



FOUR KEY POINTS

About School Aid and the 2016-17 New York State Executive Budget

1. The proposed state budget falls far short of providing an adequate level of support to enable schools to maintain current services.
2. The property tax cap allows only minimal increases in local revenue, necessitating significantly increasing state aid.
3. State budget gaps have been eliminated, the Gap Elimination Adjustment must end as well – this year.
4. Eliminating the GEA is not enough, the state must commit to re-starting and increasing the Foundation Aid formula.

1. The proposed state budget falls far short of providing an adequate level of support to enable schools to maintain current services.

Governor Andrew Cuomo’s proposed state budget would increase School Aid by \$991 million in 2016-17. This recommended increase is about half of what school districts would need to maintain current services, given a set of moderate assumptions about costs and the prospect of a near zero percent property tax cap.

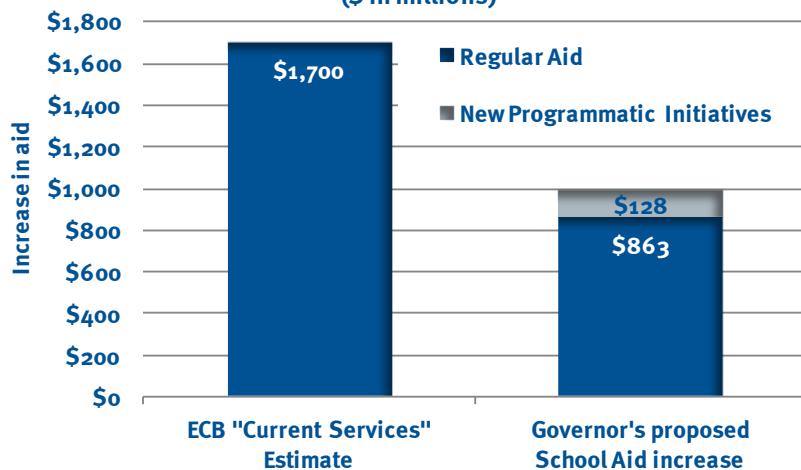
The Governor’s proposed School Aid increase is comprised of these pieces:

- A \$189 million reduction in the Gap Elimination Adjustment
- A \$266 million increase in Foundation Aid
- A net \$408 million increase in expense-based and other aid categories
- A new \$100 million Community Schools Aid formula to support the provision of family support services through schools
- \$24 million for new prekindergarten initiatives
- \$4 million to expand Early College High Schools

The final three items represent new or increased categorical funding, restricted in their use for specified programmatic purposes. Deducting these items totaling \$128 million brings the amount of the increase available to help schools support current operations to \$863 million.

The Educational Conference Board (ECB), a coalition of statewide public school leadership groups, has called for a \$2.2 billion increase in total state aid to public schools and projects that schools would require an increase of \$1.7 billion to maintain current services.

Comparison of Executive Budget School Aid increase and ECB current services need estimate
(\$ in millions)

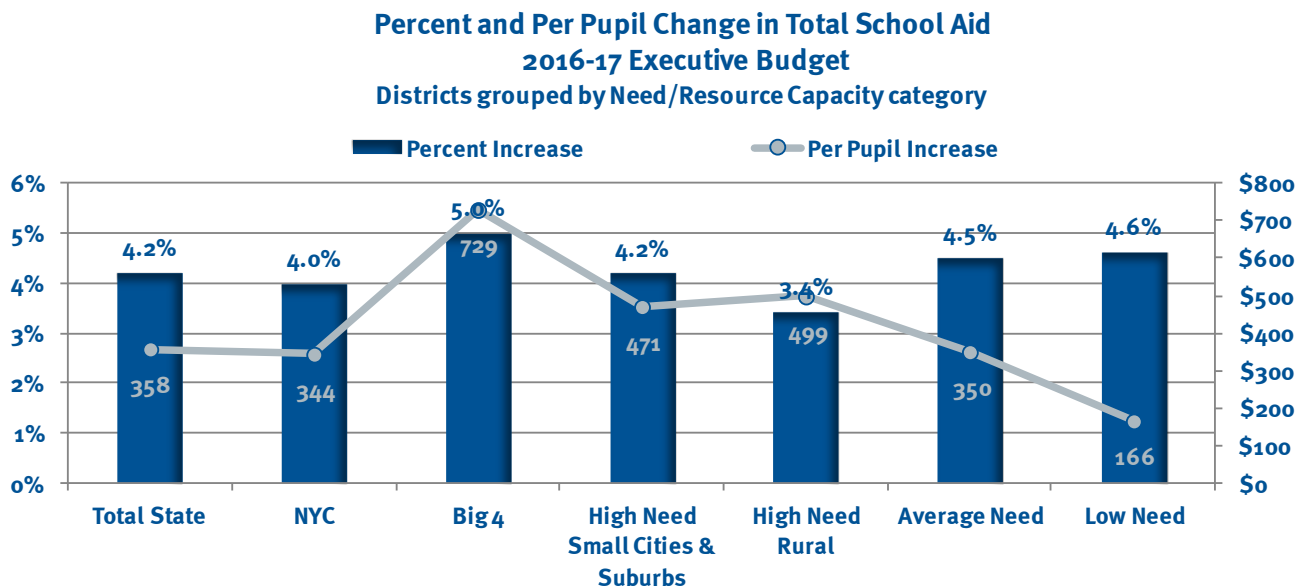


SOURCES: New York State Educational Conference Board estimate; 2016-17 New York State Executive Budget proposal.

