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# Monitoring School District Financial Condition

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Office of Educational Management Services  
New York State Education Department  
October 27, 2010

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# Today's Presenters

- **Charles A. Szuberla, Executive Director  
School Operations and Management Services**
- **Deborah H. Cunningham, Coordinator  
Educational Management Services**
- **Jay O'Connor, Educational Management Services**
- **Ruth Singer, Educational Management Services**

## **Discussants:**

- **David Little, NYS School Boards Association**
- **Bob Lowry, NYS Council of School Superintendents**
- **Steve Van Hoesen, NYS Association of School Business  
Officials**

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# Presentation Overview

- **Context for Reform**
- **Review of 2010 Legislation Related to School District Finances**
- **Overview of Financial Condition and Strategies**
- **Practical Applications and Strategies**
- **Discussion -- Questions and Answers**

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# New York State PK-12 Education

## A \$56.2 Billion Enterprise

(2009-10 Estimated – Subject to change)

- Total Revenue from State Sources
  - Total General and Special Aid Fund Expenditures
  - Average Total Expenditure Per Pupil
  - Average State Revenue Per Pupil
- \$23.8 billion including STAR
  - \$56.2 billion
  - \$20,275
  - \$8,586

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*New York Times quotation of the day*  
*October 13, 2010*

“No wonder Americans are pessimistic and unhappy. The only way we are going to get in gear is to face up to the reality that we are entering a period of austerity.”

- Allen L. Sinai, chief global economist at the consulting firm Decision Economics

# Context for Reform

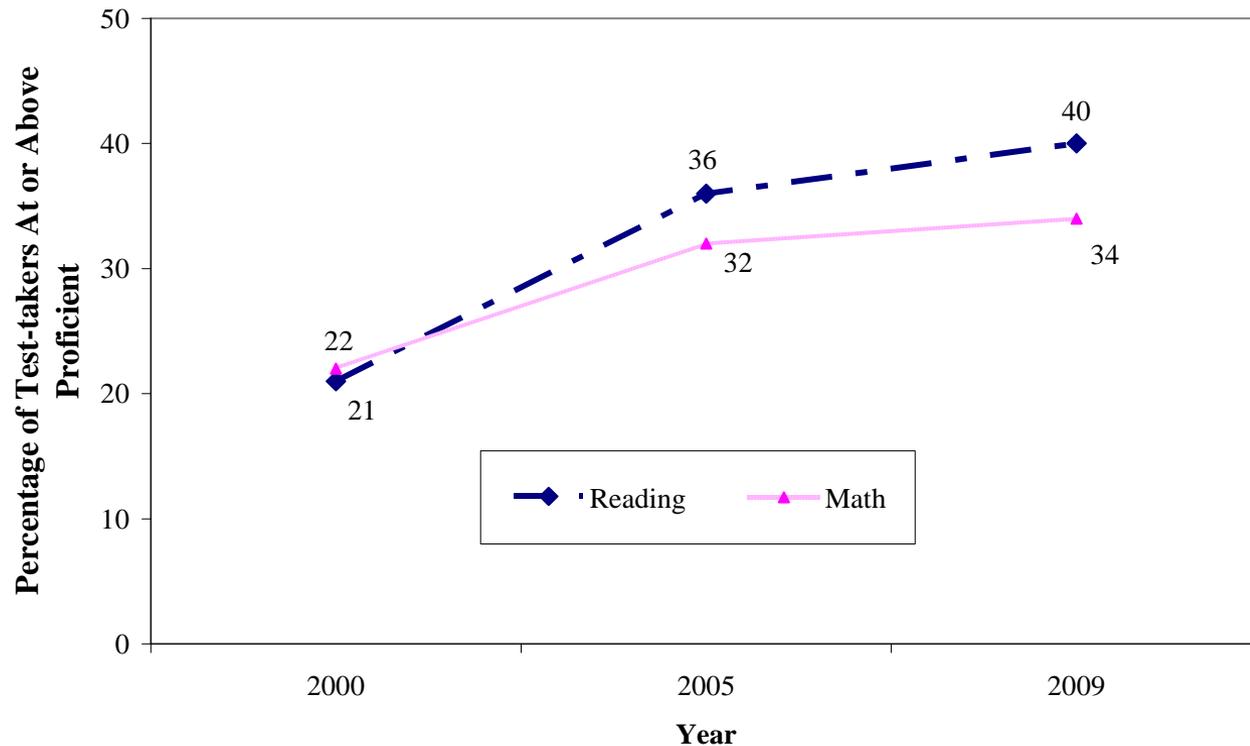
- The Regents are implementing a bold reform agenda to raise educational standards and performance.
- New York State anticipates a budget gap of \$8.2 billion in the next fiscal year and even greater projected budget deficit projections for subsequent years.\*
- Federal stimulus funds will end next year. These have provided over \$3 billion in increased stabilization funding to mitigate school aid cuts and \$2 billion in additional targeted funding over two years.
- School districts are facing revenue cuts while costs continue to rise. Simultaneously districts are engaged in school reform, with and without, Race to the Top funds.
- What are key recommendations the Regents should make as the State balances its budget in order to minimize the impact of the budget gap on school reform?

