

To: Mayor Masiello

From: Tracey Helton, Analyst State Department of Education

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Re: Crisis in the Buffalo School District

Introduction

The Buffalo School District is facing a financial crisis that could force the City into bankruptcy. Unfortunately, it could be argued that this is a crisis that could have been prevented or mitigated before the New York State Court ruled in favor with the local teachers' union. The school district could be forced to pay a judgment that could total as much as \$200 million dollars during a time when there is already a large deficit. Although an adverse ruling for the district had not been anticipated, the District fell short in planning for this scenario. This seems to be a pattern for a district already suffered from decades of planning errors, financial mismanagement, and failures with leadership. At a critical time when many jurisdictions are looking toward the future with civil service reform and succession planning (Selden 2001), the City of Buffalo is searching for solutions to past errors.

The journey into financial chaos has been a slow but deliberate process, starting with the economic downturn in Buffalo. As the industrial base left in the nineteen seventies and eighties, so did the citizens. This was a big piece the tax base that supported the schools declined as the educational needs of the students increased over time. The city and school district were forced to divide up the sales tax. At the same time, the City

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revenues remained static due to a provision in the state constitution that placed restrictions on property taxes. The budget continued to grow, eventually past that of the City of Buffalo, yet a quirk in New York State law gave the district no independent taxing authority.

The relationships between the state, the school board and local government became a barrier to effective leadership- "...one cannot make it easily clear to everyone just where administration resides in the various departments of any practicable government without entering upon particulars so numerous as to confuse..." (Wilson 1887). The district became dependent on the state and the city became a competitor to fill any budget gaps.

The final blow to the district has been a combination of dismal labor relations and litigation. Between having to comply with desegregation mandates, a mayor that was unwilling to negotiate, and inflexibility in dealing with grossly underpaid educators, the district became unwilling or unable to face a growing number of financial burdens. The district has never recovered from these difficulties. The financial judgment for the teachers' union is the final wake up call for the city and the district to address organizational deficits.

A citizen in Buffalo could pose the question- "how did we get here?" In *The Transformation of Governance* Kettl outlines a concept of the citizen as a consumer of government. The City of Buffalo is being called upon to deliver a higher level of customer service. The public administrators have a duty to fix these problems. The players responsible for management need to be flexible and responsive to changes in the

external environment. A plan needs to be put in place to turnaround the finances and future of the city.

In looking towards a comprehensive solution to the problems, it is important to analyze the issues in greater detail. The main issues influencing the crisis in Buffalo cover four key areas. These are fiscal planning, management, agency collaboration, and labor relations. Finally, I will provide recommendations to consider in the process of finding solutions.

Analysis

Fiscal Planning

Budgeting and planning are key element to the ultimate success or failure of a project. Unfortunately for the citizens, the school district has been proceeding incrementally in creating new budgets. Instead of being based on outcomes or performance measures, the district has been trying to play catch up in the formation and balancing of the annual budgets. The assumption on the part of the leadership was that more money would somehow be available to fix the problems of the district. While this was true when the State of New York was forced to assist in Buffalo adhering to the desegregation mandates, the district could not continue to receive up to seventy five percent of their funding from the state.

The budget process faces "... a natural resistance to change familiar executive and legislative budget processes, and understandable reluctance to start a process of change whose benefits may span beyond the terms of the elected officials involved" (Friedman 1995). By assuming an increase in revenues, the district failed to operate in an efficient manner. Instead of searching for solutions, the district was searching for dollars. This was to place a short-term patch on long-term financial problems.

Although some in the city argued that Buffalo was shortchanging the students, by the 1994-95 Academic Year spending per pupil was one of the highest in the state. As part of acting for the public good, the leadership has a responsibility to ensure a quality education for the citizens of Buffalo (Denhardt 1988). The question that should have been raised was one of what the district was getting for the money it was spending on the students. Unfortunately, no analysis was conducted to determine if the influx of funding was being used efficiently to further the educational needs of the students. At one point, the budget for the district was approaching three times the budget of the city.

The leadership was aware that the budget was constrained by three factors: decreasing state assistance, cap on property taxes, and decreasing percentage of revenues drawn from the general fund of the city. This should have been a catalyst for a systematic analysis of expenditures and program priorities such as a cost-benefit analysis. A cost-benefit analysis aims to identify all relevant costs and benefits, usual expressed in dollar terms (GAO 2005). An opportunity for change was ignored as the problem increased over the years. By the time the teachers won their judgment, the finances of the district were already at a crisis point. Now, the city must make some difficult financial decisions that require superior management skills.

