THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

TO: Regents Committee on Audits, Budget and Finance
Regents Subcommittee on State Aid

FROM: Valerie Grey

John B. King Jr.

SUBJECT: School District Financial Condition

DATE: June 7, 2011

AUTHORIZATION(S):

SUMMARY

Issue for Discussion

Does the Board of Regents have any questions concerning the financial condition of school districts?

Reason(s) for Consideration

A prolonged economic recession and two years of State Aid reductions have changed school district taxing and spending behavior. This report reviews school district financial condition using common SED indicators, district budgets including use of fund balance, and procedures and assistance when school districts are threatened with insolvency.

Proposed Handling

For discussion.

Procedural History

The Regents periodically review the financial condition of school districts and their needs in relation to State school aid.

Background Information

The three major fiscal building blocks of educational quality and adequacy in New York State are local revenues, State school aid and federal grants in aid. In the past decade, all three funding streams have experienced increases. These include local revenues as a result of the boom in housing values before 2008-09, State resources resulting from court-ordered equity adjustments and federal funds expanded rapidly after the economic crisis of 2007, known as the American Recovery and Reinvestment Act of 2009. To make up for declining State revenues, funds were provided to districts both as general aid such as Educational Stabilization Funds and Education Jobs Funds and increased funds for more typical federal grants like Title I, IDEA and other specified purposes. In addition, New York successfully competed for $696 million under the federal Race to the Top (RTTT) program to advance education reform efforts.

All of these funding streams have peaked and many are undergoing some degree of retrenchment. Federal funds are not projected to continue at the levels of the past two years. At the State level, the lack of tax revenues has been manifested in unprecedented operating deficits that have lead to significant agency cutbacks, service reductions and declines in local funding. At the local level, sales tax receipts have declined, public assistance spending has increased to meet recessionary needs and constantly rising property tax levels have lead to political pressure to institute some version of a property tax levy cap.

These issues will be examined as part of the planning process for the development of the Regents proposal on State Aid to school districts for next year. As part of this effort, this report examines:

- Data on school district financial condition using common SED indicators (Attachment 1)
- Data from the annual Statewide School Property Tax Report Card collection which shows what local school districts project for 2011-12 tax levies, school spending and reserve funds (Attachment 2). The Department will continue studying these fiscal indicators as we move forward.
- Procedures and assistance when school districts are threatened with insolvency (Attachment 3).

Timetable for Implementation

This discussion will inform the development of the Regents State Aid proposal to occur from now until the Regents approve their State aid proposal in late 2011.

Attachment 1

Regents Committee on Audits/Budget Finance
Regents Subcommittee on State Aid
June 2011
Analysis of Financial Statements

School districts and BOCES are required to submit certain financial information to the Department. They submit independently audited financial statements and, where applicable, audits required by the federal Single Audit Act (OMB Circular A-133. In addition certain nonprofit organizations are required to submit single audit reports to the Department. The Office of Audit Services (OAS) received 690 financial statements between July 2010 and June 2011 from school districts, 37 from BOCES, 138 from charter schools, and 184 from nonprofit organizations. OAS receives, processes, and reviews the financial statements and single audit reports.

Financial Statements

Each report is reviewed to assess:

- financial condition of the institution;
- quality, accuracy, and completeness of the audit reports;
- significance of any reported management control weaknesses; and
- accuracy of key ST-3 data used for State aid and reporting purposes for districts.

In addition, the financial statements are evaluated to assess compliance with Government Auditing Standards and the Department's reference manual. Districts with indicators of fiscal stress and fiscal concern are identified and notified by a letter, along with graphical illustration of the trend of its fund balance, revenue, and expenditures, etc. The districts are asked to prepare a plan to address their financial condition. Based on the review of the 2009-2010 financial statements, we have identified one school district as being in fiscal stress and four as having indicators of fiscal concern.

If significant issues or missing information are identified in a review of a district's independently audited financial statement, OAS will send a letter to a district requesting additional information. Results of the preliminary review are communicated in writing to both the board of education and the independent CPA.

Single Audit (OMB Circular A-133)

We received 650 A-133 audit reports from school districts, 38 from BOCES, 23 from charter schools, and 190 from nonprofits between July 2010 and June 2011.

