cap.

NYSSBA then followed up these efforts with interviews with business administrators, superintendents and related personnel representing a range of demographics.

Based on the data in our sample, the total projected increase in school expenditures was 1.8 percent for 2011-12. However, these districts increased their actual 2011-12 property tax levies by 3.2 percent to fund their educational programs even after they used undesignated reserve funds and implemented cost-saving measures. The need for a higher tax levy to support school district programs was due largely to the reduction in state education aid.

* The New York State Association of School Business Officials assisted with the collection of data from districts.