\* <http://publications.budget.state.ny.us/budgetFP/2010-11FinancialPlanReport.pdf>

# Student Achievement

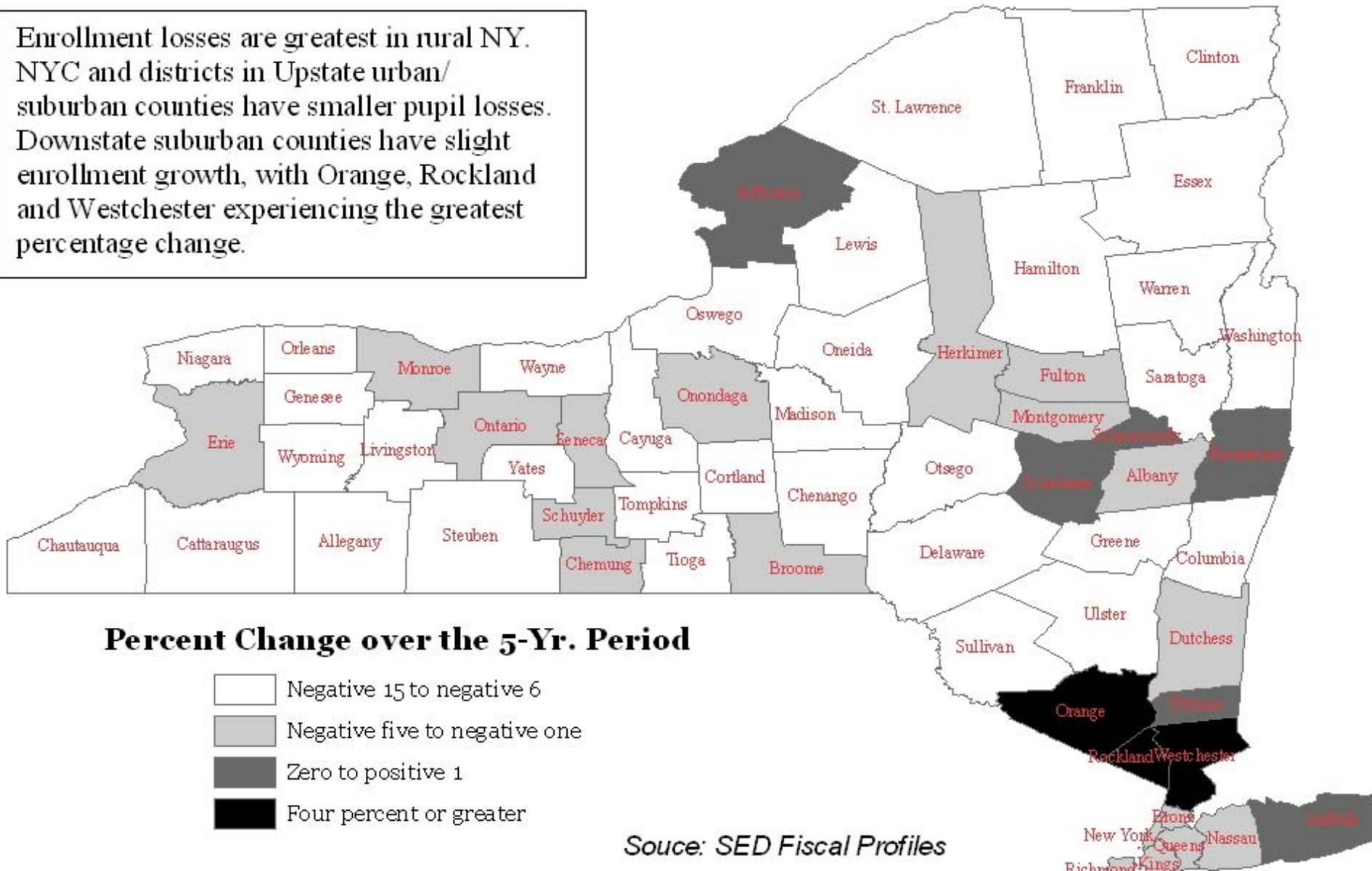
## Progress is Occurring but Proficiency is Low