As a pass-through entity for federal awards, the Department is required to issue a determination either sustaining or not sustaining all audit findings identified by the districts' independent public accountant through the single audit. A determination issued by the Department is required for each single audit finding and states whether it sustains the finding or not, reasons for the decision, and identifies any expected action by the audited.

We issued 194 determinations between July 2010 and June 2011. The determinations were sent to 103 school districts, 3 BOCES, 1 charter school and 12 nonprofit organizations. When we complete the current fiscal cycle, it is anticipated that OAS will issue an additional 108 determinations.

Where appropriate, compliance with the requirements of OMB Circular A-133 and the adequacy of management's action related to any single audit findings are also reviewed. This often results in further communication with the district and the independent auditor.

Attachment 2

School District Fund Balance

Highlights of the 2011-2012
Property Tax Report Card
2011-12 School Year Compared
To the 2010-2011 School Year

BACKGROUND

"Everyone agrees reserve funds are vital, but no one agrees on how much money should be in them. Indisputably, maintaining reserve funds is part of sound financial management, but school districts find criticism no matter how they handle them. To starve them is to gamble, to fund them modestly can violate accounting standards and risk lower bond ratings, and to fund them to the accounting profession's specifications would break state law and bring accusations of hoarding from politicians and special interest groups."[1]

Managing fund balance can be one of the most difficult tasks of the budgeting process, since budgets are estimates of expenditures and anticipated revenues for a future fiscal period. This means that budgeted spending are estimates and projections and will be different from actual spending. In addition, since the term "fund balance" is sometimes used interchangeably for the total fund balance or any part of it, school district officials should be certain that any discussion of fund balances begins with a clear statement as to the nature of the balance(s) being discussed.

The fund balance has three parts:

The legally retained fund balance provides for resources to help districts meet unanticipated ordinary contingent expenditures. A portion may also be appropriated, by the board or by voter approval, to fund a portion of the subsequent year's budget, for unanticipated non-contingent expenditures or the funding of certain reserve funds.

Reasonably accurate estimates of year-end fund balances are essential to the budget preparation process, since the amount available can have a material effect upon estimated real property tax rates.

Each year, the major public school districts of New York, excluding the Big 5 Cities that are fiscally dependent on their municipal budget, must prepare for both their taxpayers and the Department, a property tax report card, pursuant to Education Law section 1608. School districts must make the property tax report card publicly available by transmitting it to local newspapers, appending it to the proposed budget presented to the Board and posting it on the district website prior to the statewide school voting day on the third Tuesday of May.

[1] Edwin C. Darden in New York State School Boards Association "On Board", June 28, 2010, p. 9.

The report card must show the estimated amounts to complete the current school year and estimates for the upcoming July-June school year. The data elements required are:

- The amount of total spending and total estimated school tax levy that would result from adoption of the proposed budget and the percentage increase or decrease in total spending and total school tax levy from the school district budget for the preceding school year, and
- The projected enrollment growth for the school year for which the budget is prepared, and the percentage change in enrollment from the previous year; and
- The percentage increase in the consumer price index, from January first of the prior school year to January first of the current school year as provided by the Department.
- The estimated amount of the appropriated fund balance, the reserved fund balance, and the retained unreserved, unappropriated fund balance and its percentage of the total proposed budget, and the actual amount and percentage of the unappropriated, unreserved fund balance retained in the previous year.

Changes to Fund Balance Accounting

The Laws of 2007 amended the requirements concerning fund balance limits and instituted the fund balance reporting on the annual Property Tax Report Card. The limit placed on school districts' allowable unreserved, unappropriated fund balance as a proportion of the following year's budgeted expenditures was increased from 2.0 percent to 3.0 percent for the 2007-08 school year and from 3.0 percent to 4.0 percent for the 2008-09 school year and thereafter.

Further, starting on the 2008-09 Property Tax Report Card, districts would be required to report estimates for three groupings of fund balance for the next year: (1) the amount and percent of the unappropriated, unreserved fund balance, (2) the reserved fund balance and (3) the appropriated fund balance. In addition, districts were required to report the actual amount and percent of budgeted spending that the unreserved, undesignated fund was for the prior year.

Recent changes by the national Governmental Accounting Standards Board (GASB) in the Generally Accepted Accounting Principles (GAAP) reporting requirements for fund balances affected New York State school district financial statements for periods ending June 30, 2011.

