The Three Village Central School District Fiscal Crisis

A *LIFER* report

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SUMMARY

The Three Village Central School District (TVCSD) faces a fiscal crisis. Over the next few years its revenue will be drastically reduced and its costs significantly increased.

On the revenue side it must contend with the following. A State government with a thirty billion dollar budget deficit that grows by the day and cannot be closed even by draconian spending cuts and tax increases. A Federal Government with its own escalating deficit that is in no position to bail out severely fiscally challenged states. Teacher unions that refuse to allow changes in State education law that would permit the State to receive what Federal educational dollars are on the table. The financial sector, upon which the State is overly dependent for its revenues, is under assault from all quarters. In consequence its profitability will likely be reduced and with it State revenues.

School spending is the largest State budget expenditure. The next largest expenditure health, is protected by a more powerful lobby than is school spending. Most other budget areas are insignificant and have been squeezed in the past. State school spending has greatly been increased of late. State education aid will inevitably be repeatedly struck by the budget axe. It is simply where the money is.

The TVCSD faces escalating cost pressures from its unwisely negotiated labor contracts and steadily increasing and ultimately staggering demands from severely underfunded State pension funds.

Given these circumstances, the maintenance of anything like the existing level of TVCSD education provision will require not a five percent tax increase for the 2010 – 2011 Budget, but several years of tax increases in the mid to high single digits at least.

At five percent a year, which the Board seems to consider an acceptable tax proposal for this financial year, the District tax levy will have increased by twenty-two percent after four years and twenty-eight percent after five years. At only four percent a year the tax levy will increase by twenty-two percent over five years. A six percent rate of increase over five years will raise the tax levy by a third. Equally, five percent annual cuts will reduce spending by twenty-eight percent over five years.

Many of the residents who might be asked to support the current level of education provision have probably seen their income decline over the last decade and their retirement savings devastated. What little tax relief has previously been thrown their way by Albany has begun to be clawed back and can only be expected to be steadily whittled away in the future. Moreover, the TVCSD tax levy has doubled the last decade. Further, the tax base that might be asked to support yet further runaway tax increases is shrinking due to escalating foreclosures.

A repeat of the tax increases that prevailed through most of the last decade would be declining house prices as the equity residents have in their homes is sucked into the pockets of school employees.

I must ask the Board, then, if it believes that the District can support no more than a single digit increase in school taxes in the current budget year, if it would alternatively contend that the district can afford four or five years of annual school tax increases of five percent or more. As just noted such increased would increase the tax levy by up to a third at least.

The community anxiously awaits your answer.

THE THREE VILLAGE CENTRAL SCHOOL DISTRICT FISCAL CRISIS

The Three Village Central School District (TVCSD) faces a fiscal crisis. Over the next few years its revenue will be drastically reduced and its costs significantly increased. It will have to drastically reduce its level of educational provision, significantly raise property taxes or enact a combination of these two options.

SCHOOL DISTRICT REVENUE

Over the next few years the Three Village Central School District (TVCSD) should expect to suffer significant decreases in State school aid. The cuts announced for the current budget year are only the beginning.[1]

1. Over the next three years New York State faces a budget deficit of at least thirty billion dollars. The current year deficit would appear to be widening by the day.[2] The current thirty billion dollar deficit estimate emanates from the office of the Governor and may well understate the probable size of the deficit. The State Comptroller paints a much grimmer picture than does the Governor.[3]

   This fiscal crisis represents a widening of a persistent and long-running State structural budget deficit by the current financial crisis.[4]

2. This budget deficit will not be closed even if :

   a. There was a ten percent income tax surcharge
   b. State school aid was cut by ten percent
   c. The State sales tax was increased by two percentage points[5]

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[1] I have undertaken an extensive analysis of the New York State budget and State school spending by means of nearly two hundred charts. While these charts lack commentary they tell a story that should be readily apparent to those who can read charts. The charts can be found on the Long Islanders for Educational Reform (LIFER) website (*http://www.lischooltax.com/*) in a section entitled *Kerby's Korner*. This section also has several reports that contain literally hundreds of charts on New York State public education. Most of the charts relate to State education spending. The report containing the State budget charts can be found at: *http://www.lischooltax.com/NYSBudget.pdf*.

[2] The Governor had barely presented his 2010 – 2011 Budget before he had to announce that the deficit had widened. See, New York Post, *Gov: NY deficit could reach $8.2B*, February 3, 2010. Available at: *http://www.nypost.com/p/news/local/gov_ny_deficit_could_reach_Z3UciTK8Faq1IUvANuo19O*.

