Fulfilling the Education Promise

A Proposal on State Aid to School Districts for School Year 2016-17

New York State Association of School Business Officials

Advancing the Business of Education

November 19, 2015
Embracing Equity and Adequacy

Eight years ago, New York State’s school funding system underwent a major reform, resulting in the enactment of a new Foundation formula by which schools would be funded adequately and fairly. After only two years of implementation, the nation was thrown into an economic recession, and the state’s budget was hit hard. Foundation Aid was frozen, and the state implemented the Gap Elimination Adjustment (GEA) that cut billions of dollars in funding for public education. In 2011, the state implemented a property tax cap that limited increases in local support for schools to two percent or the Consumer Price Index (CPI), whichever is less. Current estimates for inflation or the CPI are hovering around zero, potentially resulting in no increases in local support for public education.

In addition to the potential of a zero percent tax cap, $434 million in GEA remains, 31 percent of school districts are receiving less aid than they received in 2009-10, and $4.4 billion in promised Foundation Aid remains unfulfilled. Combine these financial struggles with the added burdens and turmoil created by repeated changes to teacher evaluations, student testing, and higher standards, and public school leaders are faced with another challenging year in 2016.

The New York State Association of School Business Officials’ (NYSASBO) 2016-17 School Aid Proposal attempts to address the financial hurdles facing public education by completely eliminating the remaining GEA and putting the Foundation Aid formula back on track to fulfill its promise of equitable and adequate funding for all schools so their students can graduate college and career ready.
Overview

NYSASBO proposes a $2.4 billion increase in general support for public education for the 2016-17 school year. This amount includes $434 million to fully phase out the GEA, $800 million for the first year of a multi-year commitment to fully fund Foundation Aid, and $211 million in save-harmless aid to provide stability for school districts. As New York’s economy is now improving, NYSASBO recommends the state again commit to a full phase-in of the Foundation Aid formula that will ensure that all school districts have the resources to meet the Constitutional mandate of providing the opportunity for a meaningful high school education to all students. This year’s $800 million increase should be part of a four-year plan to fund the $4.4 billion owed in Foundation Aid that was promised in 2007 to bring all districts up to an adequate funding level and hold districts harmless against loss as more funding is directed to higher-need districts.

The state should return to a functioning Foundation Aid formula with certain adjustments. This should include a number of changes to increase equity and adequacy, such as the elimination of a .65 minimum for income wealth, a review of the weighting for English language learners, and a new cost study to update the Foundation Aid amount using current assessments, standards, and requirements.

In order to balance the need for adequate investments in our children’s education with tax relief, further adjustments to the tax cap are needed. First, the state needs to implement the changes that were enacted in 2015 to allow school districts to exclude BOCES capital expenses and count payments in lieu of taxes (PILOTs) in the quantity change factor used to calculate the allowable levy limit. Second, school districts should not be forced to operate under a tax cap based on the previous year’s CPI or inflation rate. Based on the CPI for the first ten months of this year, the tax cap for school districts next year is expected to allow no increase in local revenues unless the district attempts an override. Therefore, NYSASBO proposes changing the tax cap to a flat two percent (not the lesser of two percent or the CPI). If this change in the tax cap is not made, the state should provide an additional $405 million in state aid to make up for the loss in local revenue.

NYSASBO also recommends a $411 million increase in expense-based aids to continue state support for Building, Transportation, BOCES, and other school expenses, as well as $45 million to defer the interest rate calculation required by Education Law section 3602. In addition, NYSASBO proposes $75 million to increase the aidable salary ceiling to the state average of $65,000 for BOCES CTE instructional staff and comparable increases for the Big 5 city school districts. We also recommend $75 million in grant money for Struggling Schools that must make demonstrable improvement under Education Law section 211-f.

