

POLICY REPORT

Resurrecting the Promise of Foundation Aid

SEPTEMBER 2021



The Foundation Aid formula enacted in 2007 was an underappreciated accomplishment in public policy—

- It generally provided the greatest aid per pupil to the neediest districts.
- It promised all districts greater predictability in state aid going forward.
- It used factors that could be understood, evaluated, and debated; that made funding decisions more transparent and decision-makers more accountable.

But the 2008 financial system collapse and ensuing Great Recession derailed implementation of Foundation Aid. The formula was frozen for three straight years starting in 2009-10 and minimally increased in several years thereafter. When the latest legislative budget cycle began last January, the state was \$4 billion behind in phasing in the formula. With threats of pandemic-induced austerity, aid reductions, not increases, seemed the most likely outcome of New York’s next state budget.

But the 2021-22 state budget does increase Foundation Aid—by \$1.4 billion—and it calls for fully funding the formula by 2023-24. That outcome was made possible by better-than-expected performance of state tax receipts, additional revenues through tax increases, substantial help from Washington, and an impressive commitment by Senators and Assemblymembers.

After this year’s big Foundation Aid¹ increase, where does progress toward full funding of the formula stand? What could be the revenue impact for schools of achieving full funding? Could there be changes in the formula? These are questions explored in this report.

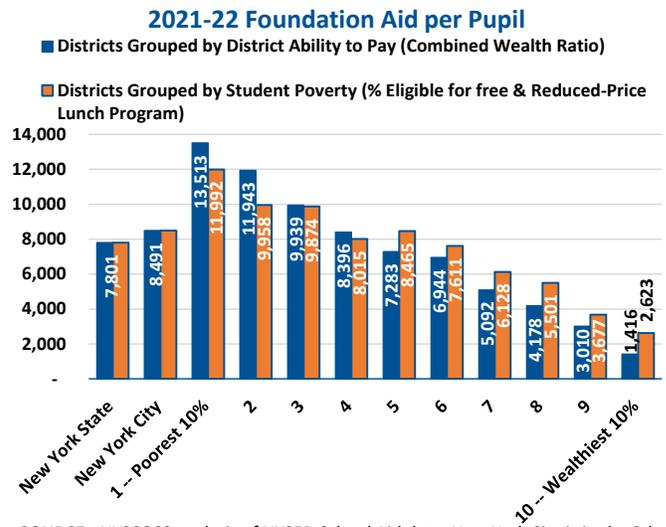
Distribution of Foundation Aid

Despite disruptions in implementing the formula, Foundation Aid still generally provides the greatest aid to the neediest districts, whether measured by district ability fund education or by student poverty, as the upper chart on this page illustrates.

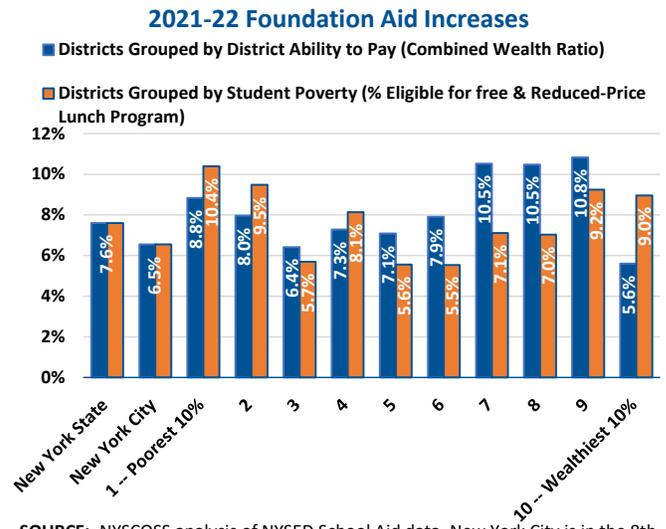
The poorest districts also received above average percentage increases in Foundation Aid for 2021-22,

especially when districts are grouped based on student poverty, as the lower chart illustrates.