Under the prior standard, fund balance was reported as reserved and unreserved (designated and undesignated). Under the new classification, fund balance will be reported as nonspendable, restricted, committed, assigned, and unassigned. [2]

As mentioned above, school districts can retain no more than four percent of the next year's budgetary appropriations as an unexpended surplus. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the four percent limitation. In the context of previous fund balance reporting, an unexpended surplus was interpreted to be synonymous with unappropriated unreserved fund balance. Under GASB Statement 54 fund balance classifications, the four percent limitation is applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance. This sounds a good bit more complicated than it actually is, as the New York State Office of the Comptroller has provided specific guidance by account code for districts and their fiscal agents to follow.

Appropriated fund balance is classified as assigned, but must be excluded from the four percent calculation because it is not being retained and is already being used to reduce the tax levy for the subsequent fiscal year. Encumbrances classified as committed or assigned, amounts reserved for insurance recovery and amounts reserved for tax reduction have also been excluded from the calculation for consistency, because they are not considered surplus funds and were previously excluded. [3]

Staff renamed and redefined data elements for the 2011-12 Property Tax Report Card in accordance with these changes. SED worked closely with the Office of the State Comptroller to ensure consistency in district reporting on both the ST-3 and the Property Tax Report Card. The Department held a statewide web-based training session in March 2011 to prepare the field for the changes. Staff provided additional guidance on the Office of Educational Management website and by phone consultations with staff.

A summary:

- *Adjusted Restricted* Fund Balance (formerly Reserved Fund Balance)
  - Specific reserves are allowed by law and have requirements concerning their use (See Attachment 3).
  - Reserves for Encumbrances, Insurance Recovery, and Tax Reduction from the Sale of District Property remain excluded from four percent limit.

[2] http://www.nysasbo.org/node/7923 - Thomas Zuber, CPA, Shareholder, Raymond F. Wager, CPA P.C., NYSASBO The Reporter, May/June 2011.

[3] Memo to Chief Fiscal Officers from the Office of the State Comptroller, November, 2010, as updated April, 2011.

- *Assigned Appropriated* Fund Balance (formerly Appropriated Fund Balance)
  - Remains the amount appropriated for the subsequent year's budget.

- *Adjusted Unrestricted* Fund Balance (includes unassigned fund balance which was formerly Unreserved Unappropriated Fund Balance)
  - Unrestricted fund balance less reserves for encumbrances, insurance recovery and tax reduction as well as appropriated fund balance
  - This is considered the pure savings of the district, unrestricted for any specific purpose.
  - This is the Fund Balance amount restricted by law to four percent of the next year's budget.

2011-12 PROPERTY TAX REPORT CARD (PTRC) FINDINGS

669 out of 671 School Districts Included, or 99.7%

<u>Budgeted Spending</u>

- Average Year-to-Year Increase of 1.25%
- 39.4% Districts Flat or Decreasing Spending
- 59.9% Less than CPI Increase for 2010-11 (1.6%)
- 40.1% Greater than CPI Increase

<u>Enrollment</u>

- 74.1% With Flat or Declining Student Population
- However, Average Year-to-Year Decrease Only <u>0.7%</u>

<u>Tax Levy</u>

- Average Year-to-Year Increase of 3.4% (Last Year's PTRC Estimated Increase was 2.2%)
- 8.5% of Districts Estimate Flat or Decreasing Levy
- 17.0% Less than CPI Increase for 2010-11 (1.6%)
- 35.7% Less than Proposed 2.0% Tax Levy Cap
- 24.0% Greater than 4.0% Increase

Assigned Appropriated Fund Balances

- Used to Reduce 2011-12 Tax Levy on August 2011 Tax Warrant
- Average Year-to-Year Increase of 5.2%
- 29.5% Declining, Many by Significant Amounts
- 24.0% Dedicating Same Amount as August 2010 to Reducing Levy
- 43.9% Increasing this Fund Balance by More than CPI Increase

Adjusted Restricted Fund Balances

- 71.7% Flat or Declining, Many by Significant Amounts
- Average Year-to-Year Decrease of 8.9%
- 22.5% Increasing by More than CPI Increase
- Unknown Effect of GASB 54 Changes, as Account Code-Level Data is Not Reported on PTRC
- Important to Remember that Such Restricted Funds have Specific Purposes

