New York State School Boards Association

Excelsior!

Key Drivers Behind New York's 'Ever Upward' Property Tax Burden

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Introduction – *Ever Upward*

Ask school board members around New York State what their most pressing concern is and they will most likely say student achievement. Second, however, just might be managing costs that are largely beyond their control.

New York's public schools are responsible for the education, health and welfare of nearly 2.7 million students every day.[1] They have a duty to provide learning environments that allow all children to reach their full academic potential while keeping them safe, secure and healthy.

But making sure students have secure school grounds, safe and reliable transportation, clean school buildings, and a host of other important provisions is not inexpensive. Coupled with state-mandated spending on big-ticket items like employee pensions and health insurance coverage, such costs pose significant financial challenges to school districts.

Unfortunately, much of the high cost of providing quality public education is due to outside factors—such as rising health care inflation, steep pension contribution rates and high fuel costs—over which school boards have little or no control.

A New York State School Boards Association (NYSSBA) analysis found that over the five-year period from 2001-02 through 2005-06, costs borne by school districts in five key, but largely non-discretionary, areas—i.e. employee pensions, health care premiums, special education, transportation, and operations and maintenance—rose by $5.7 billion, or 47%, statewide, from $12.1 billion to $17.8 billion.[2]

During the same time period, instructional salaries—including classroom teachers, counselors, attendance teacher, psychologists, school social workers, etc.—rose by $3.1 billion, from $19.2 billion in 2001-02 to $22.3 billion in 2005-06.

If local revenues had been capped at 3% (roughly the rate of inflation) per year over that five-year period, school districts would have experienced a $4.5 billion shortfall in paying for these obligations in 2005-06 (see Table 1).

Table 1.

Year	Actual Property Tax Levy	What local revenues would have been if capped	Shortfall
2001-02	17,799,569,034	—	—
2002-03	19,079,086,361	$18,333,556,105	$745,530,256
2003-04	20,913,475,007	$18,883,562,788	$2,029,912,219
2004-05	22,336,799,452	$19,450,069,672	$2,886,729,780
2005-06	24,504,349,076	$20,033,571,762	$4,470,777,314

Source: *NYS Office of the State Comptroller*

The inability of the state and federal governments to rein in these costs impacts school districts' ability to provide other essential programs and services, and contributes to escalating property taxes.

Indeed, over the same five-year period from 2001-02 through 2005-06, school property taxes rose by $6.7 billion statewide[3] – an increase of 38%, in large part because of the high costs associated with these key cost drivers. At the same time, state funding to local schools increased by only $2.7 billion, or 16%, from $17.1 billion in 2001-02 to $19.8 billion in 2005-06.[2] School districts rely primarily on these two revenue sources for their funding.

With costs in these largely non-discretionary areas rising so quickly, any unpredictability in state aid could wreak havoc on school budgets—and local taxpayers. The imposition of a property tax cap on top of this could make it difficult for schools to raise the funds needed to support essential costs.

This report focuses on the key nondiscretionary cost drivers from the five-year period 2001-02 through 2005-06[2], the most recent year for which complete data was available. Reining in these costs is key to controlling high property taxes.

Cost Driver #1: *Skyrocketing Employer Pension Rates*

Overall, school districts in New York State paid $2.5 billion in the 2005-06 school year in contributions to employee pension plans for both teachers and non-instructional staff. That represents a 281% increase from the $656 million spent in 2001-02.[2,4,5]

Teacher pensions

By far, teacher pensions comprise the largest chunk of employer pension contributions. School districts paid $2.1 billion toward teacher pensions in the 2005-06 school year.[2] That marks a 268% increase from the 2001-02 school year, when school districts paid $573.4 million toward teacher pensions (see Table 2).[2] These payments alone accounted for 14.8% of the increase in total school spending between 2001-02 and 2005-06.

