

POLICY REPORT

School Finance and the 2019-20 Executive Budget

FEBRUARY 2019



Governor Andrew Cuomo's 2019-20 Executive Budget proposes a \$956 million (3.6 percent) increase in School Aid.

Aids appearing on School Aid runs would increase by \$748 million, or 2.8 percent. The proposed increase also includes \$50 million devoted to categorical initiatives which have not customarily been counted within what is referred to as "School Aid." Of the remainder, \$157 million is proposed as a "Fiscal Stabilization Fund" to be allocated within the final, enacted state budget.

The Budget also proposes consolidating 11 currently separate expense-based and other aid categories into "Services Aid" commencing with 2020-21 aid. Future growth would be based on inflation and pupil count changes, rather than actual district expenditures.

For school capital projects gaining local approval on or after July 1, 2019, the Budget would establish a new tier of Building Aid which would reduce state reimbursement levels.

Other aids appearing on School Aid runs would be funded according to current law formulas for the 2019-20 school year.

The Budget would also phase-in requirements for how districts allocate funds among schools.

Foundation Aid

The Executive Budget would provide a \$338 million, 1.9 percent, increase in Foundation Aid.

The increase would be allocated through a five-step calculation. First, each district would receive aid under the most favorable of four tiers:

- One would allow New York City an increase equivalent to 11.934 percent of the difference between its 2018-19 Foundation Aid and its aid under the fully phased-in formula; other districts would be allowed increases equivalent to 0.5 percent of the difference.
- A second option would benefit districts with below average ability to fund education from local sources and a percentage of students eligible for free or reduced-price lunches greater than 31.5 percent.
- A third would be targeted to districts with property wealth per pupil below 80 percent of the state average.

Composition of Executive Budget School Aid Increase

Category	Increase in Millions
<u>Formula School Aid (on runs)</u>	<u>\$747.7</u>
Foundation Aid	338.0
includes additional \$50 million Community Schools set-aside	
<u>Expense-Based and Other Aids</u>	<u>409.7</u>
Other School Aid*	51.6
<u>Fiscal Stabilization Fund</u>	<u>156.6</u>
<u>Total School Aid</u>	<u>\$955.9</u>

* "Other School Aid" includes:

Expanded Prekindergarten for 3 and 4 year-olds	15.0
Empire State After School Program	10.0
Early College High Schools	9.0
Expanded Advanced Placement/International Baccalaureate Access	3.0
We Teach (Teacher Diversity) Initiative	3.0
Alternative Discipline Training	3.0
Improving Mental Health Services	1.5
Master Teachers	1.5
Online Mathematics Fluency Games	1.5
Refugee & Immigrant Student Welcome Grants	1.5
Recovery High Schools Start-Up Grants	1.0

* Most of these items have not customarily been counted as "School Aid."

KEY POINTS

- The \$956 million increase in **total School Aid** recommended in the Executive Budget is less than half the levels recommended by the Board of Regents and the Educational Conference Board.
- Included within the total increase is a \$338 million (1.9%) increase in **Foundation Aid**. The proposal generally provides larger percentage increases to lower wealth/higher student need districts, but the size of the increase just does not go far enough. With the Executive Budget recommended increase, the state would remain \$3.8 billion behind in phasing in the permanent law formula and would require at least 10 years to reach full-funding with annual increases of that amount.
- \$50 million of the proposed School Aid increase would be in the form of an increased set-aside within Foundation Aid for **Community Schools**. Council surveys show mounting concern among superintendents about the non-academic needs of students attending their schools and Community Schools are a strategy for schools to help meet those needs. But THE COUNCIL is concerned by the expanding precedent of directing the use of Foundation Aid through set-asides. The budget proposes an additional \$50 million set-aside for Community Schools, reducing the Foundation Aid increase available as unrestricted operating support to \$278 million (1.6%).
- The Executive Budget proposes to consolidate 11 aid categories, including Transportation and BOCES Aids, into “**Services Aid**” commencing in 2020-21. Then and thereafter, districts would no longer be reimbursed for expenses actually incurred. Instead, districts would receive the sum they received in the prior year, multiplied by a factor based on change in inflation and students.

