NEW YORK STATE EDUCATION DEPARTMENT

RESEARCH NOTE

Reversal of Fortune: The Growth of Fringe Benefit Expenditures in New York State School Districts 1993-94 to 2001-02

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INTRODUCTION

This report describes trends in fringe benefit expenditures in New York State school districts over the past decade. The primary objective is to apprise the reader of some of the unusual trends characterizing the fringe and non-fringe expenditure categories, in particular the sharp contrast between the pre-2000 fringe benefit trend, in which fringe benefit expenditures decreased while other expenditures increased, and the post-2000 trend, in which fringe benefit expenditures increased sharply while growth in other expenditures slowed. Indeed, as we shall see, the trend reversal is sufficiently dramatic that we refer to it as a "reversal of fortune."

STATEWIDE EXPENDITURE TRENDS

School districts report fringe benefit expenditures via the ST-3 form, a dual-entry accounting document (un-audited) submitted to the New York State Education Department (SED) at the end of each school year. Table 1 shows statewide fringe benefit expenditures and all other expenditures for three different fiscal years. Table 2 shows the same figures adjusted for inflation (using constant 1993-94 dollars). Table 3 displays the annual percentage growth (or decline) from 1993-94 to 1999-2000 and from 1999-2000 to 2001-02 as well as for the entire period from 1993-94 to 2001-02.

As Table 3 shows, during the period 1993-94 to 2001-02 total fringe benefit expenditures statewide grew at a far lower rate than non-fringe benefit expenditures. In the overall period from 1993-94 to 2001-02 fringe benefits grew 1.0 percent annually when adjusted for inflation, while all other expenditures grew 2.8 percent annually.[1] During the period 1993-94 to 1999-2000, however, fringe benefits ***declined*** 1.2 percent

[1] Throughout this report, inflation adjustments were made by using the Consumer Price Index-All Urban Consumers (CPI-U) to calculate figures in constant dollars corresponding to the 1993-94 New York State fiscal year. For further details on the method of calculation, see the Appendix to the New York State Education Department's *School District Fiscal Profiles,* which are available on-line at http://www.oms.nysed.gov/faru/. Most annual percentage changes in this report use the formula: $(P1-P0)^{(1/T)}-1$ where P1 is the final value, P0 is the initial value, and T is the number of time periods. In this case the units are years. An ordinary annual percentage change does not take into account the effects of compounding. The non-compounding formula is: {[(P1-P0)/P0]*100}/T. These variables have the same definitions as in the prior formula. Tables 3, 6, and 7 as well as Figure 2 use the compounding annual percentage change formula, while Figure 1 and Table 5 use the ordinary (non-compounding) percentage change formula.

annually while all other (non-fringe) expenditures ***increased*** at a 3.0 percent annual rate. During the following two years, the negative annual change trend in fringe benefits reversed—and in a dramatic fashion. Specifically, expenditures on fringe benefits statewide grew 8.0 percent annually, while all other expenditures increased by only 2.3 percent annually. Figure 1 displays the trend reversal by tracking the percentage changes in fringe benefit expenditures and all other expenditures over two-year intervals.

Table 1: The Statewide Growth of Total Fringe Benefits Compared to Other Expenditures (in Current Dollars), 1993-94 to 2001-02

Period	All Fringe Benefits	All Other Expenditures
Total dollars 1993-1994	$4,102,356,629	$19,675,202,623
Total dollars 1999-2000	$4,426,567,765	$27,167,863,148
Total dollars 2001-2002	$5,431,790,512	$29,939,556,972

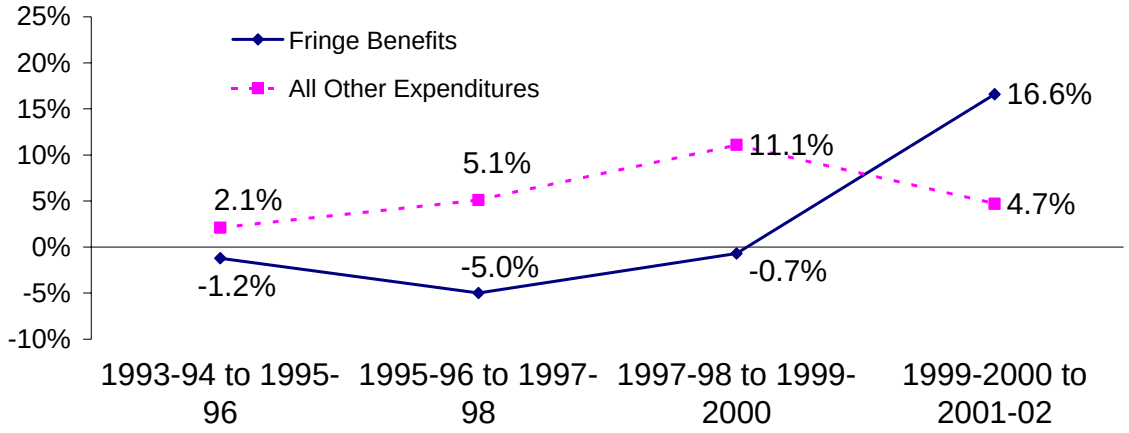
Table 2: The Statewide Growth of Total Fringe Benefits Compared to Other Expenditures, 1993-94 to 2001-02 (in Constant 1993-94 Dollars)