**Percentages of New York Students Scoring at or Above a Proficient Level, 4th Grade NAEP Reading and Math, 2000, 2005 and 2009**



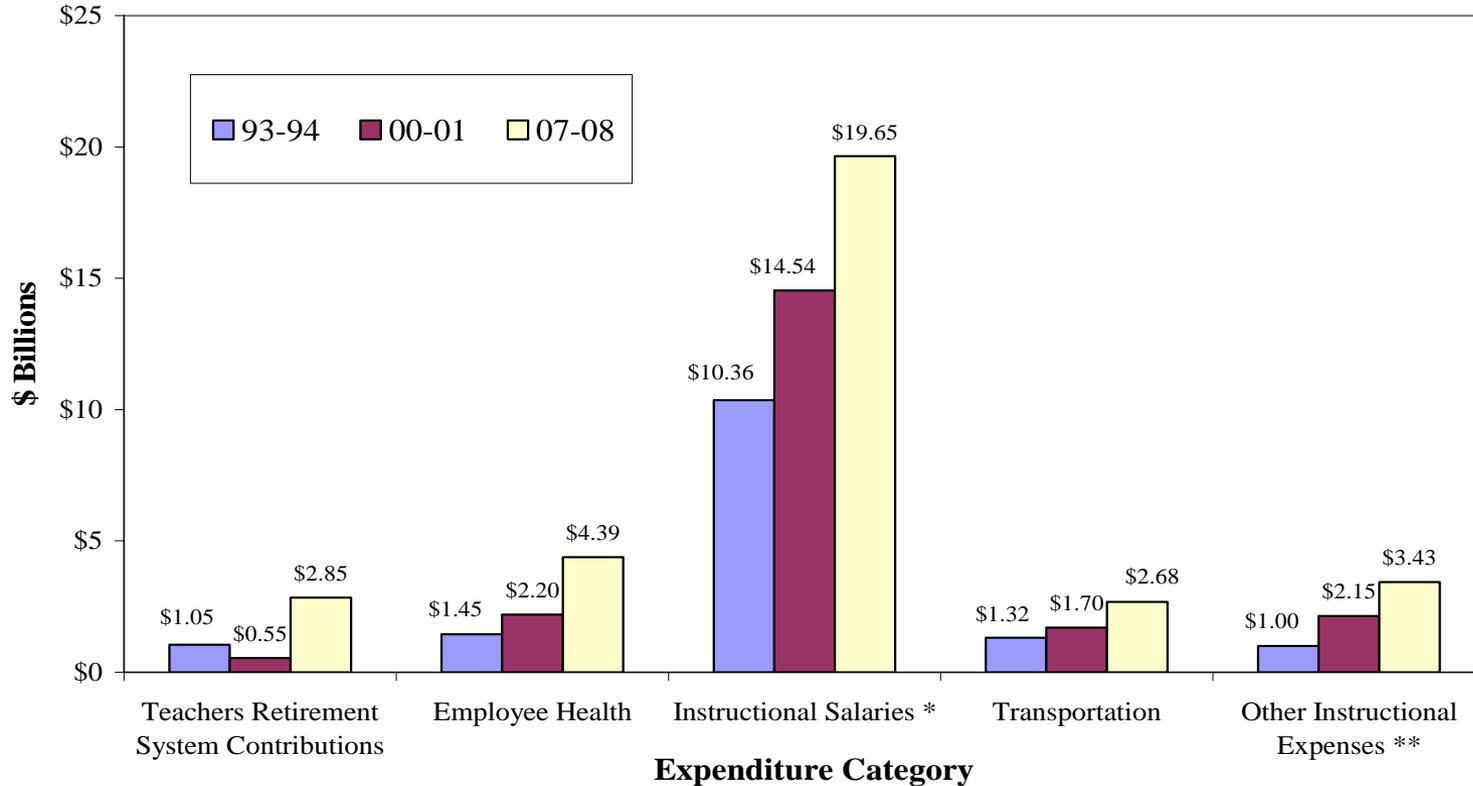
# Average Percent Change in Student Enrollment by County, SY 2002-03 to 2007-08

Enrollment losses are greatest in rural NY. NYC and districts in Upstate urban/suburban counties have smaller pupil losses. Downstate suburban counties have slight enrollment growth, with Orange, Rockland and Westchester experiencing the greatest percentage change.