[3] *DiNapoli: Current Year Problems Bleed Into Next Year. Urges Adoption of a Realistic Budget. Avoid Last Year's Budget Crisis*, News From the Office of the New York State Comptroller Thomas P. DiNapoli, February 3, 2010. Available at: *http://www.osc.state.ny.us/press/releases/feb10/020310.htm*.

[4] The travails of the State budget are best followed through the work of the Empire Center for New York State Policy. This is a project of the Manhattan Institute for Policy Research. The Director of the Center is E. J. McMahon. His opinion pieces are often published in the New York Post and, less frequently in the Wall Street Journal. For his latest commentary on the State budget crisis, see, *Testimony of Edmund J. McMahon Before the Joint Legislative Fiscal Committees*, Empire Center for New York State Policy, Manhattan Institute for Policy Research, February 3, 2009. Available at: *http://www.manhattan-institute.org/html/mcmahon02-03-09.htm*.

State revenues will increase at nothing like the rate required to close the deficit, so it will have to be closed through draconian spending cuts.

1. It would seem unlikely that the Federal Government will be able to repeat its 2009 generosity to the states.

    a. The Federal Government itself faces yawning deficits. The political climate favors restraint in Federal spending rather than new initiatives such as state bailouts.

    b. Despite the unsustainable deficit it has spawned the Obama administration still intends to significantly increase Federal education expenditure. Most of this new expenditure is to be distributed to the states as competitively awarded grants. This policy initiative also enjoys bipartisan support. However, in order to win this funding states have to meet various requirements. Most of these requirements are anathema to the teacher unions.

    In New York State various changes are required to State educational law for the State to receive the significant sums of money available under the Obama administration new educational policy initiatives. Unfortunately, the teacher unions have prevailed upon the State Legislature not to enact these changes. It seems unlikely that the teacher unions will change their position. Nor does it seem likely that a majority of the State Legislature will be willing to defy the unions that fund many of them so handsomely, work so assiduously to reelect them and would work equally determinedly to challenge those who would defy them.

    It appears unlikely then that New York State will any time in the future be availing itself of the largesse of the Federal Education Department.

2. If New York State can expect little succor from Washington it also has little reason to expect a continued resumption of significant revenue flows from Wall Street. It was only the stupendous tax revenues thrown off by the credit bubble of the last decade that enabled Albany to postpone the day of reckoning that its reckless spending consequent upon the Dot Com bubble rendered inevitable.

    a. It is true that tax revenues from Wall Street have rebounded and some records for profitability are even being set.[6] Unfortunately, these revenues are likely to prove ephemeral. The present exceptional profitability of Wall Street rests in

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[5] Robert B. Ward, *Governor Paterson's Budget: Thinking About Tomorrow*, Observations, January 2010, Nelson A. Rockefeller Institute of Government. Available at: *http://www.rockinst.org/observations/wardr/2010-01-nys_budget.aspx*

[6] *DiNapoli: Wall Street Recovering Faster Than Expected. Report Shows Compensation Reform Could Affect This Year's Bonus Pool*, News From the Office of the New York State Comptroller Thomas P. DiNapoli, November 17, 2009. Available at: *http://www.osc.state.ny.us/press/releases/nov09/111709.htm*.

part upon the extremely easy monetary policy being pursued by the Federal Reserve Bank. The consensus of financial commentators is that this policy will persist into 2011. Once short term interest rates begin their climb or greed once again turns to fear these easy profits will vanish.

b. The political class, opinion makers and policy analysts are also leaning towards greatly increased regulatory oversight of Wall Street with a view to limiting speculation by the larger players. In the short run there is a strong likelihood that Washington will rein in Wall Street. Accordingly, Albany is unlikely to any time soon enjoy the revenue windfalls it saw at the turn of the last century and in the middle of the last decade.

   Already, Albany receipts from Wall Street have failed to meet expectations because financial houses have responded to political and public pressure to limit bonuses. Institutions are now substituting stock options for cash. No taxes are of course paid on stock options until they are exercised.[7]

3. The United States has just experienced a financial crisis. Recovery from a financial crisis is slow and prolonged and often punctuated by false starts. If history is any guide economic growth in neither the country as a whole nor in New York State is likely to recover soon enough to restore tax revenues to trend growth let alone close the State structural budget deficit.[8] The Obama administration shows no sign of adopting policies that would lead the country out of the crisis.