Period	All Fringe Benefits	All Other Expenditures
Total dollars 1993-1994	$4,102,356,629	$19,675,202,623
Total dollars 1999-2000	$3,823,212,425	$23,464,796,535
Total dollars 2001-2002	$4,457,101,446	$24,567,155,597

Table 3: The Annual Percentage Change of Fringe Benefit Expenditures Compared to Other Expenditures Statewide 1993-94 to 2001-02 (Based on Constant 1993-94 Dollars)

Period	All Fringe Benefits	All Other Expenditures
Annual change 1993-94 to 1999-2000	-1.2 %	3.0 %
Annual change 1999-2000 to 2001-02	8.0 %	2.3 %
Total annual change 1993-94 to 2001-02	1.0 %	2.8 %

Figure 1: The Percentage Change in Two-Year Intervals of Fringe Benefits and Other Expenditures Statewide from 1993-94 to 2001-02, in Constant 1993-94 Dollars



- As shown in Table 1, in Fiscal Year 1993-94 expenditures on all fringe benefits were $4.1 billion dollars statewide and rose to $5.4 billion by 2001-02 in nominal dollars. This was a 32.4 percent increase. Table 2 shows that in inflation-adjusted dollars, fringe benefits statewide rose from $4.1 billion dollars to $4.5 billion, an 8.6 percent increase.

- During the same period, all other expenditures by districts statewide rose from $19.7 billion in 1993-94 to $29.9 billion (not adjusted for inflation), a 52.2 percent

increase. (See Table 1.) When adjusted for inflation, all other expenditures statewide rose from $19.7 billion in 1993-94 to $24.6 billion in 2001-02 (Table 2). This was a 24.9 percent increase.

- From 1993-94 to 1999-2000, fringe benefit expenditures statewide declined 6.8 percent, when adjusted for inflation. At the same time, all other expenditures statewide increased 19.3 percent.

- Beginning in the 1999-2000 fiscal year, this pattern reversed. (See Figure 1 and Table 3). Inflation-adjusted fringe benefit expenditures increased by 16.6 percent from 1999-2000 to 2001-02 while all other expenditures increased by only 4.7 percent.

A Closer Look at Fringe Benefits: Why Was There an Increase in Growth Rates?

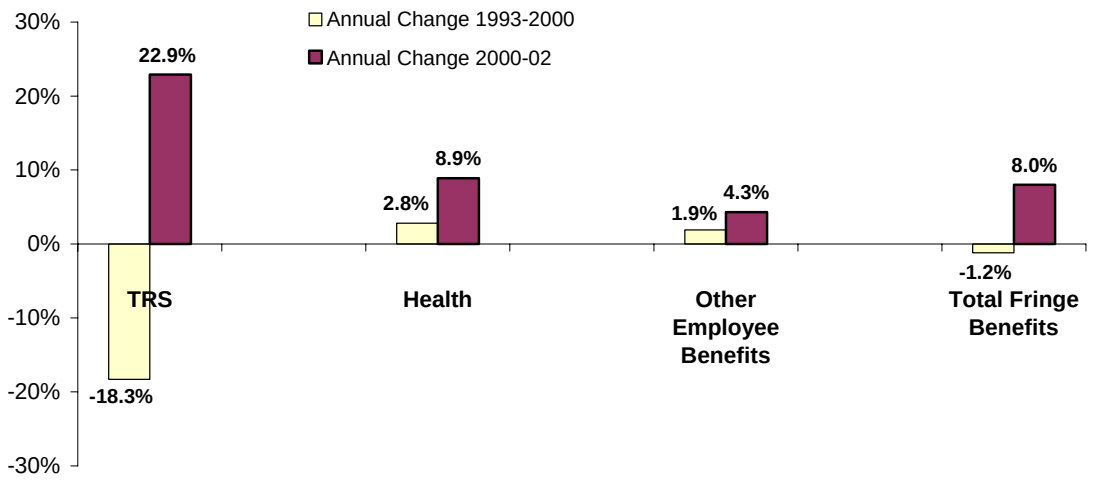
In order to find out why there was a reversal of fringe benefit growth rates, the three components that comprise fringe benefit expenditures in the ST-3 data were examined. The first of these, teacher retirement expenditures, are the payments made for individuals belonging to the New York State Teachers' Retirement System (TRS).[2] The second component, health, includes primarily hospital, medical, and dental coverage for employees. The third, referred to as Other Employee Benefits (OEB), includes items such as Social Security and workers' compensation. As Table 4 and Figure 2 show, the reversal of growth rates was due largely to the changes in growth rates of the TRS component of fringe benefit expenditures.