Table 2.
Teacher retirement contributions by public school districts, total state

2001-02	2005-06	% increase	Avg. annual increase
$573,438,969	$2,111,986,731	268%	53.6%

Source: *NYS Education Department, Fiscal Analysis and Research Unit*

School districts in New York are required by law to make mandatory contributions to the teacher pension system. The New York State Teacher Retirement System (NYSTRS) covers public school teachers and administrators outside of New York City.[6] Educators employed by New York City schools are covered by the Teachers' Retirement System of the City of New York.[7]

School district teacher pension costs continue to escalate largely because the mandatory employer contribution rate has soared. The NYSTRS employer contribution rate, which is expressed as a uniform percentage of member payroll and is set by a board of directors more than a year in advance of its collection, increased from 0.36% of total payroll in 2002 to 7.97% of total payroll in 2006. The contribution rate increased yet again to 8.6% in 2007, and will rise to 8.73% in 2008.[6] The employer contribution rate for New York City increased from 10.2% in 2002 to 21.2% in 2006.[7]

Employer contribution rates are determined annually through an actuarial valuation of assets and liabilities. This valuation is based on estimates of future salaries and projected benefit payments for all members. The projections are based upon current member data as well as actuarial assumptions regarding future events, such as the rate of return on assets; rates of salary growth; mortality rates for active, retired and disabled members; and rates of retirement, disability and withdrawal.

These rates can be volatile, putting school districts at the mercy of factors beyond their control. For example, from 1997-2003, the employer contribution rate was less than 2% of member salaries, and three of those years had employee contribution rates of less than 1% of salaries. The substantial decline in the rate was primarily the result of unexpectedly high rates of investment return.

However, rates of return on investments turned unfavorable after the attacks of September 11. Consequently, the poor return of the equity and capital markets required a considerable increase in the employee contribution rate.[6]

Another reason for the increase in pension costs for school districts was a law, passed in 2000, that exempted employees in the state retirement system from having to contribute three percent of their salaries to the pension system after being in the system for ten years. A NYSSBA analysis found that if teachers contributed three percent toward their pensions for the duration of their employment rather than the currently mandated ten years, an estimated $229 million would have been put back into the system in 2006. That would have been $229 million local taxpayers would not have had to pay.

To fix the problem, the creation of a new tier for future employees with a career-long contribution would be an effective way to buffer fluctuations in the stock market and ease the burden on taxpayers.

Non-Teacher pensions

New York school districts also spent about $386.2 million in 2006 on pensions for non-teachers such as food service workers, custodians and administrative personnel. That included contributions of $295.4 million[4] by school districts outside New York City and contributions of $90.8 million[5] by the New York City school district.

The state Employees' Retirement System (ERS) covers non-instructional employees in school districts outside New York City. School district contributions toward these employee pensions rose in 2006 to $295.4 million from $26.1 million in 2002, an increase of 1,032%.[4]

The Board of Education Retirement System of the City of New York covers non-instructional employees in the New York City school system. City school district contributions toward these employee pensions increased to $90.8 million in 2006 from $56.5 million in 2002, an increase of 60.7%.[5]

Once again, soaring contribution rates are the culprit. In 2006, the mandatory school district contribution rate was 11.3% of total payroll, nine times higher than the 2002 rate of 1.2%.[4] In New York City, the employer contribution rate rose from 8.1% in 2002 to 15% in 2006 – almost double.[5]

In 2007, the ERS employer contribution rate was still in double-digits – 10.7%, while the New York City required contribution rate increased to 18.2%. Thus, much like the case with teacher pension payments, school districts' shares of this cost has risen steadily and shows no signs of abating in the near future.

Cost Driver #2: *A Premium on Health Insurance*

School districts in New York State paid a total of $3.7 billion toward employee health insurance premiums in the 2005-06 school year. That represents a 51%, or $1.2 billion increase from 2001-02, when health insurance premiums were $2.5 billion[2] (see Table 3). Health care spending accounted for 12% of the total increase in all education spending since 2001-02.

Table 3.

Health insurance contributions by public school districts, total state

2001-02	2005-06	% increase	Avg. annual increase
$2,477,742,432	$3,737,116,479	51%	10.2%

Source: *NYS Education Department, Fiscal Analysis and Research Unit*

Health care costs borne by school districts continued to rise even as teachers paid more toward their health insurance premiums as a result of collective bargaining agreements. In 2002, for instance, school districts in New York required newly-hired teachers to contribute, on average, 10.6% toward their annual individual health insurance plan premiums.[8] In 2006, teachers were required to pay 12.3%, on average, toward an individual plan.[9] Required teacher contributions toward annual health insurance premiums went up also for newly-hired teachers in family health insurance plans, as well as for the most senior teachers' individual and family health plans.