The proposed growth factor would not help districts with exceptional costs beyond their control, such as a future spike in fuel costs or additional students attending charter schools or out-of-district special education programs. The cap on BOCES Aid would be especially damaging for the poorest school districts which rely on BOCES shares services to provide opportunities for their students which they could not afford alone.

- The Executive Budget would establish a new tier of **Building Aid** providing reduced state reimbursement for construction projects receiving local approval on or after July 1, 2019.
The proposals would reduce state reimbursement for school district capital costs, increasing the local share of these costs and imposing additional demands to be accommodated within the property tax cap. Although prospective, changes could force districts “back to the drawing board” with projects now well-along in planning, as cost estimates would change. Future reimbursement rates could also change each year, so district leaders would lose the ability to give voters any assurance that the state will reimburse a consistent share of a project’s cost while debt is being paid off.
- Under the Budget’s proposal to require “**Equity Plans**,” any district with at least two schools at any level (e.g., two elementary schools) could become subject to a state formula directing how part of any Foundation Aid increase is to be allocated among schools. Not every spending disparity the formula identifies will be an inequity. A few years difference in average teacher experience, a few more special needs students, or variations in school building size could trigger the mandate. The proposal would supersede judgments made by local educators and elected boards with a clumsy state formula which is likely to compel pointless reallocations, anger some parents, and satisfy no one.
- The Budget would make the **school property tax cap** permanent. This should not be done without changes, including allowing districts to exclude the local share of BOCES capital costs, as they can now exclude the local share of district capital costs, and to realize revenue outside the cap from tax base growth generating payments in lieu of taxes, as they can now realize revenue outside the cap from tax base additions which generate property taxes. The allowable levy growth factor should also be set at a minimum of 2 percent.
- The Budget would restrict benefits and reduce eligibility for the **STAR property tax relief** exemption program to steer more taxpayers into the STAR tax credit program. The exemption program gives homeowners a reduction in their property tax bill, while the credit programs requires pay their full school tax bill and wait for a check from the state. Taxpayers and school district leaders are already concerned about the impact of the cap on federal tax deductions for state and local taxes. This change could compound taxpayer anxiety.

- The fourth would assure all districts an increase in Foundation Aid of at least 0.25 percent over their 2018-19 amounts.

Further, as explained below, 173 districts would receive additional Foundation Aid totaling \$50 million as an increased set-aside for Community Schools. Excluding the additional funding provided as Community Schools set-asides reduces the Foundation Aid increase available to support current services to 1.6 percent.

Reaction: If the proposed Foundation Aid increase were enacted, the state would remain \$3.8 billion behind in phasing-in the permanent law formula. At the rate suggested by the Executive Budget, more than 10 years would be needed to reach full phase-in funding.

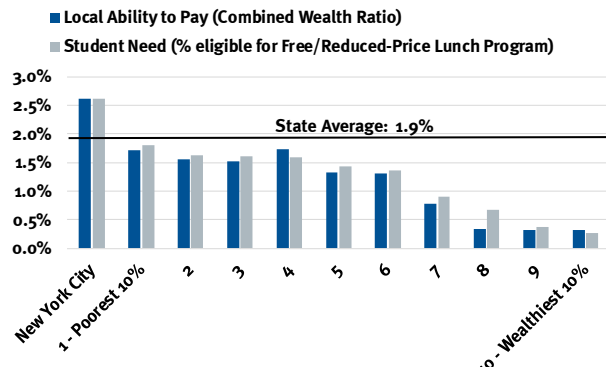
A fifth of the state’s school districts would remain more than 25 percent below their full phase-in amounts. Their increases would average less than 1 percent and they are predominantly average wealth or below. On average, 37 percent of their students are poor enough to qualify for free or reduced-price lunches.

A quarter of the state’s school districts would receive only a 0.25 percent increase, the minimum prescribed by the proposed formula. About half these districts are deemed to be “average need” by the State Education Department’s classifications.

The distribution of the recommended increase is generally progressive, directing larger percentage increases to higher student need, lower wealth school districts. Again, however, increases are low.