# Total Statewide District Expenditures for Selected Spending Categories, School Years 1993-94, 2000-01 and 2007-08

Source: SED Fiscal Profiles, compiling data from the ST-3 annual financial report



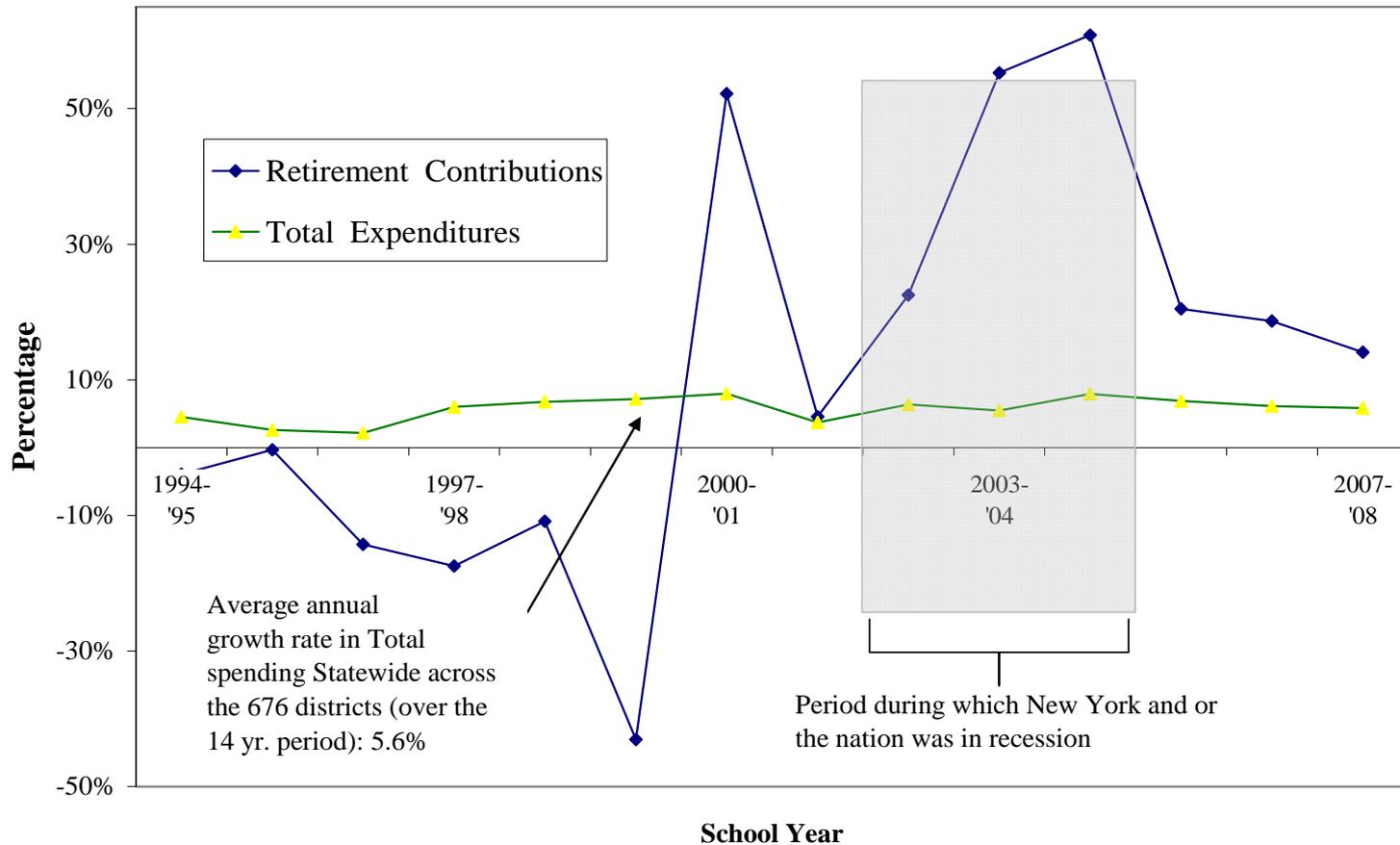
\*\* Note that this spending category includes payments to charter schools