   New York State remains as unfriendly as ever to economic growth and business. One recent study that ranked states in terms of economic, social and personal freedom placed New York State last in the nation.[9] As for business taxes, New York State ranks only ahead of New Jersey amongst the fifty states.[10]

   Our Albany Solons have done little more than hitch themselves to the green economy pipe dream. As if, say, Long Island can any more be a manufacturing center for wind

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[7] E. J. McMahon, *So much for that Wall Street Bounce*, NY Fiscal Watch, Empire Center for New York State Social Policy, February 3, 2010. Available at: *http://www.nyfiscalwatch.com*.

[8] Carmen M. Reinhart and Kenneth S. Rogoff, *This time is different: eight centuries of financial folly*, Princeton, 2009. These two authors summarized their arguments in a February 2009 Wall Street Journal opinion piece. See, M. Reinhart and Kenneth S. Rogoff, *What Other Financial Crises Tell Us. The lesson of history is grim: expect a prolonged slump*, Wall Street Journal, February 3, 2009. Available at: *http://online.wsj.com/article/SB123362438683541945.html*. See, also, the McKinsey Global Institute, *Debt and deleveraging: The global credit bubble and its economic consequences*, January 2010. Available at: http://www.mckinsey.com/mgi/reports/freepass_pdfs/debt_and_deleveraging/debt_and_deleveraging_full_report.pdf. According to this report historically deleveraging episodes have lasted six to seven years on average.

[9] Steve Malanga, The Least Free State. Unless reform comes to Albany, restrictive New York will continue to suffer, City Journal, Spring 2009, Vol. 19, No. 2. Available at: *http://www.city-journal.org/2009/19_2_snd-least-free-state.html*

[10] Tax Foundation, *2009 Facts & Figures. How Does Your State Compare? Mid-Year Update*, Table 3. Available at: *http://www.taxfoundation.org/files/f&f_booklet_midyear-20090723.pdf*. See, also, Public Policy Institute of New York State, Inc., *Benchmark New York State 2007 Edition*. Available at: *http://www.ppinys.org/nyecon/benchmarkNYS.pdf*.

turbines or solar panels than it can for shoes, cars or televisions. We are as likely to grow fat from the flying pig farms our local State representatives will likely next be promoting.

4. State taxes have already been significantly increased over the last few years. Because of declines in Federal tax rates and the capping of Federal exemptions for state taxes, the effective New York State income tax is at a record high.[11]

   The so called State 'millionaire' tax instituted in the 2009 – 2010 Budget failed to realize its revenue target. It is unlikely that any publicly acceptable tax increases will have anything but a negligible effect on the budget deficit. Besides the current political climate in which conservative forces are once again ascendant would seem to strongly militate against further tax increases.

5 Even in 'normal' recoveries from 'typical' recessions it can be three to five years before state tax revenues regain their former peak.[12] This recession is anything but a typical recession and the recovery is likely to be unusually slow.

Since New York State can expect no relief on the revenue side it will have no choice but to reduce its spending. Given the pattern of its spending large cuts will have to be made in school spending. This means significant cuts in State school aid. State school aid is simply where the money is.

1. State education aid accounts for about a third of the State funded budget. Health care expenditure accounts for about a quarter. Other budgetary items are relatively insignificant and have been squeezed in past fiscal crises. School education especially, but also health expenditure has also been significantly expanded over the last decade because of the balance of political forces in the State. School spending is ripe for the plucking.

2. The teacher unions, the health care unions and the health industry lobby rank among the most powerfully political lobbies in the State. Unfortunately for the public schools the health lobby is more powerful than the education lobby. The health unions can call upon the well-funded health industry lobby to fight any cutbacks in State health spending. The teacher unions have only the support of the ill-funded and, therefore, politically weak education lobbies like the school boards association and little known pressure groups like the Alliance for Quality Education.

   In 2007, for example, the Greater New York Hospital Association and the Healthcare Association of New York State together expended nearly six million dollars on

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[11] E. J. McMahon and Josh Barro, *NY taxes: headed for a new high*, New York Post, February 4, 2010. Available at: *http://www.nypost.com/p/news/opinion/opedcolumnists/ny_taxes_headed_for_new_high_IEEVoyCPCC7x6vXfMJIAFP*

[12] Donald J. Boyd, *Recession, recovery and state-local finances*, Forecasters Club of New York, The Nelson A. Rockefeller Institute of Government, New York City, January 28, 2010, p. 16. Available at: *http://www.rockinst.org/pdf/government_finance/2010-01-28-slides-recession_recovery_finances.pdf*

lobbying and campaign contributions compared to a total of four million dollars for the New York State United Teachers and the United Federation of Teachers.[13] I have been unable to find any lobbying and campaign contribution statistics for the health care unions in 2008. However, in 2004 the Service Employees International Union (SEIU) political action committee made $775,150 in campaign contributions compared to a figure of $1,320, 955 for the New York State United Teachers political action committee.[14] The health industry clearly has more financial muscle than do the teachers.