The Governor has asserted that current debates over Foundation Aid bear no relation to court rulings in *Campaign for Fiscal Equity v. State of New York* which found that the state’s system of school finance caused some children to be denied the state constitution’s promise of the opportunity for a sound basic education

Distribution of Proposed \$338 Million Foundation Aid Increase
Districts grouped by measures of local ability to pay and student needs



SOURCE: NYSOSS analysis of NYSED School Aid data

But even leaving aside arguments over what is or is not required of the state from the CFE rulings, something resembling the Foundation Aid formula is desirable, as a corner-stone in building a school finance system that supports more effective multi-year planning.

The formula generally drove the greatest aid to the neediest districts – and still does. It used factors that could be understood and debated, making funding decisions more transparent and accountable. It promised all districts greater predictability in aid going forward. Schools in other states have this, and ours once did as well.

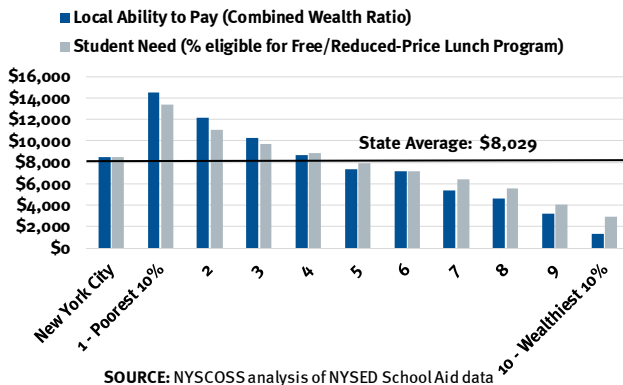
But merely phasing in the formula that was first enacted in 2007 is not enough. So much has changed in 12 years. Student needs have grown, and we did not have a property tax cap when Foundation Aid was first enacted, for example.

THE COUNCIL supports the Educational Conference Board’s call for the state to commit to fully phase-in the Foundation Aid formula over three-years and to embark on studies to update elements of the formula, including the weightings used to account for pupil needs and the per pupil amount needed to prepare students for success.

We also support restructuring the index intended to recognize regional cost differences and eliminating the minimum limit on the Income Wealth Index which overstates the ability of some communities to support schools

from local sources. The formula as it stands now does not work for many districts, including the 45 percent of average need districts and 42 percent of high need rural districts on save-harmless for 2018-19 aid.

Fully Phased-in Foundation Aid per Pupil (with Save-Harmless)
Districts grouped by measures of local ability to pay and student needs



“Equity Plans” – State Control over School Budget Allocations

The Executive Budget proposes to require districts with schools deemed “underfunded” and “high need” relative to their other schools to allocate part of their Foundation Aid increase to leveling-up per pupil expenditures. The amount required to be used would be 10 percent of the Foundation Aid increase times the number of schools, up to a cap.

Reactions: *THE COUNCIL* urges rejection of this proposal to supersede judgments of educators and elected school board members with a clumsy state formula. Most school spending is for personnel. If the formula requires adding \$40,000 in a targeted school, does the district hire half a teacher? Does it reassign a social worker part-time? Does it buy more technology just to hit that target?

Not every spending disparity is an inequity. A few years difference in average years of experience among teachers could produce a large enough expenditure difference to trigger the mandate. Building size can also affect per pupil costs. A few children with expensive special needs can drive large overall cost differences as well.

The school allocation reporting now required by state and federal law will illuminate local school spending decisions. Where actual inequities are brought to light, that should spark discussions at the local level and that is where these funding decisions should be made.

Community Schools Set-Aside

As noted above, \$50 million of the proposed \$338 million increase in Foundation Aid would be directed through a new Community Schools set-aside, on top of set-asides totaling \$200 million in 2018-19. Districts would receive the greater of either a formula increase, or the sum needed to bring their total set-aside to \$100,000. The formula increase would be targeted to districts with one or more schools designated as struggling or persistently struggling, or dramatic increases in students who are English Language Learners since 2013-14.

A total of 173 districts would see increases in Community School set-asides, including seven districts targeted for set-asides for the first time.

Districts would be required to use the new set-aside for child and family support services, including before- and after-school programs, summer learning activities, medical and dental care, and other social services. Districts would not be allowed to use any increase to support “...other costs incurred to maximize students' academic achievement,” as has thus far been permitted.

