# POLICY REPORT

## Explaining the 2021-22 Executive Budget School Aid Proposal

### FEBRUARY 2021

School finance is an inherently complex subject and New York is a complex state, comprised of America's largest city, smaller and poorer urban centers, sparsely populated rural communities, and increasingly diverse suburbs.

So it should not be a surprise that New York's system for allocating state funding to support public schools in all those communities is both complex and complicated—consisting of many parts and hard to comprehend.

But Governor Cuomo's 2021-22 Executive Budget proposals for public school funding would introduce altogether new complexities.

**School Aid Proposal Key Components**

Aid runs this year include traditional School Aid plus STAR property tax reimbursements plus federal stimulus aid allocations.

Foundation Aid would be frozen for the second straight year.

STAR reimbursements would be cut by the lesser of 2021-22 estimated STAR or the district's 2021-22 federal stimulus funding.

Eleven aid categories would be consolidated (Including, Transportation Aid, BOCES Aid, Charter School Transition Aid, and High Tax Aid) into "Services Aid" and funding would be reduced by $693 million (17%) from what districts would receive from the current formulas. This reduction would be the lesser of what remains from stimulus funding or a per pupil amount times enrollment.

Reductions from the STAR and Services Aid cuts cannot exceed what a district is to receive as 2021-22 federal stimulus funding.

Other formulas would be funded according to current law.

## Some Background

What is referred to as "School Aid" in New York State consists of 18 formulas appearing on aid "runs" and a collection of grant programs and other formulas which do not appear on the runs. The aid run formulas are projected to distribute a total of $25.92 billion in 2020-21. The other funding streams are expected to allocate $530.36 million in 2020-21.[1]

Some of the formulas appearing aid on runs use tiers, or formulas within formulas, providing multiple ways of calculating allocations for each district. Some also allow multiple ways of calculating the factors that go into the formulas.

Some formulas allocate an amount of aid per pupil. Others are "expense-based," reimbursing districts for a share of approved expenses. Examples of these include Transportation Aid, BOCES Aid (reimbursing districts for a percentage of the cost of shared services purchased from Boards of Cooperative Educational Services), and Private Excess Cost Aid (reimbursing districts for a share of the cost of educating children with disabilities in privately operated programs).

Most formulas are wealth-adjusted, providing poorer districts with greater aid per pupil or a higher state-reimbursement percentage than given to wealthier districts. The most widely used wealth

[1] The source for funding estimates in this section is the Division of the Budget's Description of 2021-22 New York State Executive Budget Recommendations for Elementary and Secondary Education. The State Education Department's 2020-21 State Aid Handbook is another excellent source of descriptive information on School Aid.

measure is the "Combined Wealth Ratio." It takes into account both property wealth per pupil and resident income per pupil, each compared to state averages, and each weighted at 50%.

Some formulas also adjust for student needs, including poverty, disabilities, and English language learner status.

Foundation Aid accounts for 70% of total School Aid. Simply described, it allocates an amount per pupil multiplied by a regional cost index and by a pupil needs index, offset by a wealth-adjusted expected local contribution, multiplied by enrollment, with additional weight given to students with disabilities in the enrollment count.

School districts receive other state funding which is not counted as part of School Aid. Some examples include Charter School Supplemental Basic Tuition reimbursement, the state share of funding for school lunch breakfast programs, and various grants targeted for specific programmatic priorities or districts.

Finally, there is STAR—the School Tax Relief program. The original STAR program provides exemptions which directly reduce the property tax bills homeowners receive from their school districts. The districts are then reimbursed by the state for the foregone local revenue. STAR reimbursements from the state to school districts for 2020-21 are projected to total $2.03 billion.

More recently, state has sought to transition homeowners from the exemption program to a tax credit model. Under the newer variant, homeowners pay the entire property tax bill sent by their school district, then receive a check for a credit from the state. The benefit to taxpayers under the two variants should be identical, but under the credit program, no state money is sent to school districts.[2]

The State Education Department estimates that, in 2018-19, state funding from all sources constituted 39.6% of total general and special aid fund expenditures by school districts statewide, down from a recent peak of 46.8% in 2008-09—the second year following the enactment of the Foundation Aid formula.[3]

## The Proposal

The Governor's 2021-22 Executive Budget would increase total school funding by a net sum of $2.11 billion, or 7.1%.

The overall increase is comprised of a $607 million reduction in state support, offset by a $2.72 billion increase in federal stimulus assistance toward school funding. The latter figure is the difference between the $1.13 billion in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act assistance applied toward 2020-21 funding and the $$3.85 billion applied toward 2021-22 from the federal Coronavirus Relief and Recovery Supplemental Appropriations (CRRSA) Act approved in Washington in December.