It stands to reason, then, that health care spending has risen in large part because of health care inflation. In fact, health care premiums rose by double digits every year between 2002 and 2006 – sometimes by as much as 15%.[10,11,12,13]

The cost of health care shows no signs of slowing down, either. According to one national estimate, health insurance premiums nationwide rose by more than 10% from 2006 to 2007, while prescription drug costs rose by 11.3%.[14] In 2008, health insurance premiums are expected to increase by at least 10%, depending on the type of plan.[14]

Why are health care costs increasing so fast? According to a report by the Henry J. Kaiser Family Foundation,[15] there are several reasons.

One is the proliferation of health care technology, which may account for half or more of spending growth. Second, the U.S. population is aging, and older people use more health care. Third, health care plans are increasingly covering more procedures than ever before, which has led to a corresponding increase in health care usage.

Finally, the prevalence of health care coverage encourages the development of new technologies because technology innovators often know that insurance will bear a substantial share of any new costs. As long as these factors continue to be in play, health care costs figure to remain high.

Cost Driver #3: *A Heavy Local Lift in Special Education*

Educating students with disabilities often requires greater resources compared to educating general education students. School districts in New York State paid a total of $6.2 billion for special education in the 2005-06 school year. That represents a 31%, or $1.5 billion increase from 2001-02, when special education spending was $4.7 billion[16] (see Table 4).

Table 4.

2001-02	2005-06	% Increase	Avg. annual increase
$4,695,698,306	**$6,167,666,946**	**31%**	**6.2%**

Source: *Special Education Spending – New York State Public Schools, State Aid Unit, NYS Education Department*

Special education costs include salaries, equipment, materials and supplies, contractual arrangements, textbooks, and tuition paid to other schools or BOCES for special education services. Special education accounted for 14.2% of the total increase in all education spending since 2001-02, even though the number of students with disabilities in schools increased by only 0.5%, from 387,014 in 2001-02 to 389,125 in 2005-06.[17]

Special education costs are rising due to a number of factors.[18] Higher salaries for educators, a growing reliance on clinical staff such as occupational and physical therapists, greater use of expensive adaptive technology devices, and rising levels of litigation are increasing program costs across the board.

School districts are conscious of these costs and have taken extraordinary steps to mitigate them. The proportion of students with disabilities in less-restrictive environments, which are cost-effective and often beneficial to special education students, has edged upward over time. For example, in 2001-02, the percentage of students with disabilities who spent less than 21% of their school day outside of regular classes was 51%. By 2005-06, that proportion had risen to 54.5%. The percentage of students with disabilities who were in completely separate settings as general education kids dropped over that time period from 7.4% to 6.9%.[17]

Much of the funding for special education comes from local property taxpayers. In 2005-06, local revenues accounted for about 45% of special education funding. New York State provides school districts with funding to help meet the additional costs associated with educating students with disabilities. Districts receive basic operating aid for each student (including those with disabilities), as well as Excess Cost Aid for expenses that are above and beyond the costs of a non-disabled student.[19]

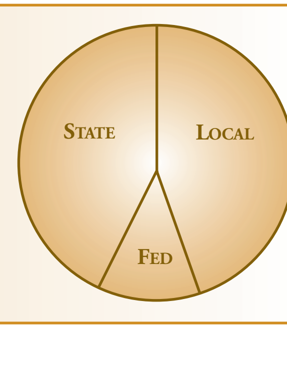
Excess Cost Aid varies with differences in school district wealth and requires a substantial local contribution. It is based on the average spending on all students in the district but provides more aid for higher levels of service to students with disabilities, and could therefore be labeled a "spend to get" aid category.

In 2005-06, the state provided school districts with about $2.6 billion in support for pupils with disabilities (in the form of Public and Private Excess Cost Aid).[20] That represented about 42% of all special education funding.

The Individuals with Disabilities Education Act (IDEA) passed by Congress in 1975 required the federal government to pay 40 percent of the average per student cost for every special education student.[21] Despite this, the federal government has contributed only about 17 percent per year, on average, to New York State. In 2005-06, the federal government provided New York school districts with $733 million under IDEA,[22] about 13% of total special education funding.

Special Education Funding

State **42%**
Local **45%**
Federal **13%**



Cost Driver #4: *Transportation Expenses Cause More Than a Pinch at the Pump*

New York public school districts spent about $2.35 billion on pupil transportation in the 2005-06 school year, an increase of 31%, or $560 million, from $1.79 billion in 2001-02 (Table 5).[2] These costs include salaries for transportation personnel, bus purchases, equipment, garage building (excluding capital expenditures), contract transportation and transportation services provided by BOCES.