*Two cost categories -- instructional salaries and transportation -- have roughly doubled over 14 years. Employee retirement, health care costs and other instructional expenses, have grown even faster (increasing 171, 203 and 243 percent, respectively).*

*\* Private sector wage growth for comparable industries increased at comparable rates (87 percent compared with 90 percent growth here, in instructional salaries).*

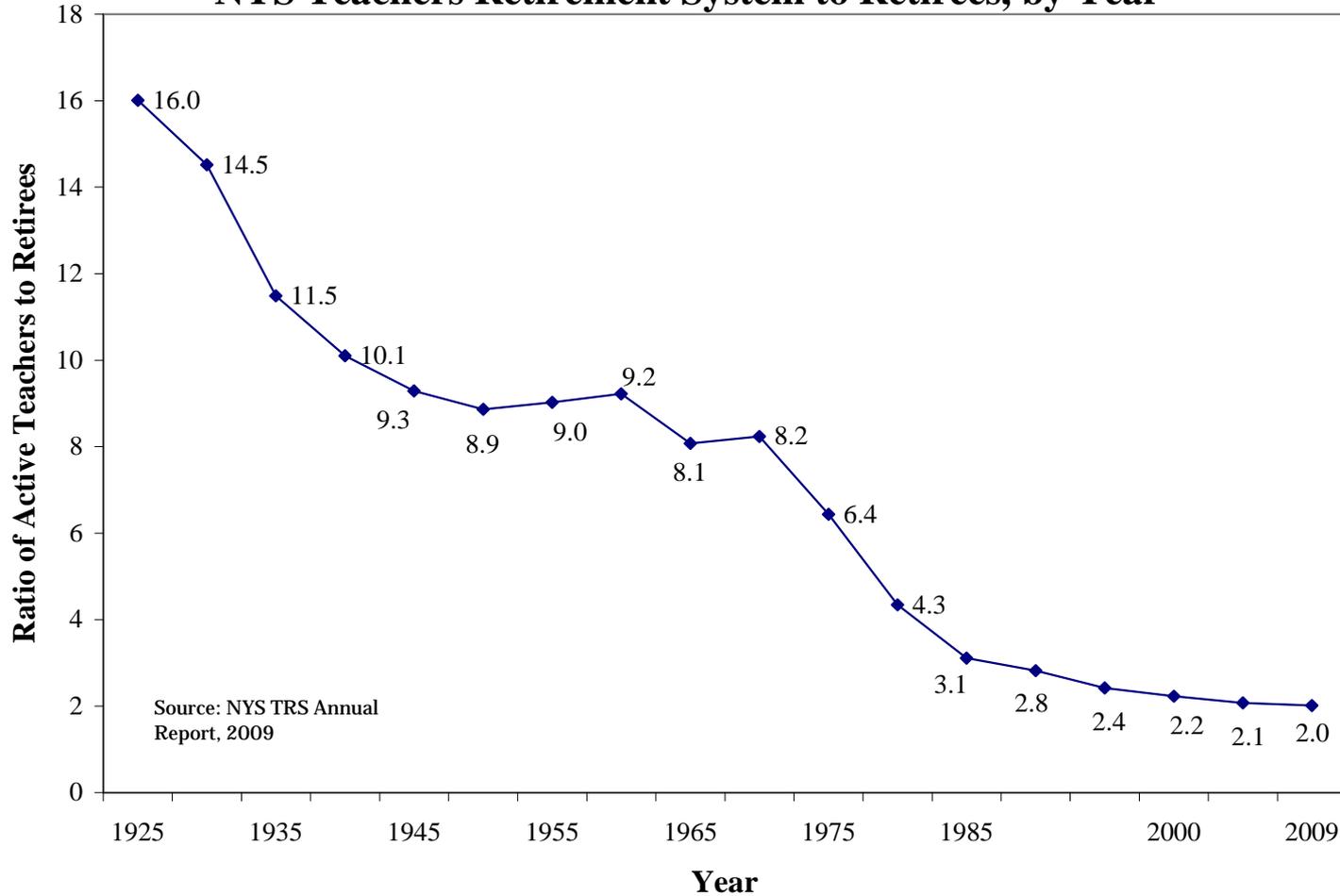
## Annual Percent Change in Statewide Contributions for Employee Retirement and Total Expenditures, School Years 1994-95 thru 2007-08