In a departure from past years, STAR exemption reimbursement payments to school districts for 2020-21 and 2021-22 are included in the total funding amounts appearing on School Aid runs, as do allocations from the two pieces of federal legislation. Statewide total funding on the aid runs would

[3]New York State Education Department. Analysis of School Finances In New York State School Districts 2017-18. April 2020.

increase by $2.12 billion, or 7.3%. Funding for other School Aid programs not appearing on aid runs would decrease by $11.62 million.

These are the major aid components determining overall results appearing on School Aid runs:

- **Foundation Aid**: Foundation Aid would be frozen for the second consecutive year, leaving districts again funded at 2019-20 levels and leaving the state $4.06 billion behind in phasing in the permanent law formula.
- **STAR:** STAR reimbursement to school districts would be reduced by a Local District Funding Adjustment which would cut the state support by $1.35 billion from what districts would receive in 2021-22 under current law. The Executive Budget Financial Plan states that the cut to STAR is intended to be recurring in future years.[4]

  The cut would be calculated as the lesser of a district's 2021-22 STAR reimbursement under current law or its projected allocation of federal stimulus assistance from the CRRSA Act. This reduction would consume the entire federal stimulus allocation for 62% of school districts.
- "**Services Aid:** Eleven aid categories would be consolidated into "Services Aid" and total funding would be cut by $693 million (17.2%) from what current law would provide. The cut would be partly offset by increases generated by current law, leaving a net, year-over year reduction of $393 million (10.5%). The table on page seven identifies the affected aid categories.

  This cut would be calculated as the lesser of what remains from the district's federal CRSSA allocation after the STAR cut or a per pupil amount. After 2021-22, aid would no longer be calculated for each of the currently separate formulas. Instead, districts would receive what they received the year before, plus or minus whatever adjustment factor the state elects to apply that year.
- **Federal Stimulus Aid:** Again, in aid runs and total funding amounts, allocations from the federal CARES Act are included for 2020-21 and from the federal CRSSA Act for 2021-22.
- **Other Aid Categories:** Aid amounts for other formulas appearing on runs are calculated based on formulas in current law. Any year-over-year increases or decreases are the result of changes in data submitted by districts from one year to the next and the operation of current law formulas—not proposed policy changes.

## Key Observations

- The 7.1% statewide increase in total funding is not representative of what most districts would experience.
- As a consequence, the federal stimulus aid is strongly targeted based on student poverty, as required by federal law. Fewer than one in 10 districts would receive total funding increases of 7% or more.
- The median increase in total funding would be 2.1%—half the state's school districts would receive smaller increases, including 23% which would experience cuts in total funding compared to 2020-21, notwithstanding allocations from the $3.8 billion in new federal assistance.

[4] New York State Division of the Budget. FY 2022 Executive Budget Financial Plan, p. 105. January 2021.

- Seventy-two percent of school districts would have their entire federal CRSSA Act allocations consumed by the combination of the proposed cut against STAR and the Services Aid reduction, leaving none of the aid available to assist in paying pandemic-related costs. Sixty-two percent of districts would have their entire federal allocation consumed by the cut against STAR alone.
- In combination, the proposed cuts to STAR and Services Aid cannot exceed a district's 2021-22 federal CRRSA Act allocation.
- The Executive Budget Financial Plan states that the cut against STAR is intended to be recurring. This raises the question, what is to happen to STAR—and to school district budgets—once federal aid is no longer available to offset these reductions?[5]
- The Services Aid proposal would cut reimbursement to districts for costs they are incurring this year by an average of 17.2%. It would also eliminate predictability in yet another revenue stream relied upon by school districts.
- The use of the state's entire CRSSA Act allocation in a single year would create a steep fiscal "cliff." Without further federal assistance, the state would need to increase its support for School Aid by $3.8 billion in 2022-23 to maintain total school funding at the level the budget proposes for the year ahead.
- The impact of school building closures last spring may result in depressed estimates of 2020-21 aids that reimburse districts for 2019-20 school year expenses. In turn, this can make the more normal estimates of these aids for 2021-22 appear to be generating unusually large increases.

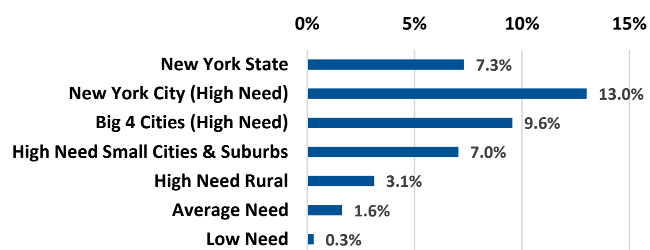
## Further Analysis and Commentary

This section uses the "Need/Resource Capacity (NRC)[6] categories developed by the New York State Education Department to illustrate effects of the Executive Budget school funding proposals.