NYSASBO recommends that the state invest $318 million in non-recurring funds to pay school districts for approved prior-year adjustments (PYA) to their aid claims (i.e., money owed but not yet paid to school districts going back several years). Altogether, these recommended increases would bring general support for education up to $25.4 billion for 2016-17.

Figure 1. NYSASBO State Aid Proposal for 2016-17

<table>
<thead>
<tr>
<th>Enacted Budget 2015-16</th>
<th>$23,057,364,518</th>
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<tr>
<td>GEA Restoration</td>
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<td>Foundation Aid Phase-In</td>
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<td>Save-Harmless</td>
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<td>Expense-Based Aids</td>
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<td>Defer Interest Rate Reset</td>
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<td>CTE</td>
<td>$75,000,000</td>
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<td>Struggling Schools Grant</td>
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<td><strong>Recurring Costs Total</strong></td>
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<td>Prior-Year Adjustments (One Time)</td>
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<td><strong>NYSASBO Proposal</strong></td>
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<tr>
<td><strong>Total Proposed 2016-17</strong></td>
<td><strong>$25,426,041,018</strong></td>
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End Gap Elimination Adjustment ($434 million)

With the economy continuing to improve, the state should completely phase out the $434 million remaining GEA in the 2016-17 budget. Figure 2 shows that the GEA currently affects mostly average and low-need districts. By eliminating this complicated restriction from the budget, the state can begin to focus on fully funding Foundation Aid to its promised level.

Figure 2. Average Remaining GEA per Student for High, Average, and Low-Need Districts

Figure 3 is a map showing the distribution of remaining GEA as a percent of school district spending. There were 674 school districts with remaining GEA that represented between 0.003 and 3.5 percent of their spending (state average is 0.7 percent). While these amounts are relatively small, having a Foundation formula that provides aid and a GEA formula that takes away aid is confusing at best. With a small amount of GEA remaining, the state can repay this debt to school districts and begin to fund schools with a transparent formula that reinforces the agreement between the state and school districts to provide the education students need for successful participation in our society.

Figure 3. Map of Remaining GEA as a Percent of School District Spending

Data Sources: 2015-16 Enacted Budget and 2013-14 NYSED Fiscal Profiles
Commit to Full Funding of the Foundation Formula (Beginning With $800 Million in 2016-17)

In order for schools to provide the critical educational services on which New York’s families depend, the state must get the Foundation formula back on track and fully implemented within the next four years.

The state should take care to preserve the formula elements that support school district efforts to provide a sound basic education and a meaningful high school education, as the State Constitution requires. With $4.4 billion¹ outstanding for full phase-in, full implementation of the formula over the next four years is achievable, at $800 million in the first year and approximately $1.2 billion per year for the next three years.

Formula Goals

The formula enacted in 2007 is widely accepted to be a formula that is fair and advances key state goals for education. It can be implemented with minor adjustments. It should preserve and improve upon, as needed, key elements of adequacy, equity, wealth equalization, purchasing power, stability, inflation, predictability, and transparency. These goals and improvements include:

Adequacy

The aid formula should provide the opportunity for all students to meet Regents learning standards for college and career readiness. The level of aid is associated with a predominant likelihood of student success on state assessments.

The Board of Regents and NYSED should conduct a new cost study that determines the level of funding required in each district to provide a sound basic education. A Successful School District or comparable method should be used. Adequate funding should be provided without requirements to implement new policy reforms such as Annual Professional Performance Review (APPR).

Equity

The aid formula should adjust for student need as measured by poverty, limited English proficiency, geographic sparsity, and disability status to provide the extra time and help students need to be successful. Weightings should be no less than in the 2007-08 enacted Foundation formula and should be reviewed for sufficiency. The weighting for English language learners may need to be enhanced to respond to the growing needs of English learners in New York school districts. In addition, the state should provide state aid in the current year for large enrollment growth for all students and for English learners.