Reaction: *THE COUNCIL*'s [eighth annual survey](#) of superintendents on financial matters found evidence of growing concern about the needs of students are bringing to their schools. Community Schools can help districts offer pivotal extra support to children and families. *But THE COUNCIL* objects to the expanding precedent of directing use of Foundation Aid, which is intended to be unrestricted general purpose operating aid.

Districts require adequate funding for basic operations. Excluding the set-aside, the net proposed increase in Foundation Aid is only 1.4 percent for districts with set-asides other than New York City, and, for the high need cities of Buffalo, Rochester and Syracuse, averages only 1.2 percent.

The Legislature should also reject the proposal to deny districts flexibility to use increased Community Schools funds to improve student academic achievement, as allowed in the past.

Services Aid

The Executive Budget proposes to consolidate 11 aid categories, including Transportation and BOCES Aid, into a single formula – “Services Aid.” Under current law, most of the aid reimburses districts for expenses incurred in the prior school year, with the result that aid can increase or decrease as costs rise and fall.

Under the proposed formula, commencing in 2020-21, future aid would equal aid received in the prior year, times a factor based on change in the Consumer Price Index and change in pupils.

Aids proposed to be consolidated into "Services Aid"

	Projected 2019-20 Aid
Transportation Aid	\$1,990,494,057
BOCES Aid	971,064,306
Non-BOCES Special Services Aid	253,831,024
High Tax Aid	223,298,324
Textbook Aid	176,507,070
Computer Software Aid	45,683,372
Charter School Transition Aid	39,875,039
Hardware and Technology Aid	37,488,918
Academic Enhancement Aid	28,271,832
Library Material Aid	19,060,228
Supplemental Public Excess Cost Aid	4,313,167
Total	\$3,789,887,337

SOURCE: Compiled by NYSCOSS from NYSED School Aid

Reaction: *THE COUNCIL strongly opposes this proposal. The proposed growth factor would not help districts with exceptional costs beyond their control, such as a future spike in fuel costs or just a few students attending charter schools or placed in out-of-district special education programs, prescribed by a student’s particular*

needs. Relatively recent federal requirements relating to commercial drivers’ licenses made it harder for districts to find bus drivers and contributed to dramatic increases in pupil transportation costs.

We are especially concerned about the damage the proposal could inflict upon BOCES, which many poor districts rely upon to give their schoolchildren opportunities they could not offer on their own, including in career and technical education. For a typical high need rural district, a 2 percent property tax increase raises only about \$100,000 in revenue, making them excruciatingly vulnerable to changes in state aid.

The proposal would not take effect until the year after next, but we can model its potential impact. We calculate that if it were to go into effect next year, for example, some districts could gain, but many more would lose. Losses among high need rural school districts would exceed half what they would gain through the proposed Foundation Aid increase. For average need districts as a group, the loss would nearly wipe out their gains from the Foundation Aid increase.

Building Aid

The Executive Budget would establish a new tier of reduced Building Aid reimbursement for school district construction projects gaining local approval on or after July 1, 2019. The proposal would reduce the minimum guaranteed reimbursement rate for all school districts from 10 percent to 5 percent; reduce reimbursement for incidental costs such as site purchase and site work, equipment and furnishings, and architect and engineering fees; wealth-adjust some reimbursement rates; and eliminate the option of districts to use the most favorable of certain prior year aid ratios.

Reaction: *The proposals would reduce state reimbursement for school district capital costs, increasing the local share of these costs, thereby imposing additional demands to be accommodated within the property tax cap. While school*

districts may exclude local capital costs from the calculation determining when a 60 percent supermajority of voters is required to over-ride the cap, districts must still be cautious in seeking tax levy increases above the commonly held perception of a “2 percent tax cap.” Poorer districts, especially, are less likely to make full use of tax cap exclusions.

Eliminating the selected aid ratio option would make it impossible for districts to give voters any assurance that the state would support a consistent share of annual debt service for future construction projects.

Finally, we note that while Building Aid is projected to increase by over 9 percent next year, the cost of Building Aid for this year is down by \$165 million from the estimates of last January. Accordingly, the state is likely to spend less than the 9 percent increase now estimated.