### Total Funding

As explained above, total funding on aid runs from traditional School Aid, STAR, and federal stimulus assistance would increase by 7.3% statewide under the Governor's proposal. New York City would receive the largest total funding increase, 13.1% and low need districts would receive the smallest, averaging 0.3%.

% Change in Total Funding (School Aid + STAR + Federal Stimulus Aid)




SOURCE: Council analysis of NYSED School Aid data

The application of the $3.8 billion in federal aid heavily influences patterns in overall funding increases.

[5] New York State Division of the Budget. FY 2022 Executive Budget Financial Plan (January 2021), p. 104.

[6] Under the NYSED methodology, an index is calculated to classify the state's 673 major school districts as high, average, or low need. The index considers student poverty using Census data and eligibility for the federal Free and Reduced-Price Lunch Program and the Combined Wealth Ratio (described in the background section above)—essentially, the needs of students and the capacity to meet those needs from local sources. The high need category is further broken down between New York City, the "big four" cities (Buffalo, Rochester, Syracuse, and Yonkers), small city and suburban districts, and rural districts. "Major" districts are the 673 districts employing eight or more teachers and thereby eligible for state assistance allocated on School Aid runs.

## Federal Stimulus Assistance

By law, the federal CARES Act assistance was required to be distributed using the formula to allocate federal Title I funds to support compensatory education for low-income children. Consequently, that aid toward 2020-21 school funding in New York State was heavily targeted to New York City and other districts deemed "high need."

Federal law requires 90% of from the state's $4 billion allocation from the new CRRSA Elementary and Secondary School Emergency Relief (ESSER) Fund to also be distributed according to the Title 1 formula. States are allowed discretion in the allocation of the remaining 10% of ESSER funds and in the distribution $73 million from the CRSSA Act's Governor's Emergency Education Fund.

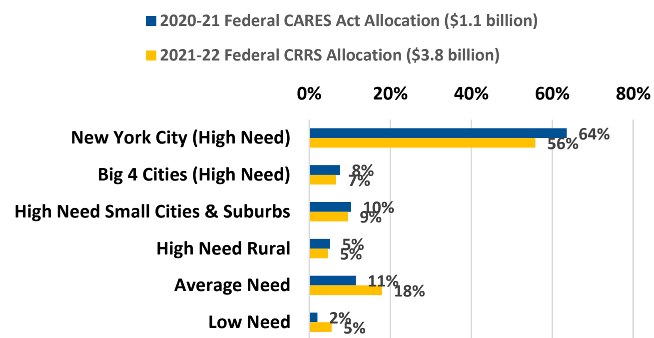
The Executive Budget would use some of the discretionary authority in the latest round of federal assistance to improve the overall funding results for average and low need districts and some higher need districts.

For example, New York City and other high need districts receive 87% ($981 million) from the $1.13 billion in CARES Act assistance applied toward 2020-21; their share of $3.85 billion in CRSSA Act assistance would be 77% ($2.95 billion).

On the other hand, average need districts would see their share of federal aid climb from 11% ($130 million) under CARES to 18% ($690 million) under CRSSA. Low need districts would have their federal aid shares rise from 2% ($22 million) to 5% ($212 million). The accompanying chart provides more detail.

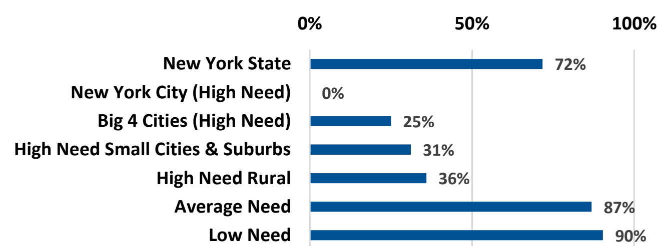
As explained above and elaborated below, 72% of all districts would have their entire federal CRSSA Act allocations offset by reductions in state support.