Some more affluent districts received even larger percentage increases this year, due, in part, to the legislative priority of advancing districts toward full funding. Notwithstanding the 2021-22 increase, however, total per pupil Foundation Aid remains low for these districts, as shown in the upper chart.



SOURCE: NYSCOSS analysis of NYSED School Aid data. New York City is in the 8th decile for ability to pay and the 1st decile for student poverty.



SOURCE: NYSCOSS analysis of NYSED School Aid data. New York City is in the 8th decile for ability to pay and the 1st decile for student poverty.

The neediest districts—measured by either ability to raise local funding or by student poverty—generally received the greatest aid per pupil.

Some affluent districts receive large percentage increases in 2021-22 aid, but their total per pupil aid remains low.

93% of the 2021-22 Foundation Aid increase is directly targeted at accelerating progress toward full funding.

With the \$1.4 billion increase for 2021-22, the state is now at 88.8% of full funding, \$2.5 billion below that target.

42% of districts are on save-harmless—receiving more aid in 2021-22 than the pure formula would deliver.

High need small cities and suburbs receive the largest 2021-22 increase in Foundation Aid—12.2%. But, as a group, those districts remain furthest from full funding at 77.2%.

2021-22 Increase Calculations

The enacted budget’s statewide increase in Foundation Aid is 7.4% over the 2020-21 sum, which had been frozen at 2019-20 levels—essentially a two-year average increase of 3.7%. Districts were allowed one out of four basic alternatives calculating their increase:

- All districts can receive at least a 2% increase over 2020-21, or 3% for rural districts with fewer than 25 students per square mile.
- Another option assures that districts will receive at least 60% of their full phase-in aid amount.
- A third option is calculated as a per pupil increase; this option is targeted to districts with a Combined Wealth Ratio (CWR) ² below 2.53 and the amount is adjusted based on a student poverty factor.
- The fourth option applies a phase-in factor, giving districts a percentage of the difference between their current Foundation Aid and full phase-in level. The phase-in percentages vary: 49.5% for New York City, Rochester, and Yonkers; 44% for Buffalo and Syracuse; 27.28% for rural districts with fewer than 25 students per square mile; 27% for small cities; and 26.25% for other districts.

Reflecting the priority of advancing districts toward full funding, 91.2% of the total increase goes to districts based on a phase-in factor and 1.8% is distributed through the guarantee of at least 60% of full funding. The guaranteed minimum percentage increase options account for only \$54.0 million of the \$1.4 billion total increase.

2021-22 Foundation Aid Increase Options

Option	Number of Districts	% of Districts	Amount of Increase	% of Total Increase
Phase-in Factor	309	45.9%	1,276,481,140	91.2%
Minimum 60% of Full Funding	8	1.2%	25,385,788	1.8%
Per Pupil Increase	114	16.9%	44,120,843	3.2%
3% Minimum Increase for Sparse Districts	210	31.2%	48,216,667	3.4%
2% Minimum Increase for Other Districts	32	4.8%	5,797,833	0.4%
Total	673	100.0%	1,400,002,271	100.0%

SOURCE: NYSOSS analysis of NYSED School Aid data; figures as of time when state budget was enacted

Progress Toward Full Funding and the Role of Save-Harmless

With the \$1.4 billion increase, the gap between current Foundation Aid and full funding declines to \$2.51 billion and the statewide percentage of full funding rises from 82.7% to 88.8%. These figures assume continuation of save-harmless, so that no district receives less aid than it did the year before.

The number of districts on save-harmless climbs from 247 to 283, or from 36.7% to 42.1% of districts. The total value of save-harmless funding rises from \$295 million to \$355 million.

Among SED’s Need/Resource Capacity³ district groups, high need small city and suburban school districts are projected to receive the largest increase in Foundation Aid—12.2%. But this group would remain furthest from full funding, at 77.2%. Again, full funding levels change annually and, while high need small city and suburban districts received the largest increase in Foundation Aid (58.9%) since 2007-08, they also experienced the greatest growth in their full funding targets (48.3%). Only 11% of these districts are on save-harmless.