Recommendations

- *Create a city-state partnership to address the financial problems faced by Buffalo.*
Essentially, the state would be responsible for taking over the school on a temporary basis. The financial problems of Buffalo are beyond the scope of what can be handled on the local level. As a dependent district with limited taxing authority, it is imperative that the district receive a commitment from the State of New York. In cooperation with the

state, the Board of Education, Superintendent of Schools, teachers, the business community, and parents should create a transitional plan to guide the next few years of operations. The goal of the plan will be to implement financial controls, performance standards, outcome measures, and improve academic achievement.

Approaching the legislature with a cost-benefit analysis of the plan would be an excellent first step. The economic impact to the region if Buffalo is forced to declare bankruptcy far outweighs the cost to the state. Business leaders should be actively involved in construction of the analysis, as the private sector tax base provides much of the income that will be redirected towards the district.

Another important step would be to conduct a SWOT analysis for the district. While a tool primarily used in private industry, analysis of the strengths, weaknesses, opportunities, and threats of the district would be important to crafting the transition plan. The plan will need creativity and insight into all aspects of the finances of the district. The committee may want to enlist the services of a consulting firm or specialist in this area.

A committee to draft the transition plan should be formed immediately. To be successful in proposing it to the state, the city needs to garner the support of the local legislators to sponsor the plan. It would also be of great benefit to recruit local and state business leaders to chair the committee. Parents and community leaders could also provide valuable resources.

The plan should be crafted with guiding principles. In Scenarios: The Art of the Strategic Conversation, Van Der Heijden describes a four part process where an organization asks:

- 1. What pivotal events remain important lessons for the future?*
- 2. What major decisions with long-term implication does the organization face in the next few months?*
- 3. What are the major constraints inside and outside the organization?*
- 4. What do you want to leave behind as a legacy?*

The transition plan should be guided with similar questions. The work of the committee with the work of a legislative sponsor should be able to persuade the State of New York to partner with the city.

A state sponsored turnaround has been successful in other cities around the country. While bankruptcy is an alternative, it does not adequately address the long standing internal problems of the district. A partnership with the state would allow the district to have the financial resources necessary to turn the district back to stable fiscal footing. At the same time, the partnership provides the state control over the transition. The state officials will need to be assured that the funds are being used appropriately and efficiently, with the goal of decreasing dependence on state resources.

According to Christopher Briem, a regional economist at the University of Pittsburgh's Center for Social and Urban Research, more than 500 municipalities have gone bankrupt and have restructured their debt under federal bankruptcy laws. In describing a similar situation in Pittsburg, Briem argues: "Years of image-building will be lost as the rest of the country will not distinguish a crisis in the city and the greater region that bears its name. Bankruptcy will either force the city out of the municipal bond market for many years or make such borrowing far more costly than necessary". Buffalo needs to think in the long-term and avoid bankruptcy.

Finally, the struggle with the teachers and retirees will continue with no real resolution if the city declares bankruptcy. The ill will between the labor and the management in the district is a real concern in the educational environment. In many respects, a policy window has opened as the crisis has made the district ready for widespread re-organization (Kingdon 1984). Declaring bankruptcy to avoid paying the teachers will only exacerbate the problems of the district. This will be further articulated in the human resources section of this memo.

Management

The efficient allocation of public resources for the benefit of the citizens is the duty of all public administrators. The management of those resources fell short in Buffalo. The management process was side-tracked by personal differences, politics, and control issues. The management should have recognized that innovation, strategic decision making, and flexibility would be the keys in raising performance for the district.

One of the first steps that could have been taken by the leadership was to look at innovative programs being implemented at other schools in similar economically depressed districts. Former Buffalo School District Board Of Education President Donald Van Emery asserts that planning was nearly impossible due to the dependent financial structure of the district. However, this structural anomaly made innovation a critical tool for management. Adversity could have forced innovation, had they taken advantage of the opportunity.

One example of an organization forced to innovate is the Baltimore City Public School System. The BCPSS was faced with both decreasing revenues and increasing

educational challenges. The district faced a similar situation as Buffalo- being taken over by the state. By April 1997, the State legislature created 50 pages of reforms for the new city-state partnership. One of the ways the system worked with the State of Maryland was creating a transition plan for dealing with increasing external and internal pressures on the district. The Baltimore City Public School System now has defined two overarching goals "...improving student achievement and establishing effective management systems in support of quality instruction" (BCPSS 1997). One of the main management failures in Buffalo included in-fighting instead of innovation.