In Albany it is money that talks and buys advertising. Accordingly, State spending cuts will fall more on education than on health.

3. Moreover, a considerable proportion of health care expenditure is matched expenditure: whatever Albany spends on Medicaid is matched by Washington. This is an especially attractive deal for our Albany Solons. By spending only fifty cents of their own money they can bestow a dollar of benefits upon their constituents. Alas the downside is when they are forced to cut expenditure. If they cut health care matched fund expenditure they save but fifty cents when they deprive their constituents of a dollar of benefits.

4. Albany accordingly has a strong disincentive to reduce health care expenditure. On the other hand reductions in State education aid can be made good through increases in school property taxes. The time honored response of governments to fiscal stress is to pass the problem down to lower jurisdictions. Let them take the abuse and blame. In New York State whenever school taxpayers complain to their State representatives about school property taxes the response is always that it is nothing to do with Albany. The problem and its solution reside solely with the local district and are to be settled in school board elections and school elections. The same will go for program cuts.

We do no better by concluding with a quotation form Empire Center for New York State Social Policy Director, E. J. McMahon:

> *Left unchanged, the current state school aid formula for 2010-11 would require general fund spending increases totaling more than 26 percent over the next three years. With the state facing a budget gap of at least $7 billion next year, and $14 billion the year after that, these trends obviously are unsustainable.*

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[13] These statistics are drawn from the *Fat Cat* reports of the New York Public Interest Research Group. These reports can be found at: http://www.nypirg.org/goodgov/.

[14] Liam Arbetman, Blair Horner and Lisa Ritchie, *"PAC-ing IT IN." Political Action Committees' Campaign Contributions in New York State 2004,* Citizens Union, Common Cause/NY, League of Women Voters.N.Y.S, New York Public Interest Research Group, April 2005. Available at: *http://www.nypirg.org/goodgov/pacing%20it%20in%20FINAL.pdf*.

> *There's simply no way to restore long-term balance to New York's budget without first halting, and then partially reversing, the state's school spending binge.*[15]

As part of its plan to close the State structural deficit, the Empire center proposes that State school aid be reduced by 7.5% in the current fiscal year and its growth then capped for the next two years. This would leave State aid fourteen percent above its 2006 – 2007 level. The Center also proposes to reduce State spending by another billion dollars by capping School Tax Aid Relief (STAR).[16]

Based on all that has been written above the TVCSD might not unreasonably assume that over the next four or five years it will suffer a fifteen to twenty percent decline in State school aid. It should plan accordingly.

COST PRESSURES

The TVCSD will also suffer two significant assaults upon its budget over the next few years.

1. TVCSD employee pension contributions will almost certainly climb to heights last seen in the 1970s when school district contributions to the New York State Teachers' Retirement System (NYSTRS) amounted to a quarter of district payrolls.[17] They might well go higher this time around. Presently, school districts are contributing just over seven percent of their teacher and professional payroll expense to the NYSTRS.

   The NYSTRS calculates that the long-term employer contribution to the System should be twelve percent. Thanks to the recently ended near two decade stock bull market and the recklessly aggressive investment strategy of the NYSTRS, school district contributions to the System have been far below that.

   As a consequence school districts have enjoyed substantial budget savings for a decade or more. This means that either school taxes have risen less than they would have done, school expenditure has risen more than it should have, or a combination of these two possibilities.

   Just a few years ago a senior NYSTRS official opined at a conference that for the long-term sustainability of the pension fund employer contributions would eventually

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[15] E. J. McMahon, *Don't Waste School Aid Crisis, Newsday*, January 17, 2010. Available at: *http://www.empirecenter.org/Articles/2010/01/Newsday-column-011810.cfm*. McMahon notes in this same opinion piece that since the 1998 – 1999 State Budget state school aid has increased by seventy-five percent. State school aid was the major driver in the growth of the State budget over the last decade. See, E. J. McMahon, *Of course, it was all for the kids*, NY Fiscal Watch, Empire Center for New York State Social Policy, January 20, 2010. Available at: *http://www.nyfiscalwatch.com/?p=2366*

[16] E. J. McMahon, *Fixing what's broke*, New York Post, January 5, 2010. Available at: *http://www.manhattan-institute.org/html/miarticle.htm?id=5827*

[17] My comments on New York State public pension funds are based upon a recent report of mine, entitled, *Courtesy of the Legislature: the teacher pension debacle*. You will find a copy of this report at the Nassau Civic Association website (*http://www.nassaucivic.com/default.htm*). You can read the report at: *http://nassaucivic.com/NYSTRS_-_II.pdf*.

have to be raised to between ten and fifteen percent. In planning their budgets school districts have paid very little attention to the likely trajectory of their pension fund contributions. They are now about to reap the unhappy consequences of that reckless indifference.