Foundation Aid Results—Districts grouped by Need/Resource Capacity Category

	2021-22 Foundation Aid Increase	2021-22 Foundation Aid/Pupil	2021-22 % of Full-Funding	Change in Aid, 2007-08 to 2021-22	Change in Full Funding Level, 2007-08 to 2021-22	% Change in Enrollment, 2007-08 to 2020-21	% of Districts on Save-Harmless
New York State	7.6%	7,801	88.8%	45.3%	25.2%	-8.7%	42.1%
New York City	6.5%	8,491	94.1%	55.9%	23.6%	0.7%	0.0%
Big 4 Cities	8.3%	13,941	91.9%	47.3%	29.6%	-3.3%	0.0%
High Need Small Cities and Suburbs	12.2%	10,726	77.2%	58.9%	48.3%	-1.2%	11.1%
High Need Rural	4.8%	12,470	91.9%	35.5%	9.1%	-21.4%	51.0%
Average Need	7.5%	6,516	86.2%	29.1%	19.4%	-17.6%	45.1%
Low Need	11.0%	2,840	79.4%	31.4%	39.5%	-13.4%	36.3%

SOURCE: NYSCOSS analysis of NYSED School Aid data; figures as of time when state budget was enacted and assume continuation of save-harmless

Rural high need districts receive the lowest combined increase—4.8%; 51% of these districts are on save-harmless. Districts deemed “average need” are to receive an aggregate increase of 7.5%; 45% of these districts are on save-harmless. New York City’s 6.5% increase is below the statewide average of 7.6%, but the City is now closer to full funding than all the other groups, at 94.1%.

New York City’s 2021-22 Foundation Aid increase (6.5%) is below the state average (7.3%), but the City is now closer to full funding than any other district category.

Understanding long-term demographic trends and the prevalence of save-harmless funding explains some of the patterns in the distribution of Foundation Aid increases for 2021-22.

Being on save-harmless means that, in some prior year, formula calculations would have caused a district to receive more aid than is now the case. Most often, enrollment losses are the cause for districts falling on to save-harmless. Among districts on save-harmless, the median enrollment decline since the enactment of Foundation Aid is 27.0%. In contrast, the median decline for districts on the formula is 15.6%.

Enrollment losses are a primary factor in districts falling on to save-harmless: the median enrollment loss since 2007-08 for districts on save-harmless is 27.0%, vs. 15.6% for districts “on the formula.”

Enrollment losses can hurt a district’s state aid in multiple ways. First, if a formula pays aid on a per pupil basis, a district will receive aid on behalf of fewer pupils. Also, most wealth measures used in state aid consider district wealth per pupil (property or resident income) compared to state averages. Consequently, all else held constant, a district losing enrollment faster than the state average will have its wealth per pupil rise, causing formulas to generate less aid.

The full funding Foundation Aid target for every district changes each year. Growth in enrollment, increases in student poverty or English Language Learners, and declines in district wealth relative to the state average will cause a district’s full funding target to increase. Changes in the nationwide Consumer Price Index also come into play.

Despite this year’s \$1.4 billion increase, 17.5% of the state’s school districts have seen their full funding target increase by more than their actual Foundation Aid since 2007-08, leaving them further from full funding in percentage terms than they were in the formula’s first year, nearly a decade and a half ago.

Over 17% of districts are further from full funding now than in 2007—because of enrollment growth and changes in other factors.

Districts losing ground tend to have greater enrollment growth (or smaller losses), larger increases in student needs, weaker growth in property wealth, resident incomes, or both (causing them to become relatively poorer for state aid purposes), or some combination of these factors.

The median percentage of students in poverty is slightly higher for save-harmless districts than for formula districts—47.8% vs. 44.6%.

One essential point is that, beyond changes in enrollment, the typical save-harmless and formula districts are similar in key state aid factors. The median percentage of students qualifying for free or reduced-price lunches is slightly *higher* for save-harmless districts than for counterparts on the formula (47.8% versus 44.6%). The core state aid measure of district ability to fund education from local sources—the Combined Wealth Ratio—shows the median district for both groups with below average wealth—0.673 for formula districts; 0.783 for districts on save-harmless.