Another shortcoming for the management of the district has been the inability to see the "big-picture" and plan for the future. It could easily be argued that the existing crisis could have easily been prevented if only the board would have passed the 1990 version of the teachers' contract. Not only did the contract bring the salaries closer to the prevailing wage for the area, it also contained hefty concessions in healthcare costs on the labor side. The contract contained concessions from both sides, now the district is left with strained labor relations.

The contentious point for the board members in the 1990 contract was the amount of the raises in salary. Some of the members of the Board of Education thought that the contract was going to drain the funds of an already financially challenged district. The strategic thinking process is a sequence of questions that include "what are we doing?", "what could we be doing?", and "what should we be doing?"(Prahalad 2004). The Board failed in engaging in strategic decision making because it did not adequately consider all the alternatives. In a close vote, the contract was shot down by the board. This eventually

cost the leadership the ability to plan a long-term strategy that could have avoided the current crisis.

Flexibility in management could also benefit the district. The Public School System in Emeryville, California experienced a two year turn around into solvency after being taken over by the state. The new superintendent worked to pass a new parcel tax, rented out school facilities, and even sought donations from foundations and businesses to turn the school around after years of mismanagement (May 2003). Typical cost cutting measures simply were not enough to save the district. To find a set of workable solutions, the district had to be both innovative and flexible enough to work with new partners.

Recommendations

- *Investigate performance evaluation and incentives for teachers.*

The current district is in no financial position to implement new pay programs. An alternative is a non-salary performance incentive program based on performance evaluations. Regular performance evaluations "...are the cornerstone of a system that values quality employees and gives employees the direction and feedback they need (CCSF 2005)". In the past, members of leadership in the district have balked at salary increases for teachers. They have even felt some were not deserving of these increases. While all increases are negotiated through the collective bargaining agreements, performance incentives are a win-win. Both side make concessions, both sides receive benefits. They will provide the district a tool for improving performance while at the same time rewarding teachers who maintain the highest academic standards.

While performance incentives for teachers may be a controversial idea, it is not without precedent in other districts. Research has shown that teachers have shown an interest in incentives such as stress management, being able to attend conferences, and supervisory experience gained through working with student teachers (Kaltsounis 1985). Another example can be opportunities for home ownership. In other school districts the city, local lending agencies, and builders have developed partnerships to provide teachers an opportunity to own a home. In Texas, the Legislature made it affordable for Texas teachers to buy a home by providing low down payments and low interest rate mortgages. Texas Teachers Home Loan Program works the non-profit Texas State Affordable Housing Corporation (TSAHC 2007), for-profit lenders, and local government. Through the Professional Educators Home Loan Program, they provide teachers with a non-salaried incentive to stay within the industry and within the area. Various requirements can be used by management as a standard for eligibility such as tenure, income, and commitment to work in underserved community schools.

Human Resources

According to Kay Cole-James, the Director the United States Office of Personnel Management

“...cooperation between labor and management can enhance effectiveness and efficiency, cut down the number of employment-related disputes, and improves working conditions, all of which contribute to performance and results.”

Therefore it is the “...important responsibility of labor and management to work together to deliver the best possible service.” (2002 memo)

Labor relations in Buffalo have been dismal at best. The relationship between the district and the employees has included two strikes and bitter feelings. It is unclear what effect the legal judgment will have on the overall future of labor relations between labor and management. The two sides need to come together to create a workable solution for the district.

Teachers' salaries have failed to keep pace with those of other districts, even during the decade of huge financial expansion of 1978 and 1988. By the time the 1990 contract was proposed, a salary adjustment was proposed of \$15,000 and up for experienced teachers. It was determined that their compensation was grossly below that of similar districts. The adversarial relationship between the district and the teachers is an environment ripe for change. In the past, many members of the board have had an attitude that money given to the teachers was money taken away from the students. This simply was not the case. The teachers are the key to learning for students. Good teachers should be prized for the hard work that they do by the district.

Respectful treatment and adequate compensation are necessary elements in creating a successful educational environment. Now that salaries have been adjusted in the current contract to bring them closer to prevailing wage, the district has an opportunity to rebuild the relationship with the teachers. Turnover costs per teacher in Milwaukee, a similar sized district, was found to be \$15,325 per exiting educator (Barnes et al 2007). If salaries are not negotiated with this in mind, the district can continue to expect an exodus by teachers to better paying districts. By looking at the turnover costs, it becomes clear that teacher retention should be a priority for the management. Instead of forcing teachers

out with low wages, the management should be investigating opportunities to improve the performance of those already in the district.