The NYSTRS had a very aggressive investment strategy. It was very heavily exposed to the stock market, private equity and real estate. Accordingly, the recent collapse in asset markets means that the NYSTRS investment fund is seriously underfunded. This will entail a significant increase in school district contributions to the fund over the next few years. The investment policy of the New York State Common Retirement Fund was even more recklessly aggressive. State Comptroller Napoli is simply clueless. The man is out of his depth.

It is true that the asset markets have rallied substantially since the spring of 2009. Unfortunately, there is probably very little upside in the near-term. The United States stock market, for example, was probably about fifty percent overvalued by two reliable measures of long-term value at its recent January 2010 peak.[18] At this level of valuation the path is invariably downwards.[19]

The New York State Common Retirement Fund which is in similar straits to the NYSTRS investment fund recently estimated that by 2015 its employer contribution rate will have risen to thirty percent. The Board might well want to factor this figure into its calculation of future employee labor costs.

It should be noted though that our Albany Solons are responding to this problem in the time honored way. Legislation has been proposed that would allow State pension fund members to borrow from the State pension funds if contribution rates exceed certain caps. The loans would have to be repaid over ten years. This is the road to bankruptcy and default which is perhaps where the State, its localities and agencies are heading.

2. The State Tax Aid Relief (STAR) rebate program was discontinued in the 2009 – 2010 Budget. In his 2010 – 2011 Budget the Governor has proposed capping the State Tax Aid Relief (STAR) program itself to properties of less than 1.5 million dollars. This proposal may not be enacted this year, but very shortly STAR will without doubt be capped and the cap will be progressively decreased.

   This will happen as surely as night follows day. It will first happen to only the 'rich' and to only a few people at a time. Protests will be muted, individual and easily brushed off. The principle is simple: start with a few people and watch the inevitable unfold. Doubters should review the history of the Federal income tax and the alternative minimum tax.

[18] See the CAPE and *q* charts for the United States stock market produced by Smithers & Company at: *http://www.smithers.co.uk/page.php?id=34*.
[19] Andrew Smithers, *Wall Street Revalued. Imperfect Markets and Inept Central Bankers*, Chichester, 2009.

> Given the property values obtaining in the District a good many residents will very probably lose their STAR exemptions over the next few years or see them greatly diminished.

RESIDENTS AND SCHOOL EMPLOYEES: SALARIES AND BENEFITS

This analysis would not be complete if it did not address what is probably an ever increasing disparity between the remuneration enjoyed by TVCSD employee and the salaries and benefits and incomes of TVCSD residents who work in the private sector. Additionally we need to take note of TVCSD residents who do not enjoy private pensions.

Unless there is an unanticipated and significant decline in TVCSD enrollment in the next few years TVCSD costs will continue to increase at rates significantly in excess of the incomes of most TVCSD residents. This is because of the contracts the TVCSD Board of Education recently signed with the various unions that represent its employees.

The Board might be forgiven for not seeing the now burst Wall Street credit bubble. It should, however, have noted that the State budget was increasingly being underwritten by record Wall Street revenues and that the financial industry has always been cyclical. It should also have noted that State budgets continually projected future deficits of alarming magnitude. The reports of the State Comptroller on the State Budget were even more forthright.

The Board should also have cognizant of the nature of, and trend in, State spending. It might then have realized that if the economy stumbled and Wall Street sputtered, State school aid would very likely face significant cutbacks.

Given the information publicly available it should have been apparent by the beginning of 2008 that it would not be long before the State would be forced to enact significant cuts to State school aid. For the Board to have negotiated a teacher contract in 2008 that awarded annual increases of three to four percent was unwise to say the least.