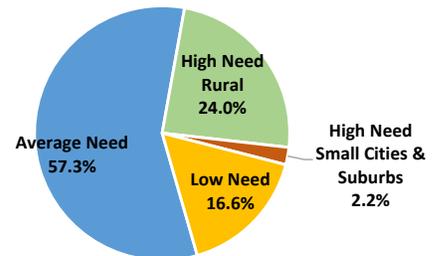
Comparing Districts on the Formula vs. on Save-Harmless

Median Values	Save-Harmless	
	Formula Districts	Districts
2021-22 Foundation Aid Increase	7.4%	3.0%
% Free & Reduced Price Lunch Eligible Students	44.6%	47.8%
Combined Wealth Ratio	0.673	0.783

SOURCE: NYSCOSS analysis of NYSED School Aid data; figures as of time when state budget was enacted

Eighty-three percent of save-harmless funding goes to districts deemed average need (57%) or high need (26%) in the State Education Department’s classifications of districts based on ability to raise local revenue and student needs.

Distribution of 2021-22 Foundation Aid Save-Harmless Funding
(\$355.3 million)



SOURCE: NYSCOSS analysis of NYSED School Aid data

Only 17% of save-harmless funding is received by districts deemed “low need.”

The median Foundation Aid increase for districts on the formula is 7.4% in 2021-22. The median increase for save-harmless districts is 3.0%.

At least 61% of save-harmless districts serve sparsely populated rural communities.

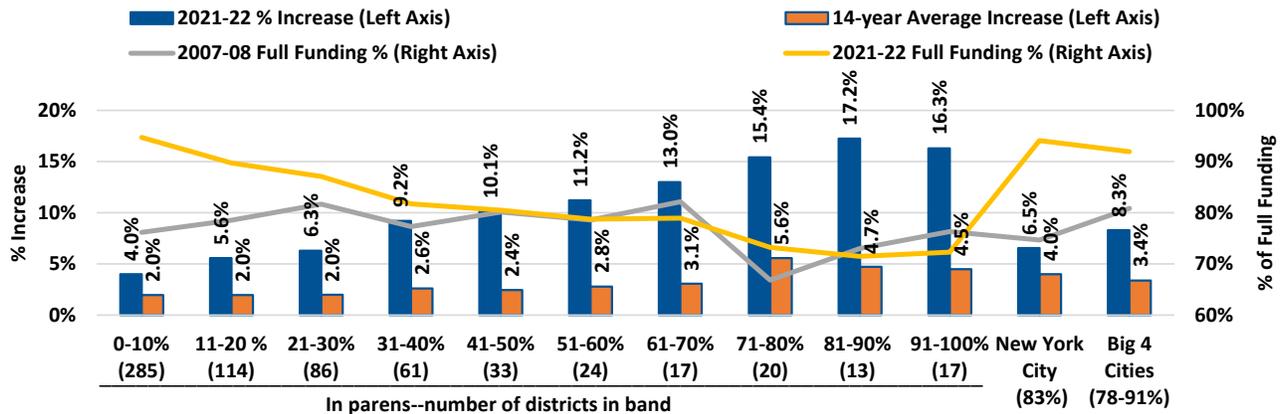
Sixty-one percent of save-harmless districts receive the 3.0% minimum increase reserved for districts with fewer than 25 students per square mile. Put another way, at least 61% of save-harmless districts are sparsely populated rural districts. Twenty-eight percent of the save-harmless districts receive aid under the per pupil option. Eleven percent receive the 2.0% minimum increase.

Among formula districts, 79% receive increases through the phase-in factor option—a percentage of the difference between 2021-22 aid and full funding. As explained above, the assignment of phase-in factors is somewhat arbitrary. For example, *all* small city districts are assigned a phase-in factor of 27%, no matter how affluent or poor their tax base or student population. Meanwhile, phase-in factors for the “big five” cities are set at either 44% or 49.5%.