Wealth Equalization

The aid formula should adjust for school district fiscal capacity—that is, the ability to raise revenues locally—so that students in all areas of the state have the combined state and local resources necessary to provide a sound basic education. Since the proposal is intended to provide equal educational opportunity, there should be no minimum value on the assessment of fiscal capacity; the current statutory .65 minimum for income wealth should be eliminated.

Purchasing Power

The aid formula should adjust for regional cost differences so that state aid provides the same level of goods and services regardless of regional costs.

Stability

School districts should receive a minimum guarantee of at least 100 percent of prior-year Foundation Aid. The intent of this goal is to ensure that all school districts have some measure of stability to continue programs and services on which their communities depend, while the state is pursuing the goal of adequate funding for all districts.

Inflation

The Foundation amount identified in the cost study and used to initiate the Foundation Formula should be adjusted for inflationary increases each year, equal to, at a minimum, the unadjusted Consumer Price Index for all urban consumers in the United States. In years when deflation occurs, Foundation Aid should not be reduced but should remain unchanged from the previous year.

Predictability

The state should commit to full phase-in of the formula within a defined period of time. NYSASBO recommends a maximum of four years. The state had intended to fully phase in the Foundation formula by 2010-11. NYSASBO’s proposal would fully phase in the formula by 2019-20, nine years after the original plan. School districts should not have to wait longer.

¹ This amount includes $211 million to hold school districts harmless against loss, to maintain stability of programming in school districts for which the formula would otherwise generate a loss.
Transparency

In New York State, the education budget process includes public input leading up to a popular vote. School communities around the state depend on their school officials to have up-to-date data on revenues, expenses, and student needs in order to have these discussions. The 2015 budget process was historic in that no data on the distribution and amount of state funding were provided with the Executive Budget, causing great uncertainty about the state aid that makes up 45 percent of school revenues. NYSASBO urges the state to deliver projections in a timely manner in order to allow for the transparency that the public expects and deserves.

Impact of the Formula

As the state invests in its schools, it invests in its economy and its future. High-need school districts have the farthest to go to meet the funding targets established by the 2007 Foundation formula, as shown in Figure 4. Figure 5 is a map showing districts that would benefit from full Foundation formula funding.

Figure 4. Average Foundation Aid Still Due Per Student for High, Average, and Low-Need Districts

Data Source: 2015-16 Enacted Budget Data

Figure 5. Foundation Aid Still Due as a Percent of School District Spending

Data Sources: 2015-16 Enacted Budget and 2013-14 NYSED School District Fiscal Profiles
To put these state commitments to school districts in perspective, we examined outstanding GEA and Foundation Aid still due to provide what was promised in 2007 as a percent of school district spending. Statewide, outstanding GEA is 0.7 percent of school district spending and Foundation Aid still due is 7.4 percent of school district spending. See Figure 6. This confirms our finding that for average-need school districts outstanding GEA is a larger percent of spending, at approximately 1.4 percent. It also shows that high-need urban and suburban school districts (including high-need small cities) and the Big 4 city school districts are still due the largest share of Foundation Aid, at 19.6 and 11.7 percent, respectively.

**Figure 6. Remaining GEA and Foundation Aid Still Due as a Percent of School District Spending**

<table>
<thead>
<tr>
<th></th>
<th>Spending</th>
<th>Remaining GEA</th>
<th>Foundation Aid Still Due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>%</td>
<td>Total</td>
</tr>
<tr>
<td>New York City</td>
<td>23,735,344,461</td>
<td>87,281,046 0.4</td>
<td>1,959,214,202 8.3</td>
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<tr>
<td>Big 4</td>
<td>2,595,258,064</td>
<td>5,766,224 0.2</td>
<td>304,398,875 11.7</td>
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<tr>
<td>High-Need Urban/Sub</td>
<td>4,614,737,314</td>
<td>4,502,798 0.1</td>
<td>904,053,044 19.6</td>
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<tr>
<td>High-Need Rural</td>
<td>3,302,496,593</td>
<td>3,661,892 0.1</td>
<td>267,418,757 8.1</td>
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<td>Average-Need</td>
<td>16,105,029,277</td>
<td>233,368,339 1.4</td>
<td>725,101,854 4.5</td>
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<tr>
<td>Low-Need</td>
<td>9,794,211,363</td>
<td>99,019,366 1.0</td>
<td>277,734,047 2.8</td>
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<td>State Total</td>
<td>60,147,077,072</td>
<td>433,599,665 0.7</td>
<td>4,437,920,779 7.4</td>
</tr>
</tbody>
</table>