Table 5.

Transportation, total state

2001-02	2005-06	% increase	Avg. annual increase
1,786,125,763	2,347,955,950	31%	6.2%

Source for all: *NYS Education Department, Fiscal Analysis and Research Unit*

New York public schools transport about 2.25 million students every day and provide more than one billion student rides annually.[23] The Shenendehowa school district in Clifton Park, for example, has a 200-vehicle fleet that logs about 2.5 million miles a year, transporting 10,200 students to more than 80 schools.[24]

The good news is that school buses are far safer statistically than any other mode of travel: among the 25 million students nationwide who ride school buses, there is an average of 20 fatalities a year, compared with an average of 800 fatalities a year among the 20 million students who go to school some other way.[23]

The bad news is that school transportation is expensive. The typical full-sized yellow school bus gets only about 8-11 miles per gallon,[23] and the high cost of diesel fuel is driving up costs. Diesel prices in East Coast states, for instance, went up by an average of 102% between September 2001 and June 2006[25] – almost $1.50 per gallon. The Energy Information Administration expects the cost of diesel fuel to rise 11.4% from 2007 to 2008,[26] meaning even higher transportation costs may be in store for school districts for the remainder of this year.

In addition, school bus makers are having to absorb the increased cost of new ultra-low sulfur diesel fuel and new clean diesel engines mandated under Federal law, which will add more than $6,000 to the cost a new school bus.[23]

Unlike other transportation industries, school districts are not able to pass on their increased costs to the marketplace, i.e., the students they transport to and from school every day. That means school districts have had to find other ways to respond. Unfortunately, schools have few choices. They must either raise more money or cut expenses. In too many districts, there are no more easy cuts.

School districts have eliminated unnecessary idling, re-routed buses for efficiency, consolidated bus stops, trained drivers in fuel-efficient driving practices, and increased maintenance for fuel economy. Some have changed the way they buy fuel – installing larger tanks for bulk purchase, for example, or even hedging fuel purchases. When these tactics prove to be insufficient, schools must turn to local voters to meet expenses.

School transportation is funded almost entirely by state and local governments. The federal government provides no funding source for routine home-to-school transportation or school activity transportation.[23] In New York, state Transportation Aid is based on a district's approved transportation non-capital expenses. Approved transportation expenses are generally those made in transporting pupils to and from school once daily and between the school attended and BOCES, or in transporting pupils to approved shared programs at other school districts or occupational education programs within a district.[27]

Transportation aid equaled roughly $1.2 billion in 2005-06,[28] about half of all transportation expenditures. Transportation aid does not cover non-district operated summer school, field trips, athletic trips, excursions, and noon trips for lunch, nor does it cover transportation for non-disabled pupils who live 1½ miles or less from the school attended, and non-disabled pupils transported to public schools outside the district of residence when classes are maintained by the district of residence. Thus, school districts provide above and beyond what they receive in state aid.

Cost Driver #5: *Basic Infrastructure Needs Get More Costly*

School districts expenditures in 2005-06 for general operations and maintenance, including heating, were $3.1 billion, an increase of 21% from $2.5 billion in 2001-02 (see Table 6).[2] These expenditures accounted for nearly 7% of total school district expenditures in 2005-06.

Table 6.

Operation and Maintenance, total state

2001-02	2005-06	% increase	Avg. annual increase
$2,515,193,816	$3,054,918,959	21.5%	4.3%

Source for all: *NYS Education Department, Fiscal Analysis and Research Unit*

Operation and maintenance expenses include heating and lighting, salaries for employees involved in activities related to cleaning and maintaining facilities, buildings and grounds; as well as purchases of related equipment, materials and supplies.[29]

Energy expenditures pose an annual problem for school district budgets. Nationwide, schools spend $8 billion per year on energy, second only to books and computers.[30] Heating represents one of the largest operation and maintenance expenses for school districts.

