The Issue

In the turbulent economic and policy environment of the past six years, involving freezing and deficit reduction of state education aid, a quest to slow the growth of local education taxes through a statewide Tax Cap and policy changes affecting teacher evaluation, assessment, data privacy and learning standards, school districts need to use every resource and tool to ensure effective and efficient management of school resources. Many districts are establishing long-range financial plans. These plans are critical to maintaining sound fiscal health while maintaining educational programs for students. A long-range financial plan can link multi-year budgets to show what decisions are necessary to maintain programs and fiscal stability over the long term. They can assist administrators and school boards in understanding the long-term impact of decisions made today. They take into consideration community priorities, anticipated student enrollment, curriculum mandates, technology needs of students, facility needs, contractual provisions, rapidly increasing cost items, anticipated state resources, property tax caps and use of reserve funds.

Legal Reference

- None.

Best Practices

1. Include all of the key stakeholders in the development of the long-range financial plan, making the general public, including parents and students aware of the work: board of education members, superintendent, curriculum director, business official, and facilities director.

2. Basic components. Long-range financial plans should include five basic components: expenditures, revenues, fund balance, the five-year capital plan and a plan to accomplish the district’s instructional goals.

3. Uncertainties. Do not avoid long-range financial planning because of uncertainties about state aid, the allowable growth factor for the Tax Cap, contractual increases in times of contract negotiations and increases in health insurance and pension costs. Instead carefully document and articulate the assumptions that are in the financial forecast.

4. Estimating Expenditures. Most district expenditures such as salaries, retirement system contributions, and debt service requirements are fixed costs that are fairly simple to estimate over the next five years based on current contracts, projections of full-time equivalent staff, information provided by retirement systems and debt service schedules maintained by districts. Estimates for utilities and transportation may be based on historical increases over the past three to five years. School officials can document facility maintenance costs with the assistance of qualified professionals (engineers and architects) by updating and utilizing the building condition survey. This document is required to be updated every five years but doing annual updates will give the district a tool that provides current information and costs.
5. School officials can document facility maintenance costs with the assistance of qualified engineers.

6. Consider the potential for savings by using the following approaches:
   - Review collective bargaining agreements and seniority lists and understand the terms and conditions for layoffs and recall provisions.
   - Work with union leadership. Reductions by attrition are more cost effective than layoffs. Layoffs affect the least senior people, result in less savings due to the lower salaries of less senior staff, and have significant additional unemployment cost associated with them.
   - Concerning possible labor concessions, share with your bargaining unit leadership what can be accomplished with concessions compared to layoffs.

7. Estimating revenues. Revenues and more specifically state aid are likely to be the most challenging component of a long-range plan to develop. Generally, revenues other than property taxes and state aid are a very small component of total revenue and tend to follow historical trends. With three years of experience with the Tax Cap, Business Officials will be able to estimate future property tax revenue with some degree of reasonableness. State aid is less predictable. How long will it take the State to phase out the Gap Elimination Adjustment? The optimistic estimate is two years. Most districts are taking a conservative approach assuming flat state aid over the near term or slight increases factoring in some recovery of aid from phase out of the Gap Elimination Adjustment.

8. Use of Reserves. The new reality of district budgeting is the inevitable use of fund balance and reserves. Boards and community members must remember that use of fund balance and reserves to balance the budget is a reliance on “one shot” revenues. Once used, they are not available for future years and the budget may be unsustainable. Some important points to consider include:
   - Use of fund balance affects cash flow for districts especially during the summer months when they are receiving little or no other revenue.
   - Given flat or decreasing state aid, use of designated fund balance to subsidize the tax levy must be monitored very carefully. Reduced state aid and a reduced ability to designate fund balance quickly becomes a “double hit”.
   - Be mindful of the multi-year impact of using reserves. Acceptable minimum reserve balances, and related reductions, should be established early in the process.
   - The plan will highlight the pitfalls of indiscriminately using one-time revenues without any follow up strategies. The long-range financial plan will help school officials take timely actions that avoid long-term problems.
   - Consider the timing of the use of reserves. For example, consider use of the unemployment reserve when your unemployment costs are expected to be higher. Otherwise, the district may be faced with holding reserve funds that they cannot use when needed.
   - Districts may find it wise to budget more conservatively when using reserves. This may provide some opportunity to replace these reserves, at least in part.
9. **Five-year capital plan.** Any long-range financial plan should include districts’ five-year capital plans, which have been required since 2001 and updated annually pursuant to Commissioner’s Regulations Part 155. The capital plan can involve significant expenditures and may be critical to achieving the district’s education mission such as providing facilities appropriate for students with disabilities, prekindergarten students or science, technology and engineering programs that are part of a district’s efforts to prepare students to be college and career ready. The goal of the five-year plan is to preserve school district capital assets and meet expectations with regard to the use of facilities to meet the district’s education and community goals.

10. **Supporting long-range instructional goals.** The plan should describe revenue expectations and expenditure projections that support the implementation of a plan to achieve the school district’s instructional goals. The district may decide to focus on a variety of strategies including for example: improving access and opportunity to advanced coursework for historically under-performing students, strengthening English language arts and mathematics instruction by implementing programs aimed at achieving Common Core Learning Standards, developing educational programs for prekindergarten students that are aligned with instructional initiatives targeted for early grades, developing science, technology and engineering programs, or strengthening linkages between educational programs and career opportunities for students. Whatever the priority or priorities, the board, district staff and general public will benefit from understanding the district’s long-term goals and how its finances are aligned to accomplish them.

11. For a long-range financial plan to be a useful tool for administrators and boards, it must be based on accurate data and rational assumptions to provide users with a realistic picture of the financial challenges that lie ahead. The plan should allow users to change and analyze varying scenarios or assumptions such as, allowing users to compare the financial impact of a negotiated 3 versus 2.5 percent increase in teacher contracts, consolidation of bus runs, or use of a retirement incentive.

12. The plan should provide districts with a road map of the steps to be taken financially in order to meet goals and objectives of providing students with a high quality education that will enable students to become college and career ready. Consider sharing with the community the short and long-term financial challenges of the district and the plans the district has developed to overcome them. Continued open and honest communication with will help the district manage its financial operations and achieve educational objectives.

13. Experience has shown that by the last years of a five-year forecast many districts may see shockingly large numbers. This can send administrations and boards of education into a tailspin (resulting in dysfunction) that the "sky is falling in." In practice, corrective action (cost containment and restructuring) is done each year so that this doesn't happen five years out. The five-year forecast will be more credible and understandable if this type of thinking is built into the process. The practical problem is owning, adjusting and documenting these "corrective action" assumptions.
Engage in Long-Range Financial Planning

Resources

- New York State Rural Schools Center’s budget sandbox
  - http://www.nyruralschools.org/w/data-tools/budget-playground/#.VLQdHGTF84I
- New York State Comptroller’s long range planning tool
  - http://osc.state.ny.us/localgov/myfp/index.htm
- Forecast5 Data Analytics system