Adjusted Unrestricted Fund Balances

- 66.9% Flat or Declining, Many by Significant Amounts
- Average Year-to-Year Decrease of 18.5%
- However, 25.1% Increasing by More than CPI Increase
- As a Percent of Total Spending, 62.0% of Districts Estimate a Reduction from 2010-11, 14.2% Estimate No Change
- This is the Fund Balance Amount Restricted by Law to 4.0% 120 Districts, or 17.9%, Estimate Greater Than 4.0%

ANNUAL FINANCIAL REPORT FINDINGS

While the Property Tax Report Card asks school districts to estimate fund balance for the year about to close and for the coming year, the Annual Financial Report includes actual expenditures and revenues for the year that has completed. Data from school districts show actual fund balance amounts for school year 2009-10, the latest year for which data are available. Districts had $3.9 billion in reserves, $1.2 billion in funds appropriated to support the next year's budget, and $1.8 billion in unappropriated funds, for a total Fund Balance of $6.9 billion.

2009-10 School Year Fund Balance New York State School Districts	
Reserves	$3,885,007,316
Appropriated	$1,267,329,020
Unappropriated	$1,761,103,484
Total Fund Balance	$6,913,439,820

CONCLUSIONS

Overview

- School Districts are clearly responding to fiscal and political realities with significant shifts in spending, tax levy and reserves
- Determining the exact patterns of behavior is limited by:
  - Changes to accounting standards for reserves this year
  - Self-reported data that are estimates prepared before the end of the fiscal year
  - Data reported in three aggregated categories, not by code
  - "Release" of excess EBALR funds late in the budget process
- The inclusion of fund balances on the Property Tax Report Card since 2008-09 and the changes due to GASB 54 are helping build a longitudinal database enabling analysis of district fiscal practices

Taxes and Spending

- 70% of Districts estimate spending increases below CPI (1.6%), with 40% plan no increase or actually declining in 2011-12
- 74% of districts are seeing declining enrollments

- Tax levy increases are much larger than last year, an average year-to-year growth of 3.4%
- However, more than one-third of districts are already below the proposed 2% tax levy cap

Reserve Funds

- Estimates of reserve funds seem to indicate a strong trend towards reducing restricted and unrestricted funds
- While increasing the amounts appropriated to reducing the tax levy next year
- 72% flat or declining restricted reserves, on average by -8.9%
- 67% flat or declining unrestricted reserves, on average by -18.5%
- 120 districts estimating they will exceed the four percent limit

Attachment 3

School District Reserve Funds

The following Reserve Funds are available to school districts.

1. **Capital Reserve** (Education Law, Section 3651)

   The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund **requires** authorization by a majority of the voters establishing the purpose of reserve, the ultimate amounts its probable term and the source of the funds. An expenditure may be made from the reserve only for a specific purpose further authorized by the voters.

   The form of the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in Section 3651 of Education Law.

   This reserve is accounted in the **General Fund.** (A 878)

2. **Repair Reserve** (GML, Section 6-d)

   The Repair Reserve Fund is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually.

   The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members.

   Voter approval is required to fund this reserve (See Opinion of the State Comptroller 81-401).

   Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years.

   This reserve is accounted in the **General Fund.** (A 882)

3. **Workers' Compensation Reserve** (GML, Section 6-j)

   The purpose of this reserve fund is to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program.

The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated.

Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget.

This reserve is accounted in the in the **General Fund** (A 814)

4. **Unemployment Insurance Reserve** (GML, Section 6-m)

This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method.

The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated.

Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget.

If the employer elects to convert to tax (contribution) basis, excess of fund over sum sufficient to pay pending claims may be transferred to any other reserve fund.

This reserve is accounted in the **General Fun**d. (A 815)

5. **Reserve for Tax Reduction** (Education Law, Section 1604 (36))
(Education Law, Section 1709 (37))

This reserve is for the gradual use of the proceeds of the sale of school district real property where such proceeds are not required to be placed in a mandatory reserve for debt service. Specifically, the district is permitted to retain the proceeds of the sale for a period not to exceed ten years and to use them during that period for tax reduction.

This reserve is accounted in the General Fund. (A 891)

6. **Mandatory Reserve for Debt Service** (GML, Section 6-l)

Upon the sale of district property that was financed by obligations, which remain outstanding at the time of sale, a reserve must be established for the purpose of retiring the outstanding
obligations. The funding of the reserve is from the proceeds of the sale of district property or capital improvement.