Other Formula Aids

For 2019-20 aid, all aids except Foundation Aid would be funded according to current law formulas. Any projected increases or decreases in these aids is due to data submitted by districts and operation of formulas now in law, not changes proposed by the Governor.

Prekindergarten Aid

The Executive Budget would allocate \$834 million to fund the third year of a plan to consolidate all funding streams into Universal Prekindergarten Aid. In addition, \$15 million would be allocated to expand half- and full-day prekindergarten programs for three- and four-year-olds in high need school districts.

Reaction: THE COUNCIL supports additional funding for prekindergarten, but to successfully live up to the “universal” promise, more is needed. The Legislature and Executive should assure sufficient resources to offer full-day prekindergarten to all students in every school district. A goal should be to enable districts to design programs best responding to community

needs – for example, a strong full-day program for all four-year-olds, rather than a mix of inadequate programs for three- and four-year-olds.

Fiscal Stabilization Fund

The School Aid appropriation includes a \$157 million “Fiscal Stabilization Fund” to be allocated through legislation to be enacted with the final state budget. Funding from this source is not reflected on School Aid runs.

Reaction: *THE COUNCIL recommends prioritizing use of the Fiscal Stabilization Fund to increase Foundation Aid and career and technical education funding through BOCES and Special Services Aid.*

State Aid Data Freeze

Once again, the Executive Budget proposes to limit most of each district’s aid for both the base year (2018-19) and estimate year (2019-20) to the lesser of amounts estimated within the proposed budget, or amounts calculated based on updated data. The Budget would also limit prior year aid claims by school districts. Commencing with the 2018-19 school year, any changes to aid data would need to be submitted by November 1 of the year in which the aid is to be paid.

Reaction: *Freezing School Aid data as of the date the Governor’s budget is released has been rejected by the Legislature multiple times. Some data, through no fault of school districts, is not available in time to meet that deadline.*

School Aid Growth Cap

Since 2011, the state has had in statute caps on growth in spending for its two largest expenditures: Medicaid has been capped based on a 10-year average of a medical cost index, while School Aid has been capped based on year to year change in statewide personal income.

Reaction: *We oppose the cap in principle and are grateful that enacted budgets have nearly always exceeded the cap, as have some executive proposals. But we agree: if there is to be a*

cap, a multi-year average would provide more predictability for the state and schools. This year, the cap calculation would allow for a 6.1 percent aid increase, rather than the 3.6 percent increase the state financial plan had been projecting and which the Executive Budget would provide. But in most recent years, the final annual cap calculation has come in below estimates made earlier in the year.

Other Education Funding Items

➤ **College and Career Readiness:** We commend the emphasis the Governor’s budget places on promoting college and career readiness. We support increasing funding to assure more low-income students can participate in Advanced Placement and International Baccalaureate classes and to enable more school districts to offer these classes. They give students a headstart in college, both in credits earned and preparation for the work expected. We also support proposals to increase funding for Early College High Schools.

These actions should be coupled with increasing BOCES and Special Services Aid for career technical education and assuring that high school students may take dual enrollment courses offered by State University community colleges tuition-free.

➤ **Student Mental Health Services:** We support the Governor’s proposals to increase funding for student mental health services. We also support the ECB’s call for additional formula aid to assist enable districts to fund school safety and student well-being initiatives. Concern over this aspect of student well-being is nearly universal among superintendents – our annual survey found 96 percent of superintendents express either a high or moderate level of concern about their student mental and emotional health. THE COUNCIL supports the ECB’s call for a funding stream to help districts improve both student well-being a school security.

➤ **Expanding Teacher Diversity:** We support the Governor’s “We Teach” proposal aimed at increasing the number of teachers of color working in our schools. Our organization has established a Commission on Diversity and Inclusivity with the dual objectives of expanding diversity among superintendents and supporting schools to educate more diverse student populations and prepare all students to work and live in the diverse society they will enter upon leaving school.

➤ **Student Discipline/Restorative Justice:** We support the Governor’s proposal to provide \$3 million to assist schools in implementing restorative justice practices as alternatives to suspensions and expulsions in student discipline. But we would oppose legislation to which would seek to impose a “one size fits all” regimen upon all districts. Effective implementation of restorative justice practices involves changing school culture and is best done by local initiative.

