

Nassau County Council of School Superintendents

“A Cautionary Tale”

Presentation by

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Welcome to our financial forum.

This is not a practice drill. This is serious. It is also a multi-year problem. During the next few months we will all be struggling to put together a spending plan for next year. While we are preparing our budgets, we have many unknowns:

- State aid cuts - What will be restored by Albany?
- Federal Stimulus Package – What will Long Island receive?
- Will there be a state budget by April 1st?
- Will New York State impose tax caps?

So, how do you develop a budget under these conditions?

I have been doing this for 26 years and lived through the 1990/1991 state aid cuts and recession. Experience helps, but every situation is different. Let me share my cautions:

1. I would recommend that you assume the governor's state aid cuts are real.
2. It is difficult to rely on the Federal Stimulus Package until we know the timing and the amount.
3. Be prepared to restore a program or lower the tax rate if the Stimulus Package and/or New York State's legislative negotiations increase your revenue.
4. And, this may be the most important – I would suggest that you budget using a three-year time horizon. I would set up a three-year spreadsheet and put in estimated numbers for:
 - Salary Increases – If you have contracts in place for three years, use those. If not, you can estimate increases.
 - Teacher Retirement System:
2008/2009 – 7.63% of salary
2009/2010 – between 6% and 7% of salary
2010/2011 - might go as high as 12% of salary.
The retirement system has indicated it is likely that unless the economy reverses itself, the rate for 2010/2011 will represent a significant increase.
 - Fund Balance For the Next Three Years
 - Reserve Fund Usage for the Next Three Years

As stated above, I would use three columns for each of the three years and lay out the salaries, teacher retirement system estimates, fund balance estimates and reserve fund usage.

By laying it out for three years in this format, you will see what happens if you apply too much fund balance in one year or use too much of your reserve funds in one year. You will see gaps and tax levy problems three years in advance which will give you an opportunity to change direction and prevent tax rate increases from hitting too hard in any one year.

Do not use fund balance or reserve funds to fill holes in the budget. Use extra fund balance or extra reserve funds for one-shot items such as a unique capital project, prepaying bonds or purchasing a telephone system. Laying out these numbers over three years will show what will happen in year 2 or year 3 if you use too much fund balance or reserve money to fill a hole.

The next problem we will have to face is the Contingency Cap next year. The Contingency Cap is 4%, or 120% of the CPI, whichever is lower. The cap for the 2009 budgets will be 4%, but for 2010 budgets, the cap is estimated to be between zero percent and 1.7%. Since financial issues are not likely to be resolved this year, a contingency cap between zero percent and 1.7% in May 2010 could be a major issue. At the same time, TRS contributions may increase toward 12%. If the TRS increases the contribution rate by 4% (for example, from 7% to 11%), this will increase our budgets by about 2% so the budget might go up by 2% just based on TRS contributions at the same time that the contingency cap will be between zero percent and 1.7%.

So, what should we do?

1. Use a three-year horizon so problems do not sneak up on you.
2. Continue to look for savings on the expenditure side by joining other school districts. For example, we are part of a group with Tom Suozzi that is looking to save money in the area of purchasing, non-public school transportation, information technology and audits.
3. Continue to seek out groups where savings might be available.

Good luck as you develop your budgets and try to find that balance between needs and resources matching what taxpayers can afford with services that citizens need.

Thank you.