Data Source: 2015-16 Enacted Budget and 2013-14 Fiscal Profiles

**Other Recommendations**

**Support for Expense-Based Aids ($411 million)**

NYSASBO recommends continued support for approved expenses school districts have already incurred. These aids help pay for such costs as school construction, pupil transportation, shared services provided by BOCES, special education, and instructional materials. The state should honor these commitments and pay what is due for these expenses that school districts have already incurred.

**Defer Building Aid Interest Rate Reset ($45 million)**

According to a law passed in 2011, the Commissioner is required to reset the interest rate used to calculate Building Aid at least once every ten years if the current interest rate is at least one quarter percent lower than the interest rate used to calculate reimbursements at the time the project was bonded. With the Foundation Aid freeze, GEA, and a low tax cap, many districts are still receiving fewer state resources than in 2009. Resetting the interest rate now would hurt districts even further. NYSASBO asks that the state continue to defer the interest rate reset on Building Aid and keep the interest rate at its current level, which would provide school districts an estimated $45 million in aid for retroactive and prospective school construction projects that have already been approved by voters.

**Career and Technical Education ($75 million)**

Career and Technical Education based on high academic standards offers opportunities for students who relate well to hands-on learning experiences and a closer connection between education and job opportunities. Research has demonstrated a reduction in dropouts and an increase in earnings as a result of quality CTE programs. Aid is paid to school districts for student participation in BOCES CTE programs but is limited to a share of the first $30,000 in teacher salaries, a limit which has been in place for more than two decades. Similar aid limitations have been placed on CTE programs in the Big 5 city school districts funded with Special Services Aid. Increasing the salary threshold to reflect inflationary increases over that period would help school districts with the cost of sending students to Career and Technical Education programs. NYSASBO recommends $75 million in BOCES Aid and Special Services Aid to provide aid up to state average salary for BOCES CTE teachers or approximately $65,000. Half of this increase should be provided for component school districts of BOCES, while the other half should provide comparable aid increases for the Big 5 city school districts.
**Tax Cap Technical Amendments**

The property tax cap, while it is often presented as a two-percent cap on tax levy growth, is actually tied to the Consumer Price Index (CPI), which is intended to represent the rate of inflation. The CPI growth is a fluctuating number based on the prior year’s inflation. Based on the first ten months of this year the rate of inflation is unchanged from last year. This means school districts would have a tax cap with no increase for next year, based on last year’s data, despite the fact that the state’s Division of the Budget has projected an average CPI increase of 2 percent for next year\(^2\). In order to allow districts a stable and adequate revenue stream in the coming years, NYSASBO proposes that the state tie the property tax cap to a steady two percent, or else provide additional state aid to make up for the difference between a two percent cap and the rate of inflation. For 2016-17, that amount is an estimated $405 million.

**Struggling Schools Grant ($75 million)**

In accordance with Education Law section 211-f, Priority Schools have been placed in a School Receivership program that requires them to meet certain measures for demonstrable improvement. The state provided $75 million for Persistently Struggling Schools to support and implement turnaround efforts, but no additional money for Struggling Schools that must meet similar demands. NYSASBO proposes $75 million for Struggling Schools to give these schools a fair chance at turnaround success. This grant should be offered for at least three years to ensure sustained support for student success.