The Energy Information Administration reports that the cost of heating oil rose 9.6% between 2006 and 2007, and expects the cost of heating oil to rise another 16.2% from 2007 to 2008,[26] meaning even higher costs for school districts in the current school year. In New York, the cost of heating oil more than doubled between September 2001 and September 2006, from 131.3 cents per gallon to 272.7 cents per gallon.[31]

A Word About Instructional Salaries

Teachers

Teacher salaries are the single largest component of school spending. New York school districts paid $16.1 billion in teacher salaries in the 2005-06 school year, accounting for 35% of all expenditures by school districts, and 23% of the increase in total expenditures since 2001-02. Teacher salaries rose 18% from the 2001-02 school year to the 2005-06 school year (Table 7).[2]

Table 7.

Teacher salaries, total state

2001-02	2005-06	% increase	Avg. annual increase
$13,710,034,112	$16,141,667,495	18%	3.6%

Source for all: *NYS Education Department, Fiscal Analysis and Research Unit*

While school districts negotiate teacher pay packages, these salaries are not of out line with what professionals in comparable occupations earn. An analysis by the Editorial Projects in Education Research Center found that teachers in New York earn about the same as peers in 16 other occupations with similar skill demands, including accountants and auditors, architects, computer programmers, physical therapists and registered nurses.[32]

Other instructional personnel

School districts in New York also spent $6.2 billion on other instructional salaries in 2005-06, an increase of $675 million, or 12.3%, from $5.5 billion in 2001-02.[2] These included:

- Pupil personnel services, which encompass attendance teachers, counselors, dental hygiene teachers, nurse teachers, psychologists, and school social workers: $578 million in 2005-06.

- Curriculum development and support, which includes instructional expenditures for curriculum development and supervision and supervision of regular and special schools: $1.1 billion in 2005-06.

- BOCES instructional salaries: $1.7 billion in 2005-06.

- Other instructional salaries, which includes pre-kindergarten teachers, librarians, media specialists, paraprofessionals, teacher aides, secretaries and other support staff: $2.8 billion in 2005-06.

In 2005-06, these additional instructional expenditures, combined with the $16.1 billion in regular teacher salaries, amounted to $22.3 billion, nearly half (48.7%) of all school district expenditures. Together with total pension payments of $2.5 billion, school district expenditures for salaries and retirement equaled $24.8 billion in 2005-06, or 54% of all expenditures by New York's schools.

A Four Step Solution

Property tax caps do nothing to change the rising costs facing school districts; they only make it harder to provide the services that residents demand. Increased state support may help local school districts avoid cutting services in the short run, but state aid is often unpredictable, dependent upon the larger state economy.

Because of the many state and federal requirements, school district non-discretionary costs are high. NYSSBA believes there is a four-step solution to rising property taxes that would not harm educational programs for our kids.

1. Cap local obligations for uncontrollable costs. As shown, retirement system contributions, health insurance, fuel costs and unbudgeted special education expenses fluctuate from year-to-year. The state could cap the local share of these costs at a reasonable growth rate (i.e., standardize employer and employee contributions) and pay the difference, much as it does with Medicaid for counties.

2. Provide full funding for all new state and federal mandates, including special education.

3. Modernize employee compensation and benefit programs. Offer new employees the option of enrolling in a portable, defined-contribution retirement plan. Another option is to require employees to contribute to their pensions for as long as they remain on the school district payroll, rather than just ten years.

4. Freeze payments to employees working under an expired contract to payments authorized in the last year of the contract. That would end the system under which teachers get longevity "step" increases automatically even when a new contract has not been ratified.

The Bottom Line: *Schools Provide A Good Return on Investment*

Public school districts in New York continually strive to meet the educational needs of their students while facing constant cost pressures and being good stewards of taxpayers' money. And they have largely done that. Consider this:

- New York was recently ranked number one in the nation by *Education Week* based on policies and performance.

- New York is consistently at or near the top in standards, assessments, and accountability.

- New York leads the nation in the percentage of high school graduates taking Advanced Placement classes, and no other state has a higher percentage of students pass those exams.

- New York students consistently dominate the Intel Science Talent Search, and 36 New York public high schools were ranked among the top 200 in Newsweek's latest annual report.

The fact is, schools are far more accountable than any other form of government, with public tax and performance report cards, public hearings, a public budget vote, annual audits and school board members who, in most communities, are elected on the same ballot as the budget.

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Note: Items not included in this study include administrative costs, administrative support staff, expenses related to providing community access to district facilities, printing and mailing, judgments and claims, debt service and others.

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