**Shares of Federal Stimulus Assistance**




**SOURCE:** Council analysis of NYSED School Aid data

**% of Districts with Federal CRSSA Act Assistance Entiely Offsert by State Aid Cuts**

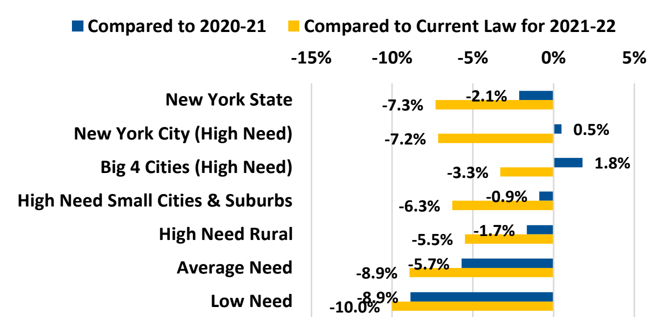



**SOURCE:** Council analysis of NYSED School Aid data

## Total State Support (School Aid plus STAR)

Total state support reported on School Aid runs—the combination of traditional School Aid plus STAR would decline by $593 million (2.1%) compared to 2020-21. New York City and the Big Four cities as a group are projected to experience increases; other district categories would experience losses in aid.

**% Change in State Support (School Aid + STAR)**



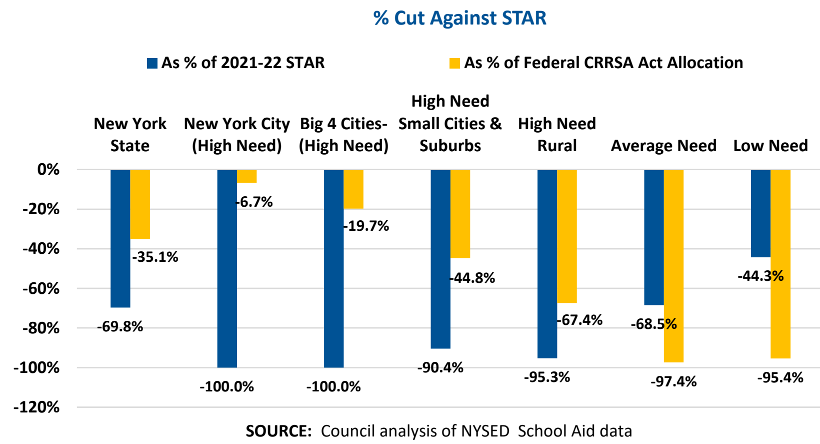

**SOURCE:** Council analysis of NYSED School Aid data

Another way of evaluating the impact of proposed funding changes is to compare proposed results with what would occur if current law formulas were continued. Statewide total funding would be cut by $2.05 billion compared to current law. All districts would experience losses and New York City's 7.2% reduction would roughly match the statewide cut of 7.3%.

### STAR Property Tax Relief Reimbursements to School Districts

Once again, each district's STAR reimbursements would be cut by the lesser of its estimated 2021-22 reimbursements or its 2021-22 allocation of CRSSA Act funding.

High poverty districts generally—but not always—have lower home values, with the result their STAR payments are less that their federal allocations. For the wealthiest districts, the opposite is nearly always true. The cut would represent over 95% of the federal stimulus aid for the average and low need districts groups.




### Services Aid

Again, the Services Aid proposal would consolidate 11 currently separate aid categories into one and then reduce the total sum to be paid to school districts.

For 2021-22, aid would be calculated for each category according to current law formulas, then the sum would be reduced by the lesser of what remains of the districts federal CRRSA Act allocation *after* the cut against STAR, or a per pupil amount times enrollment. For New York City, the per pupil reduction is $603.02; for all other districts, a wealth-adjusted per pupil figure is applied. The wealth-adjustment has the effect of imposing greater cuts upon poorer school districts; this is the opposite of practice with most past state aid reductions.

The proposal would cut funding by $693 million (17.2%) from what current law formulas would give districts. New York City alone would absorb $620 million of that cut. The net year-over-year change in funding would be a reduction of $393 million, reflecting projected increases from current formula calculations totaling $300 million, more than offset by the cut described above.

Eighty percent of average and low need districts would *not* have reductions from current law amounts—because the cut against STAR would take their full federal CRRSA Act allocation. Again, in combination, *the two reductions cannot exceed the federal aid allocation*.