Making the Property Tax Cap Permanent

The Governor has proposed making the school property tax cap permanent and the Senate has passed a bill to do so.

Reaction: *The property tax cap should not be made permanent without changes.*

It is imperative that a tax cap exclusion for the local share of BOCES capital costs be provided. This would create consistency with the local share of school district capital costs – those may be excluded now. Both houses of the legislature have agreed with this position, by passing bills to permit the exclusion in the last two sessions.

School districts and municipalities should also be allowed to realize additional revenue outside the cap from tax base additions which generate payments in lieu of taxes (PILOTS) as they now can with additions generating property taxes.

These would be commonsense adjustments to the tax cap, not major changes. They would

assure similar treatment for similar considerations – two forms of capital expense and two forms of tax base growth.

Going further, we recommend that the starting point for the cap be made 2 percent, rather than the current lesser of 2 percent or inflation. It is widely understood to be a “2 percent cap” now and major economic forecasts project that inflation will exceed that level for the next few years. This should be coupled with a more workable carryover provision, giving districts an incentive to hold tax increases below 2 percent when they can, to have savings they might use in more challenging years. When our tax cap was enacted, Massachusetts’ version was cited as a model; its version uses a fixed cap of 2.5 percent.

STAR Property Tax Relief

The Budget seeks to accelerate the shift in the STAR property tax relief program from exemptions which directly reduce school tax bills to a credit program which requires homeowners to pay their full tax bill, then wait for a check from the state. The proposal would cap growth in STAR benefits under the exemption program while allowing them to grow by up to 2 percent per year in the credit program. It would also reduce income eligibility for the basic exemption program from \$500,000 to \$250,000 while maintaining the higher cut-off for the credit program. The effect of these proposals would be to pressure more current beneficiaries to move from exemptions to credits.

Reaction: There is already alarm among school district leaders about how the new \$10,000 federal cap on tax deductions for state and local taxes will affect state finances and voter sentiments about school budgets. Statewide, 32 percent of superintendents identified the SALT cap as among the issues that cause concern in thinking about their district’s financial outlook, with much higher rates in downstate regions: 72 percent in the Lower Hudson Valley, 57

percent on Long Island. *We recommend rejecting this proposal at this time.*

Longer-term Outlook

The revenue shortfall announced by Governor Cuomo and State Comptroller Thomas DiNapoli on February 4 is alarming. Thirty-day budget amendments proposed by the Governor eliminate newly emerged current year and 2019-20 budget deficits without affecting School Aid. But the outlook is worrisome.

The revised state financial plan now projects a structural deficit of \$4.8 billion for 2020-21, equivalent to 4.5 percent of projected expenditures. For perspective, the Division of the Budget’s November update to the state’s financial plan projected a structural deficit for 2019-20 of \$3.1 billion, or 2.9 percent of projected expenditures. Governors are required by the state constitution to propose balanced budgets.

The 30-day amendments would authorize the Governor’s Budget Director to unilaterally impose budget cuts in the event a general fund deficit occurs, *unless* the Legislature enacts a proposal to limit its approval of bills outside the regular budget process without spending reductions or revenue increases to offset any new fiscal impact. The concern is reasonable, but the Budget Director should not have unilateral authority to cut School Aid.

Projections for State Operating Funds Budget (\$ in millions)

	2019-20	2020-21	2021-22	2022-23
Projected Structural Deficit	-	(4,759)	(4,578)	(5,152)
Structural Deficit as % of Projected Expenditures	-	-4.5%	-4.1%	-4.5%
Unspecified Cuts to Achieve 2% Spending	n/a	2,721	4,088	5,869
Surplus/(Deficit) After Cuts to Achieve 2%	-	(2,038)	(490)	717
School Aid and Total Disbursements*				
Projected Change in School Aid (\$)	956	1,094	1,252	1,277
Projected Change in School Aid (%)	3.6%	4.0%	4.3%	4.3%
Projected Change, All Disbursements (%)	1.8%	4.9%	3.2%	3.5%

*All projected *before* application of *any cuts* to achieve a balanced budget

SOURCE: Compiled by the Council from NYS Division of the Budget, *FY 2020 Executive Budget Financial Plan (Updated)*, February 2019