Foundation Aid Results and Student Diversity

Between 2007-08 and 2019-20, statewide public school enrollment declined by 6.3%. The net change was comprised of 21.2% decline in white student enrollment and 9.7% increase in students of color. Consequently, more racially diverse districts are more likely to have had enrollment growth or at least smaller declines. Again, this affects Foundation Aid results.

Foundation Aid Results
Districts Grouped by Students of Color as % of Total 2019-20 Enrollment



SOURCE: NYSCOSS analysis of NYSED School Aid and enrollment data

Districts for which students of color comprise a higher share of total enrollment have tended to have larger percentage increases in Foundation Aid, both over the long-term and especially in 2021-22. But some of these districts have experienced even greater increases in their full funding targets, with the result that some are among the districts now further from full funding than at the formula’s inception.

Some districts with high percentages of students of color have had strong increases in Foundation Aid, but are now further from full funding than in 2007-08—due to enrollment growth and other aid factors.

For example, districts with between 81% and 90% students of color had the largest 2021-22 Foundation Aid increase of any group and the second largest annual average increase since the formula’s enactment. But in the aggregate, districts in this band are at 71.4% of full funding, down from 73.0% in 2007-08.

Moving Forward

The enacted budget calls for the Foundation Aid formula to be fully phased-in within three years. In 2022-23, districts are to receive half the difference between their current Foundation Aid and their full funding amount. In 2023-24, districts would receive the remaining difference between current aid and full funding.

For 2022-23, the enacted state budget calls for districts to receive half the remaining difference between current year and full funding.

As noted, after the current year’s increase, the state remains \$2.51 billion below fully funding Foundation Aid, suggesting that providing each district half the remaining difference would cost \$1.25 billion in 2022-23. The chart below illustrates how such an increase would be allocated, based on current estimates.

Again, however, the projected cost of full funding changes annually as data is updated each year. In most recent years, the projected cost of full funding has risen by between 2% and 2.5%. The recent pattern of high increases in consumer prices would also drive up the cost of fully funding Foundation Aid.

Presumably, Foundation Aid in the ensuing two years also would include additional options for calculating district increases, as was done for the current year. These would likely include some minimum percentage increase for districts on save-harmless—it is inconceivable that the State Legislature would pass a budget denying any increase to the 42% of districts already at full funding through save-harmless.

Presumably there would be adjustments for 2022-23 aid—to provide some increases to save-harmless districts and to give more help to high need districts already close to full funding, including New York City.

Replicating the current year’s structure of a 3% minimum increase for sparsely populated rural districts and 2% for others would add \$68.5 million to the cost of the increase, again based on current data.

Other adjustments appear certain as well. High need districts already close to full funding would receive minimal increases under the implied framework. As an example, at 94.1% of full funding, New York City would receive an increase less than half the statewide average—3.1% versus 6.3%.

The formula enacted in the state budget to allocate federal “learning loss” funds suggests possible alternate approaches to measuring student poverty and constructing a regional cost index.

Possible Future Formula Revisions

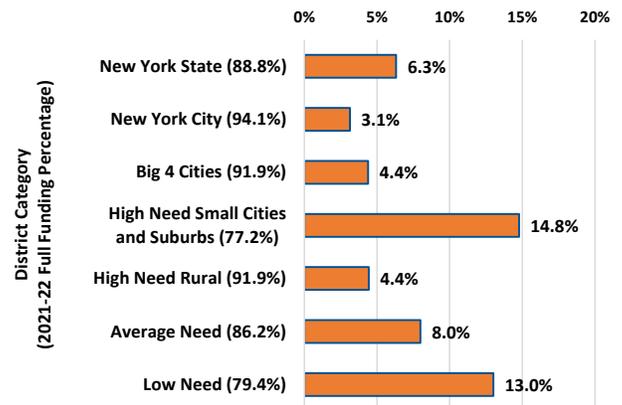
In a series of roundtable discussions on Foundation Aid convened by the State Senate in fall 2019, a “fix it versus fund it” cleavage emerged. Some advocates recommended changes to the formula such as updating and revising regional cost index calculations, using alternative student poverty measures, and eliminating the floor on the Income Wealth Index used in one ability-to-pay calculation. But other advocates argued vigorously that any changes should be deferred until the formula is fully funded, fearing that changes could delay or preclude reaching that goal.