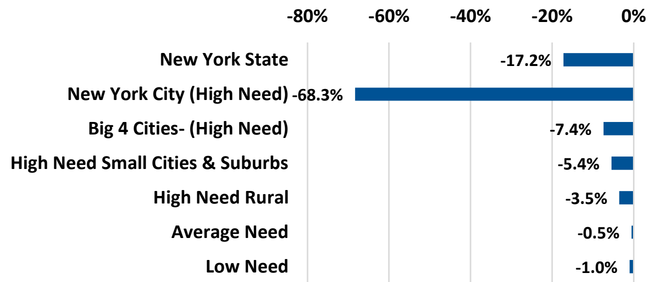
Some districts do show increases in Services Aid funding from 2020-21 to 2021-22, either because they are among the districts with no remaining federal assistance to be reduced after the cut against STAR, or their current law increases are sufficient to offset the reduction. *But no district receives more funding under the proposal than they would through a continuation of current law formulas.*

**"Services Aid"**
**Proposal to consolidate 11 formulas into a block grant and cut total funding**

| Aid Category | 2021-22 Current Law Formula Amounts |
|---|---|
| Transportation Aid | 2,087,582,651 |
| BOCES Aid | 1,082,731,841 |
| Textbook Aid | 172,095,577 |
| Software Aid | 44,517,013 |
| Library Materials Aid | 18,573,605 |
| Hardware and Technology Aid | 36,268,894 |
| Non-BOCES Special Services Aid | 281,838,949 |
| Charter School Transition Aid | 46,216,483 |
| High Tax Aid | 223,089,092 |
| Supplemental Public Excess Cost Aid | 4,309,371 |
| Academic Enhancement Aid | 28,271,832 |
| **Sum of Aids Under Current Law:** | **4,025,495,308** |
| **— 2021-22 Services Aid Reduction:** | **(692,738,891)** |
| **Proposed Services Aid:** | **3,332,756,417** |
| ***% Change in funding vs. current law formulas: —17.2%*** | |

**SOURCE:** Compiled from NYSED School Aid data

**% Reduction in Funding Compared to Current Law Due to Services Aid Proposal**




**SOURCE:** Council analysis of NYSED School Aid data

Beyond in the loss of funding that districts would experience, the Council also opposes this proposal because it would obliterate one remaining strand of predictability in school revenues.

From one year to the next, districts cannot forecast Foundation Aid—the largest state aid source. The vagaries of the tax cap have complicated planning for property tax revenues as well. Districts have been able to forecast what they could reasonably expect as reimbursement for student transportation expenses, for purchases of shared services from BOCES, and as help in meeting rising charter school tuition payments, to name three of the funding streams to be consolidated. But after 2021-22, current aid formulas would no longer be used. Instead, districts would receive as Services Aid what they received the year before, plus or minus whatever adjustment the state elects to apply for that year.

Finally, as the next item explains, apparent large increases in Services Aid for 2021-22 may reflect depressed estimates of 2020-21 aid.

### Reimbursement for Unique Transportation Expenses

When school buildings were abruptly closed last March, districts swiftly launched remote instruction to maintain teaching and learning. They also implemented new models to distribute meals for students. In many cases, districts used their student transportation systems to deliver instructional materials and meals. Some used them to create mobile hotspots for families without internet access. These actions were required by an Executive Order of the Governor.

Some districts also incurred "standby" costs in paying employees and contractors so that the capacity to bring students to school and get them home again would still be there if resuming in-person instruction became possible. The federal CARES Act also directed aid recipients to maintain payrolls, to the extent practicable.

These expenses have been deemed not aidable under current law. The Executive Budget does promise at least some reimbursement for the exceptional service delivery expenses, but nothing for the "standby" costs of assuring that transportation personnel would be on staff whenever in-person teaching and learning could resume.

The Council will support legislation being developed by the Board of Regents to assist districts with both sets of costs. Districts are incurring similar expenses in the current school year; these should be aidable as well.

As noted earlier, the impact of spring 2019-20 school building closures on reimbursable expenses can have the effect of exaggerating apparent increases for some districts in Services Aid and total funding. For example, Transportation Aid for 2020-21 reimburses districts for costs incurred in 2019-20. Districts may have had drastically reduced transportation expenses—aidable or not—from mid-March on in the last school year. This would make more normal estimates of Transportation Aid for 2021-22 appear to be generating exceptionally large increases in funding.

## Other Issues

This report focuses on explaining funding changes reflected in School Aid runs. There are other funding changes which are of concern to the Council and school district leaders.

One is a proposal to eliminate $18.7 million in funding toward paying prior year adjustments in state aid claims owed to school districts and to expunge over $300 million in claims still owed to districts.

Another is a proposal to make permanent a $28 million shift from the state to school districts for room and board expenses for students with disabilities. We also have concerns about proposals to freeze data used in aid calculations, to reduce assistance to school districts in meeting charter school-related costs, and to cut various categorical programs.

## Conclusion

In a future report we plan to examine risks of the "fiscal cliff" posed for public schools and the state by reliance on non-recurring federal assistance of $3.8 billion for the coming school year. Without additional federal help, the state would need to increase its support for public schools in 2022-23 by $3.8 billion to maintain the level of funding Executive Budget proposes for the year ahead.