This reserve is accounted in the **Debt Service Fund.** (A, V 884)

7. **Insurance Reserve** (GML, Section 6-n)

   This reserve is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law, e.g., Unemployment Compensation Insurance.

   This reserve may be established by board action and funded by budgetary appropriations, or such other funds as may be legally appropriated.

   There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of $33,000 or 5% of the budget. Settled or compromised claims up to $25,000 may be paid from the reserve without judicial approval.

   This reserve is accounted in the **General Fun**d. (A 863)

8. **Property Loss Reserve** (Education Law, Section 1709 (8)(c), and
   Liability Reserve (Education Law, Section 1709 (8)(c)

   These reserve funds are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required and these reserves may not in total exceed 3% of the annual budget or $15,000, whichever is greater.

   This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted in the **General Fun**d.

   Property Loss: A 861
   Liability Loss: A 862

9. **Tax Certiorari Reserve** (Education Law, Section 3651.1-a)

   Chapter 588 of the laws of 1988 amended Section 3651 of the Education Law to permit the
   establishment of a reserve fund for tax certiorari and to expend from the fund without voter approval of the qualified voters of the school district.

The new chapter further stipulates that the total of the monies held in the reserve fund shall not exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings.

Any monies deposited to such a reserve fund which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies.

This reserve is accounted in the **General Fund.** (A 864)

10. Reserve for Insurance Recoveries (Education Law 1718 (2)

This account is used at the end of the fiscal year to account for unexpended proceeds of insurance recoveries. They will be held here pending action by the board of education on their disposition. This account will not be used if the insurance recovery is expended in the same fiscal year it was received.

This reserve is accounted in the **General Fund.** (A 887)

11. Reserve for Encumbrances (A 821)

The balance of this account represents the amount of outstanding encumbrances at the end of the fiscal year.

12. Reserve for Inventory (A 845)

The purpose of this account is to limit the maximum investment in inventory and to restrict that portion of fund balance, which is not available for appropriation.

13. Reserve for Employee benefit accrued liability (GML 6-p)

The purpose of this account is to reserve funds for the payment of any accrued employee benefit due an employee upon termination of the employee's service. This reserve fund may be established by a majority vote of the board of education and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.

The reserve is accounted for in the General Fund (A 830)

NOTE: Any capital gains or interest earned shall become part of the respective reserve fund. A separate bank account is not necessary, however a separate identity for each reserve fund must be maintained.

Attachment 4

Districts in Fiscal Distress

A. District Challenges

Many districts are facing three serious economic challenges:

- Lack of economies of scale due to declining enrollments,
- Limited ability to raise revenues locally, and
- Escalating costs, including health care and pensions.

In many cases these challenges have developed over several decades. The recent economic recession has brought a renewed focus on school district fiscal stress. The most recent property tax report cards indicate that 29 districts will end the 2010-11 school year with an adjusted unrestricted fund balance less than two percent of the general fund budget and 56 districts are projecting they will end the 2011-12 school year with an adjusted unrestricted fund balance less than two percent of the general fund budget. An adjusted unrestricted fund balance less than two percent of the general fund budget is a trigger point for identifying districts of fiscal concern.

B. Monitoring School District Fiscal Condition

The Office of Audit Services annually reviews the end-of-year financial statements which all school districts are required to file with the Department and the Office of the State Comptroller. Districts that do not file have their State Aid withheld until they file. The district’s General Fund is analyzed to identify independent school districts that are in fiscal stress or nearing fiscal stress. The Department notifies districts in or near fiscal distress and requires them to file a corrective action plan.

The indicators used by the Department to classify districts are:

<u>Districts in Stress</u>

- Negative fund balance.
- Unreserved Undesignated fund balance is negative.

<u>Districts of Concern</u>

- Fund Balance less than 2 percent of adopted budget.
- Cumulative operating deficit greater than 6 percent of adopted budget and fund balance less than 5 percent of adopted budget.
- Current ratio (assets to liabilities) less than 1.25 and fund balance less than 5 percent of adopted budget.

Each district that is identified receives a letter describing the condition and asking for a corrective action plan. The letter also provides charts depicting the individual school district's financial information over time. The Department sends the letters to the District Superintendent, with copies to the Board President, local school Superintendent and independent auditor.