Table 4: The Change Statewide of the Three Fringe Benefits Components 1993-94 to 2001-02, in 1993-94 Dollars

Period	TRS	Health	OEB
Total dollars 1993-1994	$ 1,045,843,727	$ 1,449,535,678	$ 1,606,977,224
Total dollars 1999-2000	$311,323,237	$1,714,847,678	$1,797,041,510
Total dollars 2001-2002	$470,540,175	$2,033,132,418	$1,953,428,853

[2] The payments made by school districts on behalf of employees belonging to the New York State Teachers' Retirement System are set by this system, which is an independent New York State agency.

Figure 2: The Annual Growth Rates of Three Components of Fringe Benefits in Two Periods: 1993-94 to 1999-2000 and 1999-2000 to 2001-02, Based on Constant 1993-94 Dollars



- During the entire period, health benefit expenditures increased 40.3 percent when adjusted for inflation. Declines in TRS expenditures from 1993-94 to 1999-2000 offset increases in health benefits. The sharp increase in TRS benefit expenditures from 1999-2000 to 2001-02 meant that some districts could no longer offset rising costs in health benefits with savings in their TRS expenditures.

A Look at the Growth of Fringe Benefits by Need/Resource Category

SED classifies school districts according to their degree of financial need and fiscal capacity as measured by a need/resource capacity index. The need/resource categories group districts according to socio-economic conditions within each district and the ability of each district to meet student needs with local resources. There are six need/resource categories.[3]

[3] For further information on the need/resource categories, including details on how the index used to classify districts is calculated, see the New York State Education's "Similar Schools: A Descriptive Overview," available on-line at: http://www.emsc.nysed.gov/repcrd2003/information/similar-schools/guide.html.

Table 5: Fringe Benefit Expenditures per Employee, 1993-94 to 2001-02, by Need/Resource Category, in 1993-94 Dollars

	NYC	Big Four	High Need Urban/ Suburban	High Need Rural	Average Need	Low Need
1993-94	$21,218	$19,187	$20,084	$15,385	$18,822	$22,365
2001-02	$22,702	$16,986	$17,256	$14,777	$15,941	$17,974
Percentage Change 1993-94 to 2001-02	7. 0%	-11.5%	-14.1%	-4.0%	-15.3%	-19.6%

Table 6: The Annual Percentage Growth of Fringe Benefit Expenditures, per Employee, by Need/Resource Category, 1993-94 to 2001-02, in 1993-94 Dollars

	NYC	Big Four	High Need Urban/ Suburban	High Need Rural	Average Need	Low Need
Annual Change 1993-94 to 2001-02	0. 9%	-1.5%	-1. 9%	-0.5%	-2. 1%	-2. 7%
Annual Change 1993-94 to 1999-2000	-2. 2%	-2. 6%	-3.0%	-2.0%	-3.6%	-4. 3%
Annual Change 1999-2000 to 2001-02	10. 5%	1. 8%	1. 7%	4.2%	2. 8%	2. 2%

- New York City was the only need/resource category that had an increase in inflation-adjusted fringe benefit expenditures per employee in the overall period from 1993-94 to 2001-02 (7.0 percent). (See Table 5.)
- New York City's TRS component of fringe benefits decreased from 1993-94 to 2001-02 by 0.4 percent per employee. The five other need/resource categories' TRS expenditures declined by 18.9 percent to 27.6 percent per employee. (See Table 7.)