Collaboration

The lack of collaboration between the leadership in Buffalo failed in three areas. First of those would be the relationships between the relationships that existed between the Board of Education and the State of New York. Second of those would be the relationship between the Mayors of Buffalo and the Board of Education. The lack of collaboration within the Board was the final relationship that adversely impacted the district. Collaboration will be critical for the district to be able to leverage scarce resources and overcome huge budget deficits. The problems of the district will require transparency between the collaborating partners and the community at large that has not existed up to this point.

The dependent nature of the district on the state made it difficult for the two to be true collaborative partners. By the time of the 1990 contract, the state was facing huge deficits. It could not be depended upon for the additional funds needed to make the board secure in voting yes on the teachers' union contract. In a true collaboration, the partners work together to secure the best outcome for both the involved parties. Politics puts a strain on these relationships. As elected representatives, the governor and legislature are involved in the game of policy making and implementation (Theodoulou & Kofinis 2004). Providing Buffalo with additional funds during an election cycle would have been political suicide for the state officials.

Secondly, the teachers have never been seen as collaborative partners. According to a 1996 report What Matters Most: Teaching for America's Future:

1) What teachers know and can do is the most important influence on what students learns; 2) recruiting, preparing, and retaining good teachers is the central strategy for improving our schools; and, 3) school reform cannot succeed without creating the conditions in which teachers teach well. (NCTAF 1996)

The district should capitalize on the skills of the educators as the single most valuable resource available to reach the students. Instead of seeing the teachers' salaries as a drain on the district, the salaries should be re-framed as an investment into the future of the students and the community. The students are Buffalo's future doctors, lawyers, business leaders, mothers, and neighbors.

Finally, the Buffalo Board of Education has a long history of factions. In looking at the history of public administration, Madison would advise that the board members roles would principally entail political negotiation, compromise and bargaining to fulfill the will of the people (Box 2003). The board has gone from political appointment to elected officials, but the result has been the same. The trend towards a divided district starts at the leadership. For the district to launch a recovery effort, the board will have to find a way to work together for the greater good.

Recommendations

- *Reach out for collaborative partners*

The problems experienced by the district are so complex that they require more than one solution. Therefore, it will be critical for the district to develop collaborative partners (Goldsmith and Eggers 2004). The working group created to guide the transition will identify opportunities for public-private partnerships that could create value for the district and the community at large (Rosen and Gayer 2007). This could come from

corporations, non-profits, foundations, and individuals. The district should investigate the possibility of contracting out services if they identify suitable partners. It should explore new sources of revenue through sponsorship. The district should engage members of the community with special skills that could be utilized by the transition team to make the effort a success. For example, the board may want to recruit a parent or community member with specialized financial skills to sit on the transition committee. While funding may be static, creative solutions could be engaged to more efficiently leverage the resources of the district.

Critical to this effort will be creating collaboration with the teachers. The introduction to interest based bargaining could be an important step to repairing the relationship with the teachers in the district. According to the recent report Reducing the Achievement Gap Through District/Union Collaboration:

“Interest based bargaining is a process that enables negotiators to become joint problem solvers. It assumes that when both parties focus on solutions, the result is more durable and satisfying to all parties.” (NCTAF2007)

Interest based bargaining (IBB) was successfully introduced into the school district in Clark County, Nevada when labor relations has reached an all time low while the population reached an all-time high. The Clark County School District (CCSD) worked with the teachers collaboratively with excellent results. By 2006, the dropout rate decreased, test scores increased, more school were ranked “exemplary” and “high achieving” by the state, and more students graduated from high school. While the CCSD may not be in the same financial position as Buffalo, the introduction of IBB could be a

success on many levels and create long-term solutions for the district through collaboration.

The district may also want to consider implementation of a new mission statement, rules, and code of conduct for members of the board. The board should be asking:

“Does the...political system provide a safe haven for privileged economic interests, or does it ensure competition among political ideas, constantly providing opportunities for those on the losing side to reverse their fortunes?”

(Baumgartner and Jones 1993)

A spirit of collaboration between board members will be a key element in a blueprint for recovery in Buffalo. Politics must be put aside to focus on a huge task- leading the district through the impending transition.

Conclusion

Buffalo is at a turning point. The decisions that are being made today will impact the city, the citizens, and the future. In the wake of decades of change, financial mismanagement, and disorganization the City of Buffalo needs to prepare for the long road ahead to reaching solvency. By implementing the strategies outlined in the memo, Buffalo can work to avoid bankruptcy while rebuilding relationships with the educators. The problems of the district are not unlike those of others that have successfully been turned around through state intervention then returned to local management. As the mayor of Buffalo, it is time for the leadership to emerge to steward Buffalo out of crisis and into action.

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