**Prior-Year Aid Adjustments ($318 million)**

With the continuing flow of billions of dollars in settlement funds to New York State, the state needs to make decisions about how best to invest these one-time revenues. Given that schools are underfunded by almost $5 billion for both GEA and Foundation Aid promised in 2007, some of these funds should be used for one-time expenses of school districts to help them stabilize and move forward. NYSASBO recommends a portion of the settlement funds be used for prior-year aid adjustments that have been approved by NYSED. This currently amounts to $318 million.

Prior-year aid adjustments are made when aid claims are approved or adjusted after the close of the current claim year, often as a result of correcting or updating data. These approved aid payments are put on a list and paid as funds are available. The state typically appropriates about $20 million a year to pay prior year aid claims. At this rate, this means that a prior-year adjustment approved today would take approximately 16 years to be paid. Claims have grown substantially over the past few years and the number of school districts with approved claims is large. Figure 7 shows a map of school districts that are owed prior-year aid adjustments.

**Figure 7. Prior-Year Aid Adjustments Approved and Due to New York State School Districts**

Data Source: NYSED State Aid Office, November 2015.

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**Strategic Resource Use and Mandate Relief**

Achieving the goal of college and career readiness for all students is an ambitious goal that will require the full partnership of the state and local school districts. Legislative leaders and the Governor have implemented an ambitious agenda to slow the growth in education spending into the future. Given that resources will be relatively modest, it is essential that the state and school districts get the most for every tax dollar they spend. This means allocating and reallocating available resources that increase student learning. NYSASBO has identified some legislative mandate relief opportunities in its legislative program at [www.nysasbo.org](http://www.nysasbo.org). NYSASBO has also conducted a symposium and other professional development events to help school districts reallocate resources strategically to improve student learning. A continuing commitment to mandate relief and strategic resource use is a key element of an effective state education funding system.

**Conclusion**

As New York State’s economy continues to revive and grow, it has the opportunity to pursue further, solid economic prosperity by investing in educating its future workforce. This NYSASBO proposal lays out a plan for New York to provide greater transparency in its school funding formula by eliminating harmful GEA reductions and embracing a serious commitment to phase in a Foundation formula that provides for the education required by our State Constitution. The state should adjust the tax cap to either allow school districts to increase local revenues by two percent without a tax cap override or increase state aid by the amount school districts will lose with a tax cap formula with no increase. The proposal recommends deferral of the interest rate reset until Foundation Aid is fully funded and proposes that the state provide more aid for career and technical education teacher salaries to incentivize school districts to implement these programs that are widely regarded for their impact on increased learning and job opportunities. We also recommend funding for Struggling Schools to support turnaround efforts through the School Receivership program. NYSASBO recommends that the state fund all prior-year aid adjustments approved and due to school districts as a one-time expense, with settlement funds that continue to flow to New York State. Finally, NYSASBO recommends that state policymakers recommit themselves to supporting mandate relief measures and resource allocation strategies that allow school districts to more efficiently and effectively deliver their educational programs.

**Appendices & Data Sources**

Appendix A provides a summary of the data discussed in this report: GEA, Foundation Aid still due, and prior-year adjustments in dollar amounts and as a percent of total expenditures, by school district. Appendix B provides the data by school districts grouped by New York City, the Big Four and by BOCES region. Appendix C provides the same data by county. The appendices can be found on the NYSASBO Reports page at [www.nysasbo.org/reports](http://www.nysasbo.org/reports).

All data are from the 2015-16 Enacted Budget, the 2013-14 Fiscal Profiles, or from the NYSED State Aid Office.
Acknowledgements
This report was written by NYSASBO staff members Deborah H. Cunningham and Kimberly Shannon, with data analysis by Jason Fiorini, under the general direction of Executive Director Michael J. Borges.

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SOURCE: New York State Association of School Business Officials, Albany, NY 12205, [Date of Release], www.nysasbo.org

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