Be that as it may, the District is now locked into contracts that increase employee salaries by three percent or more a year. On the other hand Long Island salaries as a whole have declined over the last decade. To quote from the latest *Long Island Index*:

> *Average pay per employee on Long Island decreased by 2.6% from 2000 to 2009 compared to the US which rose 4.9%. Between 2007 and 2009 Long Island wages per employee actually fell 4%, while the U.S. figures were stable. In constant 2008 dollars, average pay per employee was $1,285 lower in 2009 than it was in 2000.*[20]

Workers in the private sector have probably also seen their fringe benefits decline or their share of the cost of these benefits increase. School district employees, teachers especially,

[20] Long Island Index, *2010 Growth in Wages over the Past 10 Years*. Available at: *http://www.longislandindex.org/index.php?id=187*.

have seen virtually no diminution to their benefits and have enjoyed salary increases that have probably been slightly in excess of inflation.[21]

In particular while defined pension plans have largely disappeared in the private sector they continue with hardly any change in the New York State public sector. A new tier, a Tier V has been added to the New York State public pension system, but it is only a new version of the original Tier IV. It is in fact an improved version of this Tier.

Village residents in the private sector will largely be dependent upon their tax sheltered saving plans such as IRAs and 401Ks. These of course were devastated in the recent collapse of asset markets that was attendant upon the financial crisis. The perverse denouement is that taxpayers who have seen their own retirement savings much diminished will be called upon to make further sacrifices to finance the retirements of teachers and other public employees. While teachers typically retire at in their late fifties most village residents who work in the private sector can expect be working well into their sixties if not seventies. It might also be noted that public pensions have been recklessly enhanced by the State Legislature over the last decade.

As for income as opposed to earnings, median household income “has declined relatively steadily since 2003.”[22] In real terms the typical household of four earned six percent less in 2007 than it did in 2003.

It should be apparent to the Board that residents who largely enjoy only flat incomes cannot long finance a school district whose escalating costs are driven by the ever rising salaries and benefits of its overly compensated employees. I call our teachers ‘overly compensated’ only in a strictly economic sense. Given that the District receives five thousand teacher resumes a year and that a similar oversupply of teachers seems to exist throughout Long Island one can only assume that the salaries we pay our teachers are anything but market clearing salaries. There are very many people who would teach in our district for far less than our existing teaching staff and just as well..

I need scarcely add that the salaries we pay our custodial staff are simply obscene. I am, of course, aware that the hands of the Board are tied by the Public Employment Relations Board when it comes to such matters as employee salaries and the contracting out of services.

If the District does succeed in forcing through year upon year tax increases in even the middle single digits, the result can only be collapse in house prices in the TVCSD. Already local realtors have reported that the level of taxes in the District is an impediment to house

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[21] For the heady salary increases teachers are enjoying even now and their still very generous health benefits, see the teacher contract surveys of the New York State School Boards Association at: *http://www.nyssba.org/index.php?submenu=teacher_survey&src=gendocs&ref=TeacherContractSurvey&category=news_media*. For the latest report see: *http://www.nyssba.org/clientuploads/nyssba_pdf/CommTeacherContractSurvey09.pdf*. For the grim trends in overall employee health benefits see the latest Kaiser employee health benefit survey available at: *http://ehbs.kff.org/pdf/2009/7936.pdf*.

[22] Long Island Index, *2010 Household Income Distribution*. Available at: *http://www.longislandindex.org/index.php?id=188*

sales. Those who can no longer stay in the District because they simply cannot afford a twenty-eight percent increase in their taxes in the space of but a few years will be forced to lower the prices they are seeking for their homes. When nearly all house sales are financed by mortgages that are a significant proportion of the house price, the only way school taxes can be made affordable is by lowering the monthly mortgage payment. This can only be affected by lowering the price of the house.

In other words four or five years of runaway tax increases threatens to suck the home equity of village residents into the pockets of school district employees.

FIVE PERCENT A YEAR

Given the grim fiscal stresses to which it is being subjected, the maintenance of anything like the existing education provision in the TVCSD will require not a five percent tax increase for the 2010 – 2011 Budget, but several years at least of tax increases in the mid to high single digits.

At five percent a year, which the Board seems to believe is an acceptable tax increase for the District to sustain this budget year, the District tax levy will have increased by twenty-two percent after four years and twenty-eight percent after five years. At only four percent a year the tax levy will increase by twenty-two percent over five years. At a rate of increase of six percent a year the tax levy will have increased by a third over five years.

I must ask the Board, then, if it believes that the District can support no more than a single digit increase in school taxes in the current budget year, if it would alternatively contend that the district can afford four or five years of annual school tax increases of five percent or more. As I have previously noted annual school tax increases of this magnitude would increase the tax levy by a quarter or a third over four or five years.