Source(s): NYS Division of the Budget and SED Fiscal Profiles



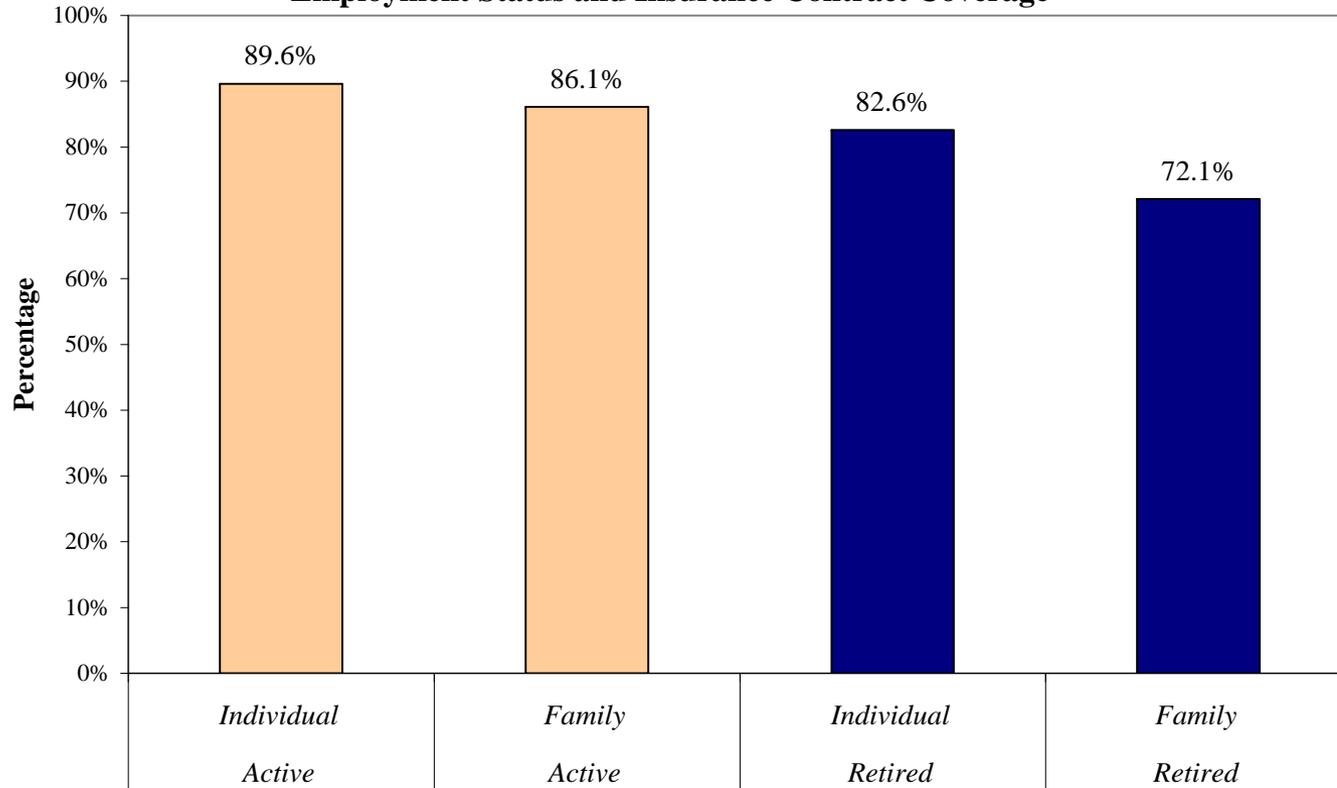
*School district retirement contributions, unlike growth in spending, vary widely from year to year (with an annual increase of 11.3%). Contributions grow particularly during recessions when returns on investment are lower.*

## Ratio of Currently Employed District Employees Covered by the NYS Teachers Retirement System to Retirees, by Year



*Retirement contributions by districts have increased in part because the number of retirees has grown dramatically.*

**Average Percentage of Health Benefits Premium Paid by District, by Employment Status and Insurance Contract Coverage**



Source: Chung, Duncombe, Melamed & Yinger, “Documenting Variation in Teacher Contract Provisions Across New York State Districts” – analysis based on 267 district contracts outside of NYC in July ‘07

*The share of individual and/or family health premiums borne by districts is much larger than the cost borne by employees.*

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# 2010 Legislation

- \$21.3 billion in general support for public schools, as supplemented with federal stimulus funding (ARRA), a decrease of 2.2 percent
  - Federal Education Jobs Fund enacted in August 2010 provides \$608 million more
  - Carry over allowed for Education Stabilization Funds
- Chapter 313 establishes the FMAP contingency fund to address the failure of the federal government to extend enhanced Medicaid Assistance percentages resulting in a 1.1 percent reduction to most local assistance programs.