The state formula used to allocate federally funded “Learning Loss Grants” may provide hints of future Foundation Aid changes; it uses new poverty measures and a revised regional cost index.

Values in the Foundation Aid formula’s Regional Cost Index have not been updated since its enactment in 2007. The Index in the Learning Loss Grant formula uses updated labor force cost data and makes a significant change in how regions are configured. Under Foundation Aid, New York City and Long Island are combined as one region; in the new grant formula, New York City and Long Island are separated.

New York City could have a higher Regional Cost Index, but also a lower student need factor using data applied in the Learning Loss Grant program. The Hudson Valley would get a higher Regional Cost Index.

**Projected 2022-23 Foundation Aid Increase
If 50% of Remaining Full Funding Gap**



SOURCE: NYCOS analysis of NYSED School Aid data; figures assume continuation of save-harmless.

**Comparison of Regional Cost Index Values
Foundation Aid vs. 2021-22 Learning Loss Grants**

Regional Cost Index	Foundation Aid	Learning Loss Grants
North Country	1.000	1.000
Mohawk Valley	1.000	1.088
Southern Tier	1.045	1.148
Western New York	1.091	1.148
Central New York	1.103	1.146
Capital District	1.124	1.201
Finger Lakes	1.141	1.202
Hudson Valley	1.314	1.423
Long Island/New York City	1.425	---
Long Island	---	1.423
New York City	---	1.659

SOURCE: NYCOS analysis of NYSED School Aid data

With the updated data and structural changes, the index for New York City climbs from 1.425 to 1.659. In the newer formula, the two suburban regions have identical 1.423 index values—an increase from 1.314 for the Hudson Valley, while the figure for Long Island is essentially unchanged from the Foundation Aid calculation.

Recognizing research which found that the cost of educating students can vary depending on their backgrounds and circumstances, the Foundation Aid formula includes an Extraordinary Needs Pupil Count. For most districts, the largest component of their count is the number of students in poverty, measured using three-year averages of both Census data and kindergarten through grade six students eligible for the federal free or reduced-price lunch (FRPL) program. The count also includes English Language Learners (students for whom English is not their first language) and a sparsity factor acknowledging the added costs of operating geographically large but sparsely populated districts.

Both Foundation Aid poverty measures have been criticized—the Census data is from 2000 and changes in the administration of the FRPL program can result in understating the prevalence of poverty in some districts. In their place, the Learning Loss Grants program uses Census Bureau Small Area Income and Poverty Estimates (SAIPE) from 2017, 2018, and 2019 and counts of public school students whose families are eligible for various economic assistance programs. While more current than 2000 Census data, a flaw in the SAIPE figures is that they include *all* resident children between ages 5 and 17, not just those attending district schools. As a result, the SAIPE data may understate the extent of student poverty in districts with large numbers of nonpublic school students whose families have higher incomes than those of children attending district schools.

The Learning Loss Grant formula uses a more up-to-date measure of student poverty but it may understate poverty for some communities.

New York City accounted for 64.7% of the state’s public schoolchildren in poverty in the 2000 Census—a far higher share than for any of the other poverty measures. Consequently, the City has a lower share of statewide Extraordinary Needs Pupils under the Learning Loss Grant count than under Foundation Aid (49.9% vs 52.3%). For the City, this effect is counteracted by the higher Regional Cost Index value explained above. Eighty-six percent of districts have higher shares of Extraordinary Needs Pupils under the new program’s formula than under Foundation Aid.

Estimated Statewide Shares of Various Student Poverty Counts

	Used in Foundation Aid		Used in Learning Loss Grants	
	Free and Reduced Price Lunch Eligible	2000 Census Poverty	Economically Disadvantaged	Small Area Income and Poverty Estimates
New York State	100.0%	100.0%	100.0%	100.0%
New York City	53.1%	64.7%	52.3%	53.3%
Big 4 Cities	6.7%	8.2%	6.7%	9.1%
High Need Small Cities and Suburbs	11.1%	8.7%	11.2%	11.2%
High Need Rural	5.6%	4.7%	5.5%	6.1%
Average Need	19.7%	11.2%	20.1%	16.7%
Low Need	3.8%	2.5%	4.1%	3.7%

Most districts would have higher shares of Extraordinary Needs pupils using the Learning Loss Grants factors.