The Board may not owe me an answer, but I think it does owe the community as whole an answer. As I always said it would, a day of reckoning would come when the State budget would implode and State school aid would be drastically reduced. That day has arrived and the Board has to decide whether it means to drastically reduce District programs or dramatically increase an already excessive and for many, a near unsupportable tax burden.

In particular I think the Board has an obligation to present the community with likely trends in District revenues, costs and taxes under a variety of scenarios and assumptions over the next few years. When he first came to the District the current Assistant Superintendent for Business Services espoused the virtues of multi-year budgeting. Individual Board members have also voiced support for the idea.

The Board has also promised the community honesty and transparency. I think then that it is time that the Board shared with the community where, given the dire fiscal environment that is likely to prevail for the foreseeable future, it sees the balance falling between programs and taxes. In particular the District should have no problem in forecasting its likely expenditure over the next few years for various inflation and pupil enrollment figures assumptions. It must surely have made these calculations when it negotiated its latest labor contracts.

Of course, the Board cannot say what the TVCSD BOE of four or five years hence will do. Many of the existing BOE may no longer be members. However, I do think that the present Board has an obligation to advise the community of the fiscal circumstances in which the District now finds itself and its dire prospects over the next few years.

I also think individual Board members have an obligation to state where they stand on the balance between taxes and programs. At a finance committee held last year I was given to understand the policy of the Board and the intent of its individual members was to maintain the "children's programs" come what may. I, and, I am sure, the community as a whole, would like to know, if this is still the sentiment of the Board and individual Board members.

The Board might of course, disagree with my analysis of the fiscal climate the District will be facing in the next few years. Perhaps it will take the minority cum contrarian view amongst economists and pundits that economic growth will be strong and that government revenues will recover more quickly and strongly than expected. Alternatively, the Board might believe that the State Legislature will ultimately impose and successfully collect whatever taxes are needed to maintain State school aid at its present level. I am keen to hear and debate your thoughts on my arguments and prognosis.

One thing I do not think the Board need fear is that by scaling back District programs TVCSD children will be placed at a disadvantage compared to their peers in other school districts. As should be readily apparent, the fiscal predicament in which the District finds itself is not unique to the TVCSD. School districts throughout not only the State, but also the nation are faced with the need to scale back their programs. Some will have to scale them back more, some less.

I have not followed the travails of the TVCSD budget over the last few years, but my understanding is that its State aid has declined due to changes in the State aid formula. It would appear that the District is regarded as being wealthier than it really is. It would appear then that TVCSD will have to cut back somewhat more than will other school districts. Given that the District has lost State aid, because it is spuriously richer, but in fact is no wealthier than it ever was, the reasonable conclusion would anyway seem to be that residents are being asked to support a level of educational provision that is now beyond their means. This, at least, is the conclusion that I would draw.

Over the last decade or so, both school districts and the State have greatly increased their educational spending. To quote McMahon of the Empire Center for New York State Policy:

> *From fiscal year 1998-99 through 2008-09, the state budget grew at a compound annual rate of* ***5.6 percent*** *— exactly double the compound annual rate of inflation during that period, which was 2.8 percent. Personal income growth, the*

best barometer of the state's economic growth, rose at only a 4.5 percent compound annual rate.

School aid was the single biggest contributor to overall spending growth. In fact, regular school aid and STAR (the state School Tax Relief program, a school spending subsidy initiated in 1998-99) together accounted for about 40 percent of the total state operating funds spending increase of $33 billion over the ten-year period. The K-12 piece of the pie also grew: the school aid and STAR share of state operating funds grew from 27 percent in 1998-99 to 32 percent in 2008-09.[23]

From what measures we have of pupil performance this prodigality has been to little purpose. The progress shown in State tests has been revealed as illusory and due only to State Education Department chicanery with regard to the State tests.[24] As some Board members also know I have examined Suffolk County Community College remedial instruction data to measure Suffolk County public school performance over time. My analysis shows no improvement at all over the last twenty years. If anything pupil performance, and, therefore, public school performance, has gotten worse.

Like much else that occurred over the last decade the boom in State education spending and provision was built on illusory money and devil may care budgeting. It had no foundation. It was part and parcel of a four percent unemployment rate, booming stock markets, record rises in house prices, stores filled to overflowing with cheap Asian goods, all financed by easy credit. It could only end in tears and so it did.

One must wonder if the District Intel program is as much a monument to that age of debt and delusion as are the McMansions of South Setauket.

America unfortunately has to deleverage. It is not fun. It is not pleasant. It invites denial. Still it must be done. In my opinion the TVCSD needs to get with the program. There is no reason why the TVCSD should be excused from coming to terms with the reality of post-bubble America. What the Board faces is no different from what Athens faces, Madrid faces, Washington faces, Albany faces and Riverhead faces.