The Department uses “Key Indicators and Ratios” to identify districts in fiscal stress, such as, district fiscal trends (e.g., surplus/deficits), and statewide fiscal data. In addition, the property tax report cards published on the Department’s web site include information on fund balance and reserves estimated at the time of budget preparation: http://www.p12.nysed.gov/mgtserv/propertytax/. The Department also worked with the Association of School Business Officials to develop a comprehensive curriculum for new school business officials that allows them to use the required 175 hours of professional development every five years in the most effective manner to develop critical business skills.

C. What If a District Becomes Insolvent?

There is no provision in statute to allow districts to declare bankruptcy. The Bankruptcy Code requires specific state statutory authorization to declare bankruptcy – 11 USC section 109(c)(2). Many districts have sought and received special legislation to help them deal with a financial emergency or deficit.

D. Assistance for Districts Headed Towards Insolvency

Department Assistance

1. Helps district maximize revenues:
   - Identify late state aid claims,
   - Review Medicaid claims, and
   - Reclaim foster care tuition.

2. Requests district to have the State Comptroller identify the size of the deficit.

3. Assists the district in developing a sustainable five-year financial plan and seeking legislative assistance if required.

4. The District Superintendent from the regional BOCES convenes a team to provide assistance to help the district return to fiscal stability.

Legislative Assistance

Over the years, many districts have sought and received special legislation when headed towards insolvency. There are four major forms of legislation that districts have sought.

1. Deficit financing legislation:
    - o State Comptroller must certify the debt.
    - o Typically allows district to bond out deficit over a ten year period.
    - o District required to submit quarterly financial reports to the Office of State Comptroller until the deficit financing bonds are paid off.
    - o Local Finance Law section 10.10 now has uniform procedures that apply to such bonding, but special legislation is still needed to authorize it.

2. State Aid advances:
    - o District receives Lottery funds early.
    - o Funds can be recouped over a period of years.

3. Bailout legislation:
    - o District receives a cash grant or loan.
    - o Often used in conjunction with deficit financing legislation.

4. State Appointed Control Board:
    - o Requires special legislation.
    - o Appoints a board that has oversight of district finances.

Other Options

5. Tuitioning out students
    - o District may send students to another district willing to receive them
    - o Sending district pays tuition to the receiving district
    - o Requires a vote by the districts voters
    - o Typically involves five-year contracts
    - o Teachers have rights to open jobs in the receiving districts or rights to be put on preferred lists for up to seven years

6. Aid Recovery/Wealth Adjustments:
    - o Allow recovery of State Aid overpayments over a period of three to six years.
    - o Re-compute aid using updated property and income wealth data.

7. Centralization, Consolidation and Annexation:
    - o Makes sense when district or districts have difficulty providing a competitive high school program and need to achieve economies of scale.
    - o Districts begin the process of centralization with a thorough study the impact of reorganization on educational programs and district finances and the Commissioner must attest to the educational benefits before the matter can go before the voters.

- The voters of a neighboring district would likely block an attempt at centralization with an insolvent district as the merged district assumes all the debt and assets of each district.

8. Functional Consolidation:
   - Several districts and/or municipalities consolidate services
   - Does not require voter approval

9. Shared Services:
   - District purchases services from BOCES that supplement the basic educational program
   - BOCES is able to achieve economies of scale
   - Service may be eligible for State Aid
   - Expenses reimbursed in the following year

10. Insurance Pool:
    - Requires districts to pay into a pool to cover transition costs in the event a district is no longer able to meet its financial obligations.
    - Would require legislation and would require funds from districts with very limited fiscal resources.

11. School Governance:
    - The law requires two six-hour training sessions in board roles and responsibilities and school district fiscal oversight.
    - School board may be removed for willful violation of the law.

Attachment 5

Discussion

This review raises a number of policy questions:

- What elements of the Regents Reform Agenda will be most affected by the decline in federal funds?
- What will be the regional impact of the decline in education revenues? Will a property tax levy cap affect different regions differently?
- What will be the differential impact on educational need around the State? Do reductions in Foundation Aid disproportionately reduce available resources for the neediest districts and students?
- Will better-off districts be able to support quality education programs within the confines of the property tax cap better than poorer districts, even without voting to exceed the cap? A percentage cap implies more absolute resources as total local levy size increases.