SOURCE: NYSCOSS analysis of NYSED School Aid data

In 2019 Senate testimony, the

Council recommended reviewing the two factors discussed above:

The state should undertake a study to explore more accurate and up-to-date ways of accounting for student poverty... In addition, the weightings applied to the poverty and ELL counts should be re-evaluated to assess whether they accurately reflect what we now know about the full costs of educating students from those backgrounds.

and,

We recommend reviewing the Regional Cost Index with the goal of establishing more regions, perhaps setting index values by counties. This would result in fewer steep breaks between regions and mean that the index values for districts would no longer be lowered or raised by costs at distant ends of their region.

Any changes in aid factors would likely drive up the cost of achieving full Foundation Aid funding, especially given the state’s historical proclivity sparing any district from losing Foundation Aid or funding from the general-purpose operating aid formulas which preceded it.

Conclusion

Will the state be able to deliver on full funding? That will depend heavily upon future economic conditions. The state’s primary revenue sources, aside from federal aid, are the personal income tax and the sales tax. Both are far less stable and predictable than the property tax, the primary local revenue source for almost all school districts. Losing a job has no immediate impact on a taxpayer’s home value or property tax bill, but with the loss of income, the taxpayer will pay less in income tax and will probably reduce personal spending, avoiding sales taxes. One reason the new state budget turned out as well as it did was that state tax revenues held up vastly better than feared, coming in more than 10% above early projections through August.

The Division of the Budget’s first quarter update to the state fiscal year 2021-22 financial plan projects balanced budgets in state fiscal years 2021-22 and 2022-23 and far lower than typical structural deficits in the two years thereafter. The forecasts do incorporate the assumption that Foundation Aid will be fully funded within three years, as called for in this year’s budget.⁴ The Office of the State Comptroller and other authorities have warned that sizeable deficits could emerge beginning in in 2025-26, as special federal assistance is exhausted and tax increases enacted in this year’s budget are due to expire.⁵ OSC has also reported that tax receipts for 2021-22 have been coming in well above the levels anticipated when the budget was passed (i.e., \$41.6 billion versus \$35.8 billion through August).⁶

State revenue forecasts are always afflicted with uncertainty and now more than ever, pending reverberations from the pandemic. But offsetting that uncertainty is the impressive commitment that the State Legislature’s majorities have demonstrated to fulfilling the promise of Foundation Aid.

State revenue forecasts are always afflicted with uncertainty. But offsetting that uncertainty is the impressive commitment that the State Legislature’s majorities have demonstrated to fulfilling the promise of Foundation Aid.

¹ Foundation Aid is one of 23 School Aid formulas reported on aid runs produced by the State Education Department and accounts for 68.2% the total aid for 2021-22 shown on the runs.

² The Combined Wealth Ratio measures district property wealth and resident income per pupil compared to state averages. A district with a CWR of 2.5 could be said to have two and a half times the wealth per pupil of the state average.

³ The Need/Resource Capacity categories were established by the State Education Department as a tool for analyzing patterns in school finance and student performance. SED calculates a Need/Resource Capacity Index for each district. The Index considers both student needs (measured using student poverty data) and district capacity to raise local revenue (measured through the Combined Wealth Ratio) and designates districts as low, average, or high need. For a fuller explanation, see <http://www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf>.

⁴ New York State Division of the Budget. [First Quarterly Update—FY 2022 Financial Plan](#). September 2021.

⁵ Office of the State Comptroller. [Enacted Budget Financial Plan Report, State Fiscal Year 2021-22](#). June 2021.

⁶ Office of the State Comptroller. [Comptroller’s Monthly Report on State Funds Cash Basis of Accounting, July 2021](#). August 2021.