Board members who find it hard to believe that the TVCSD could relapse to the barebones level of provision that Board member Diviney has mentioned at Board meetings. I would advise them to look at history. It was not so long ago that Buffalo and Detroit were great and prosperous cities.

For a perspective on the context in which you are working I would refer to an article by James Srodes in the current edition of the American Spectator. In asking how long the 'dark age' – his name for our current crisis – will last he recalls how as a teenager growing up in Tampa in the 1950s he travelled:

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[23] E. J. McMahon, *Of course, it was all for the kids*, NY Fiscal Watch, Empire Center for New York State Social Policy, January 20, 2010. Available at: *http://www.nyfiscalwatch.com/?p=2366*

[24] Dianne Ravitch, *NY's Testing Mess. State Exams Give False Picture*, New York Post, October 15, 2009. Available at: *http://www.nypost.com/p/news/opinion/opedcolumnists/item_xlGmMitC04B4VHD2YDi5CM*.

. . south through a ghost town called Sun City on the way to Sarasota. This abandoned village had streets, municipal buildings, sidewalks, even steps up to residential lots, all laid out during the Florida land boom of the 1920s. What it lacked were houses and residents. And so it stayed for nearly 40 years until Del Webb developed the retirement community and resort nearby and appropriated the name. Now people are fleeing Florida once again, and ghostly, empty high-rise condos dot the landscape.

He then goes on to ask:

How long will it take to reclaim the empty neighborhoods in Detroit, the empty condos in Las Vegas, or Phoenix, or, for that matter, in the McMansion-style suburbs that surround Washington, D.C.? What new jobs can be created to absorb the millions who have not only lost their jobs but who have stopped looking? What will those jobs make, and who will buy what is being offered?[25]

I am of the view that we are facing a structural change and not a cyclical one. When the TVCSD comes out of the current financial crisis it will and should look very different than when it entered into it.

CONCLUSION

This then is the fiscal predicament in which the TVCSD finds itself

There is a State government with a thirty billion dollar budget deficit that grows by the day and seems immune to even draconian spending cuts and tax increases. Then there is a Federal Government with its own escalating deficit that is in no position to bail out a nation of States that range from near insolvent to extremely fiscally stressed. Next there are teacher unions that refuse to allow changes in State education law that would permit the State to receive what Federal money is actually on the table. The major industry in the State, the financial sector, centered on Wall Street and upon which the State is overly dependent for its revenues, is under assault from all quarters. The consequence of these assaults will be to reduce the profitability of the New York financial industry and, therefore, ensure that it will be many day before Wall Street disgorges billions in tax revenue upon Albany..

Then there is the State budget itself: school spending is the largest part of the budget; the next largest expenditure area, health, is protected by a more powerful lobby than is school spending; most other budget areas have been squeezed in the past; school expenditure has greatly been increased in the last few years. State education aid will inevitably be repeatedly struck by the budget axe. It is simply where the money is.

In terms of its budget the TVCSD can only expect escalating costs from its unwisely negotiated labor contracts and steadily increasing demands from severely underfunded State pension funds.

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[25] James Srodes, *The Great Recession of 2011-2012. And that's only the beginning of a new Dark Age,* The American Spectator, February 2010, Vol. 43 No. 1.

Given these circumstances, the maintenance of anything like the existing education provision in the TVCSD will require not a five percent tax increase for the 2010 – 2011 Budget, but several years at least of tax increases in the mid to high single digits.

At five percent a year, which the Board thinks is an acceptable tax increase for the District to sustain this budget year, the District tax levy will have increased by twenty-two percent after four years and twenty-eight percent after five years. At only four percent a year the tax levy will increase by twenty-two percent over five years. At a rate of increase of six percent a year the tax levy will have increased by a third over five years.

Much of the populace that might be asked to support the current level of education provision has seen its income decline over the last decade and its retirement savings devastated. What little tax relief has previously been thrown its way by Albany has begun to be clawed back and can only be expected to be steadily whittled away in the future. Moreover, the TVCSD has already seen the school tax levy imposed upon it double in the last decade. Further, the tax base that might be asked to support yet further runaway school tax increases is shrinking due to a growing number of foreclosures in the district.

The consequence of a repeat of the tax increases that prevailed through most of the last decade would be declining house prices as the equity village residents have in their homes is sucked out into the pockets of school employees.

I must ask: how does the Board plan to respond to the predicament in which it finds itself. What are its plans? What does it have to say to the community?