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# 2010 Legislation

- Streamlining planning and reporting—Chapter 378
  - Commissioner required to review existing plans and reports and file report by November 1, 2010
  - Eliminates or modifies limited district and BOCES reports
  - Regional transportation pilots to begin in 2010-11
  - Technical “clean ups” to outdated references
- GML 103: Competitive bidding for
  - Public works projects > **\$35,000** (Eff. Nov. 2009)
  - Purchase contracts > **\$20,000** (Eff. June 2010)
- Chapter 359 authorizes the continued use of lever voting machines by school districts

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# 2010 Legislation

- Board Training Requirement
  - Chapter 388 of the Laws of 2010 became a law August 13, 2010
    - Requires board members within the first year of their first term to complete an additional training course (still required to take the 6-hour financial training)
    - This new training is to acquaint new board members with the powers, functions and duties of BOE and other governing and administrative authorities that affect public education.

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# Not Yet Enacted or Vetoed

- Vetoes of bills for individual districts, for example Transportation Aid and Building Aid
- Appropriation for Education Jobs Funds
- Appropriation for Race to the Top Funds
  - Districts which submit their *Final Scope of Work* forms, or their “intent to submit” *Final Scope of Work* forms, by due date should expect to be informed of their sub-grant allocation by October 22, 2010
- Contracts for Excellence (except Yonkers)

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# Why is a District's Financial Condition Important?

- Provides stability/continuity of operations and adequate levels of education which allow students to meet State learning standards
- Ensures resources are available as needed
- Maintains credibility with taxpayers
- Helps recruit and/or retain high quality staff
- Helps ensure cash is available to pay bills
- Provides continued access to financial markets, i.e., bond markets and banks
- Monitors fiscal stress

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# Basic Elements of Sound Financial Condition

- Sufficient revenues to meet obligations, including bills
- Meet long-term debt and maintain good credit rating
- Compare long range fiscal plan to actual progress and makes adjustments
- File State Aid forms in a timely manner
- Maintain buildings to avoid unexpected renovation costs
- Engage an experienced auditing firm to interact with business officials to evaluate changing requirements
- Board of education and administration routinely discuss fiscal status and trends

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# Challenges to Maintaining a Sound Financial Condition

- Access to information
- Escalating expenses
- Declining revenues-tax dollars and other funding sources
- Lack of economic growth
- Balancing education reform with financial stability
- Enrollment declines
- Resistance to change

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# Strategies for Achieving and Maintaining Sound Financial Condition

- Use data to drive fiscal change
- Develop a multi-year financial plan
- Budget development and budget administration
- Educate the school board, the community, and the media
- Manage fund balance
- Maximize revenue
- Find cost efficiencies
- Anticipate future problems and minimize the negative impact of cuts

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# Fiscally Stressed District - Student Improvement with Few Financial Controls

|           |                |                |
|-----------|----------------|----------------|
| ■ 2001-02 | \$60.1 million | 4,795 students |
| 2004-05   | \$69.9 million | 4,480 students |
| 2010-11   | \$94.6 million | 3,890 students |

**Combined Wealth Ratio 0.6**

**High Need Urban Suburban Need Resource Capacity Category**

Student Performance:

2001-02 - 63% earned Regents diploma

2004-05 - 89% earned Regents diploma

2008-09 – 87% earned Regents diploma

# Improving Student Achievement While Ignoring Fiscal Stress

**Total Fund Balance and Surplus/(Deficit) for the General Fund**



**The chart shows the trend in fund balance and historical operating surpluses and/or deficits. The chart does not show prior period adjustments and/or other changes to fund balance that may have also increased or decreased fund balance.**

