

# Local Government Snapshot



NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

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## State Budget Delay: Impact on Local Governments and School Districts

- The 2010-11 State Budget is now six weeks late, and the failure to adopt a budget is beginning to have an impact at the local level.
- Late budgets do have repercussions. They reduce the ability to effectively budget and plan at the local level. New York's major cities and all school districts may have to approve budgets in May and June without knowing state aid amounts – a major source of their funding. If the State budget is not enacted by mid-August, school districts will have to finalize tax levies, and some school tax bills could be higher than necessary.
- Late State budgets also cost money. Payment delays create cash flow problems (particularly for schools), reduce interest earnings and can force some localities to borrow money until they get paid by the State.
- The budget process in New York is clearly flawed and needs reform. Comptroller DiNapoli has proposed a comprehensive package of changes to the State budget process designed to help New York end the current dysfunction.<sup>1</sup>

### Payment Delays

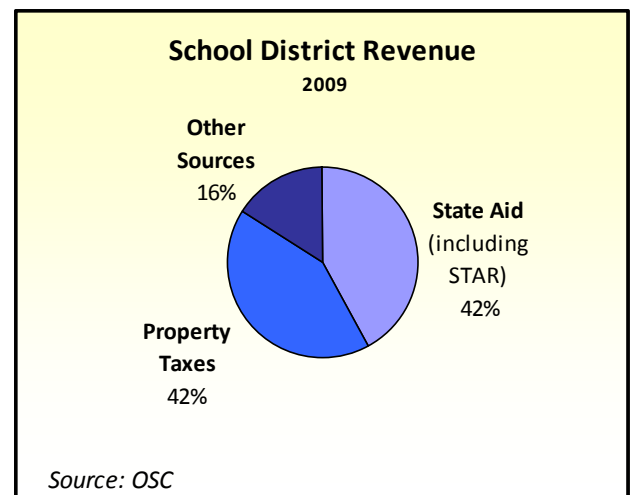
- As a result of the State's budget problems, the Governor has had to delay \$2.1 billion in school aid payments normally paid in March but not legally due until June 1. Another \$2.2 billion in school aid payments is also due in June. In the continued absence of a State budget, it is uncertain whether sufficient cash balances will be on hand to make these payments.
- OSC analysis of recent SED report card data indicates that up to 285 school districts may have insufficient unrestricted fund balances to offset these payment delays beyond June 30. The exact number is difficult to say with certainty because this information does not align with actual cash balances on hand, and because districts may have a limited ability to access other cash reserves temporarily to help offset the delays.
- Payment delays cost school districts money, including the loss of interest earnings, and potentially trigger the need for short-term borrowing and additional interest costs.
- Any school district that has already borrowed against the receipt of June state aid could be at risk of default on its Revenue Anticipation Notes (RANs), and would need to "roll" the note (at additional interest expense) or replace State aid with local resources in order to pay note holders.
- State aid delays are having an impact on long-term credit ratings for school districts as well. Recently, Fitch Ratings downgraded the State Dormitory Authority's school district revenue bond financing program (which does pooled financings for districts) from AA- to A+ in part due to concerns about inadequate State aid coverage exacerbated by potential payment delays.
- Local governments are also waiting for over \$240 million in Aid and Incentives for Municipalities (AIM) revenue sharing payments owed to them in May and June. Any delays could cause cash flow problems for cities.

## Budget Delays

- The budget uncertainty forces local governments to make important programmatic and capital investment decisions without knowing how much State assistance will be forthcoming. It is difficult for local governments to plan effectively when significant portions of their funding is unknown. If State aid estimates are overly optimistic, the result can be mid-year budget shortfalls.
- The “Big Five” cities (New York City, Yonkers, Buffalo, Rochester, and Syracuse) are on a July to June fiscal year and must adopt their budget before the end of June. State aid for both the city and its dependent school district comprises a significant portion of these budgets.
- School district fiscal years also run from July 1 to June 30, and most school districts have to develop and present budgets in May each year for consideration by the voters. State aid and property taxes are the two primary sources of school district revenues.
- According to school district association reports, most districts assumed the Executive Budget aid levels in their proposed budgets. The Executive Budget reduced school aid by over \$1 billion on a sliding scale of 3.5-15.0 percent based on various need and wealth factors.
- If the State budget is not enacted by mid-August, tax assessors prepare the final property tax levies and tax rates are imposed that would reflect each school district’s estimate for State aid at that time.
- Given the State’s fiscal condition, a full restoration of school aid reductions may not occur; however, a change in the distribution formula (even without any increase in total school aid) would still affect local budgets. This means that a particular district may have had to reduce programs or increase taxes more than necessary had State aid amounts been known.
- SED school budget report card data indicates that districts kept proposed budget increases below the average growth rates seen in the last few years. Statewide, the proposed average increase in spending is 1.4 percent, down from 2.3 percent a year ago and significantly below the 5.6 percent annual average growth of the preceding ten years.
- The average proposed school district property tax increase is 3.2 percent, above the 2.1 percent increase for 2009-10, a year when \$2.8 billion in American Reinvestment and Recovery Act (ARRA) funding was used to help offset state aid reductions and fund specific programs, but below the 6.2 percent average annual increase from 1997 to 2007.

State Aid as a Percent of Total Revenue, 2009		
	City	School District
Buffalo	40%	74%
Rochester	26%	68%
Syracuse	30%	68%
Yonkers	36%	53%
New York City	21%	41%

Source: OSC and OSDG; STAR included in State Aid



<sup>1</sup> See “Ending New York’s Chronic Budget Crisis: a Strategy for Fiscal Reform,” Office of the State Comptroller, March 2010.