Table 7: The Annual Percentage Change of Three Fringe Benefit Components per Employee, 1993-94 to 2001-02, (in 1993-94 Dollars)

NRC	TRS		
	93-94 to 01-02	**93-94 to 99-00**	**99-00 to 01-02**
NYC	-0.4%	-16.4%	68.5%
Big Four	-18.9%	-20.3%	-14.5%
H N Urban	-21.6%	-19.9%	-26.3%
H N Rural	-21.2%	-20.2%	-24.2%
Average	-22.2%	-21.4%	-24.8%
Low Need	-27.6%	-24.1%	-37.1%
	Health		
	93-94 to 01-02	**93-94 to 99-00**	**99-00 to 01-02**
NYC	1.6%	0.4%	5.1%
Big Four	2.2%	0.3%	8.0%
H N Urban	2.6%	1.5%	6.2%
H N Rural	4.5%	3.3%	8.1%
Average	2.5%	1.1%	6.6%
Low Need	1.7%	0.0%	6.8%
	OEB		
	93-94 to 01-02	**93-94 to 99-00**	**99-00 to 01-02**
NYC	1.0%	0.6%	2.2%
Big Four	-0.0%	0.4%	-1.4%
H N urban	0.4%	0.2%	1.1%
H N rural	0.1%	-0.9%	3.0%
Average	0.1%	-0.7%	2.5%
Low Need	0.3%	-0.2%	1.7%

- In the last two years of this period New York City's TRS expenditures per employee ***increased by 68.5 percent per year, while for all the other need/resource categories TRS expenditures continued to decline.*** These declines ranged from 14.5 percent to 37.1 percent per year (when adjusted for inflation).

- New York City's expenditures on total fringe benefits from 1993-94 to 2001-02 rose largely due to a dramatic increase in TRS expenditures in the last two years of the period. However, the other need/resource categories continued to see overall decreases in fringe benefit expenditures per employee (Table 5). The reason for these declines is that TRS expenditures continued to decline, offsetting increases in health and OEB expenditures (when adjusted for inflation). (See Tables 5, 6, and 7.)

- The high need rural districts had annual growth of 4.5 percent in health expenditures per employee during the entire period. This was nearly twice the rate of any other need/resource category. At the same time, the total employee count for the high need rural districts increased by 12.3 percent during this period; this was the largest percentage increase of any need/resource category and it occurred despite a 7.0 percent decline in enrollments. The high need rural category was the only need/resource category that declined in enrollments between 1993-94 and 2001-02.

- Inflation-adjusted health benefit expenditures in the high need rural districts increased from $98 million in 1993-94 to $157 million in 2001-02, a 59.6 percent increase. This was the largest percentage increase in health expenditures of any need/resource category. Increases in health expenditures in other need/resource categories (in total 1993-94 dollars) ranged from 28.0 percent for New York City to 44.4 percent for the high need urban/suburban districts.

- Every need/resource category saw significant increases in health costs throughout this period. These annual increases were 1.6 percent for New York City, 1.7 percent for the low need districts, 2.2 percent for the Big Four, 2.5 percent for the average need districts, 2.6 percent for the high need urban districts, and, as previously noted, 4.5 percent for the high need rural districts (Table 7). This trend will likely continue into the foreseeable future.

CONCLUSION

During the 1993-94 to 2001-02 period, the annualized growth rate in fringe benefit expenditures in school districts across New York State was roughly one-third that of non-fringe expenditures (1.0 percent annually vs. 2.8 percent in the non-fringe categories). Throughout much of the 1990s a rapidly appreciating stock market meant that many school districts enjoyed diminished payments into the Teachers' Retirement System, largely as a result of strong pension fund performance. By the 1999-2000 school year, however, this pattern reversed, in particular for New York City. This

reversal meant that fringe benefit expenditures started to increase at a rate greater than that of non-fringe expenditures.

The recent increase of the annual growth rate of fringe benefits will, in all probability, continue. This trend has initially manifested itself most strongly with New York City, which has a separate teachers' retirement system. The State Teachers' Retirement System recently stated (November 2003) that increases in TRS expenditures can be expected for the foreseeable future for all districts in New York State.[4] Since health costs will likely continue to rise as will OEB costs, which include Social Security payments, school districts will face difficult choices in developing their budgets. Budget pressures caused by growth in fringe benefits expenditures may reduce available resources for instructional services to students. Examples of future possible impacts are: an inability to hire more and/or better teachers, deferring facilities maintenance and capital construction, and reducing purchases of instructional materials.

[4] See administrative bulletin numbers 2003-10 and 2004-1 at the New York Teachers' Retirement System web site: http://www.nystrs.org.