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# Fiscally Stable District – Student Improvement and Sound Financial Management

|           |                |                |
|-----------|----------------|----------------|
| ■ 2001-02 | \$47.4 million | 4,966 students |
| 2004-05   | \$59.5 million | 5,165 students |
| 2010-11   | \$88.3 million | 4,963 students |

Combined Wealth Ratio 1.2  
Low Need NRCC

## Student Performance:

2001-02 – 67% earned Regents diploma

2004-05 - 94% earned Regents diploma

2008-09 – 97% earned Regents diploma

# Fiscally Stable District - Maintaining Relationship Between Revenues and Expenditures

Fiscally Stable School District - Revenues and Expenditures



The chart shows the trend in revenues and other sources (nonoperating sources of revenues such as proceeds of budget notes) and expenditures and other uses (nonoperating uses of resources such as transfers to other funds).

# What are Indicators of Fiscal Stress?

## ■ High Risk Districts (Fiscal Stress)

- Negative fund balance
- Unreserved, undesignated fund balance is negative and total fund balance <2% of adopted budget

## ■ Medium Risk Districts (Fiscal Concern)

- Fund balance < 2% of adopted budget
- Cumulative operating deficit <-6% of adopted budget and fund balance <5% of adopted budget
- Current ratio <1.25 and fund balance <5% of adopted budget

## ■ Use of Key Indicators and Ratios

Trends (e.g., surplus/deficits)

Statewide data

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# Practical Applications – Cash Flow Projections

- The district should have a cash-flow projection that is updated regularly to reflect funds coming in and out.
- A cash-flow projection can identify when the district may need to borrow and also indicate when there is extra cash on hand.
- There are many formats for cash flow (and investment) schedules; Samples may be found at:

<http://www.p12.nysed.gov/mgtserv/accounting/docs/cashflow.doc>

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# Practical Applications – Fund Balance Management

- A fund balance projection is critical. As soon as possible in each fiscal year, but no later than January, the district should begin to project revenues, expenses and changes in fund balance.
- Careful management of fund balance is vital when trying to avoid spikes in the tax levy and tax rates from year to year.

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# Practical Applications – Fund Balance Management

- There are many formats for fund balance management. One such format may be found at:  
[http://www.p12.nysed.gov/mgtserv/accounting/fundbalance\\_management.htm](http://www.p12.nysed.gov/mgtserv/accounting/fundbalance_management.htm)
- Included as part of fund balance management is the funding and usage of legal reserves.

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# Practical Applications – Multi-Year Planning

- Multi-Year financial planning is valuable when analyzing contractual agreements, fund balance and tax levy/tax rates . A cost-benefit analysis should be part of the process whenever appropriate.
- Districts can no longer rely on anticipated increased state aid each year to help offset increased expenses.
- Many districts have already felt the impact of reduced course offerings, layoffs, increased taxes or some combination.

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# Practical Applications – Multi-Year Planning

- Even looking at the next two to three years will help although this will be difficult with shifting revenues and potential changes in academic requirements.
- Historical data regarding state aid may not be as appropriate to use for predicting future state aid payments.
- Planning now can help avoid surprises later.
- Part of any multi-year planning should be enrollment projections. Estimates should be reasonable, even if they show declining enrollment.

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# Planning Resource

- **The New York State Center for Rural Schools** at Cornell University has launched *an Integrated Data System which provides data on:*
  - community demographics
  - school enrollment trends and projections
  - district financial and administrative data
  - student performance measures
  - local property tax revenues and tax rates
  - *other measures of fiscal stress*
  
- *Weblink for Integrated Data System:*  
  
<http://www.nyruralschools.org/pages/capacity.shtml>

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# Planning Resource

- **The Office of the NYS Comptroller has created a spreadsheet-based planning template to help school districts with multi-year planning. The spreadsheet, along with other guidance, is found at:**

**<http://www.osc.state.ny.us/localgov/myfp/>**

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# New York State Education Department

- Office of Educational Management Services

Web site: <http://www.p12.nysed.gov/mgtserv/>

Email: [emscmgts@mail.nysed.gov](mailto:emscmgts@mail.nysed.gov)

518-474-6541 (phone)

518-474-1983 (fax)

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# Additional Resources

- NYS Association of School Business Officials  
<http://www.nysasbo.org>
- New York State Council of School Superintendents  
<http://www.nyscoss.org>
- New York State School Boards Association  
<http://www.nyssba.org>

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# Discussion

- Questions and Answer Session

Please submit your questions by writing them into the text box immediately below where you see messages displayed.