On December 9, 2014, a broad coalition of people convened to address the effects that current state policy has on the fiscal stress of municipalities and school districts, and ways that this stress can be addressed at the state and local level. The following information on school districts will help NYSUT members guide the discussion with their elected representatives at all levels, and demand government responses that will truly improve the quality and efficiency of public education. Research summarized here is based on in-depth reports by Cornell University which can be found online at [www.cardi.cornell.edu](http://www.cardi.cornell.edu) and at [www.nyruralschools.org](http://www.nyruralschools.org).

### The Challenge: Trading Financial Insolvency for Educational Insolvency

As revenues are constrained and expenses increase, school districts across New York State continue to be at risk of financial insolvency. To date, however, not a single school district has reached financial insolvency. Many districts have cut budgets, personnel, and programs of all kinds to remain solvent. **While cost-cutting measures avert financial insolvency, we fear that this is leading towards Educational Insolvency, when the offerings and quality of public education become inadequate and unacceptable.**

Emerging evidence suggests this is happening. A survey of NYS school superintendents in 2013 found most had reduced services and staff rather than engaging in actions more linked to financial insolvency (Fig. 1).

### The Problem: Higher Expenses and Tighter Revenues

**Demographic Changes**

One of the challenges of falling enrollment (Fig. 2; see dark red districts) is the loss of economies of scale, and hence increased per-pupil cost to provide the same services. At the same time, there are greater numbers of poor, English Language Learner (ELL), minority, and special education students in schools, each of whom require additional investment to achieve comparable educational outcomes. **Districts experiencing declining enrollments and increased student costs are put in a big squeeze.** This squeeze is not impacting all districts, but those experiencing these demographic changes are affected more than others.
The Problem: Higher Expenses and Tighter Revenues (continued)

State Decentralization

New York State ranks 37th in the nation in the percent of local school district revenue from State government (Fig. 3). NY contributes 39% of local budgets on average, including STAR funding. While there is much variation across district types (Fig. 4), the overall impact is greater pressure on NYS school districts to rely on local property taxes to meet local demands and state mandates.

Property Tax

School districts rely almost exclusively on property taxes for local revenues. However, with the State-imposed property tax cap, school districts are restricted in their ability to raise local revenues. With previous revenue gaps in place, the tax cap effectively locks in inequality (Fig. 5). Wealthier districts are able to leverage much more money from their tax base while average and high need districts cannot gather the funds to avoid program cuts. Inequalities in programming could be avoided if there was greater equity in state aid.

Moving Forward

Facing downward pressure on state and local revenues and changes in the student body, many school districts across NY have remained fiscally solvent by cutting staff and programs rather than choosing alternative options that prevent educational insolvency. Viable options to ensure educational solvency include increased service sharing, regional high schools, mergers, and greater reliance on technology to expand programmatic options.

The Role of Municipalities

While some issues that school districts face can be addressed at the administrative level, municipalities also play a key role in addressing the underlying economic and social problems that affect school districts.

To learn about the role of municipalities in driving economic and social change, visit www.cardi.cornell.edu or www.mildredwarner.org/restructuring/fiscal-stress.