The ECB made these assumptions for its projections:

- A 2.7 percent increase in salaries, consistent with an estimate for private sector workers in 2016 from the Society for Human Resources Management;
- A 6.6 percent increase in health insurance costs, in line with projections for the state workforce from the Division of Budget;
- A decrease in Teachers Retirement System (TRS) pension contributions, reflecting estimates for 2016-17 from the TRS Board of Directors;
- An across-the-board 2.3 percent inflationary measure applied to all other costs, based on the Consumer Price Index (CPI) projected for the coming year by the Division of the Budget in its first quarter financial plan update (released in summer 2015); and
- No offset to the above costs from local revenues due to the prospect of a near zero percent tax cap.

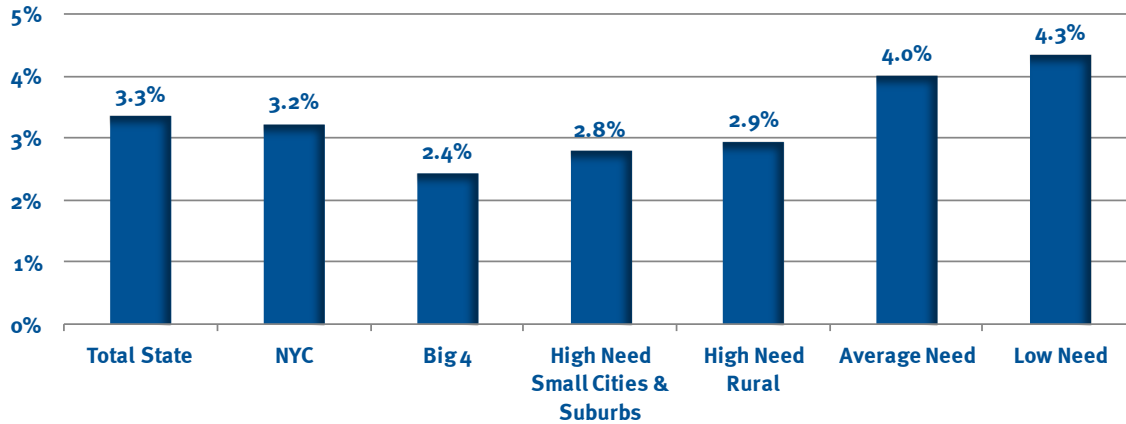
The distribution of the overall aid increase proposed by the Executive Budget is hard to simply critique. Measured by percentage change, the distribution looks essentially random; measured by per pupil change, the distribution does appear to favor poorer districts.



SOURCE: Council analysis of Executive Budget School Aid data (formulas appearing on School Aid runs)

But excluding Community Schools Aid (a new categorical program) and Building Aid (reimbursement for capital expenses) gives a truer picture of the aid available to help schools support current operations. For example, for the “Big Four” cities (Buffalo, Rochester, Syracuse and Yonkers), Community Schools Aid would comprise nearly 40 percent of their total aid increase.

**Percent Change in Total School Aid excluding Building and Community Schools Aids
2016-17 Executive Budget
Districts grouped by Need/Resource Capacity category**



SOURCE: Council analysis of Executive Budget School Aid data (formulas appearing on School Aid runs)

A key point is that with the near zero tax cap, state aid comprises the only source of increased revenue for virtually all school districts, as the next section elaborates.

For all its defects, state aid to schools does have progressive elements, directing greater help to needier districts. So, for poorer districts, they are typically receiving smaller percentage increases on what is their primary revenue source. For better-off districts, whatever increases in state aid they may receive are on top of what is a much lower share of their total revenues.

For all groups of districts – poor, affluent, and in-between – the result is the same: proposed state aid is not adequate to preserve current services.

A Note About “Need/Resource Capacity” Categories

This report uses the “Need/Resource Capacity” (NRC) categories defined by the State Education Department. SED created the categories for analytical purposes. They group districts based on measures intended to indicate the capacity of school districts to meet the needs of their students relying on local fiscal capacity. Districts defined as “High Need” are thus characterized by high student needs and low to average local capacity to pay for education.

The categories are not perfect. They necessarily make fine distinctions between districts in assigning them to categories, with the result a district might narrowly miss being classified as “High Need.” For that reason, ideally they should not be used in state aid calculations, but they have been, and would be under the Executive Budget. It also appears that the categories have been structured to maintain consistent share of districts within each category.

Below is a table indicating some average student need and fiscal capacity measures for the categories.

	% of K-6 Pupils Eligible for Free or Reduced Price Lunches	Property Wealth Per Pupil as % of State Average
New York City	73%	99%
Big Four Cities	81%	38%
High Need Small Cities and Suburbs	72%	54%
High Need Rural	58%	58%
Average Need	35%	91%
Low Need	11%	182%

2. The property tax cap allows only minimal increases in local revenue, necessitating significantly increasing state aid.

New York’s school district property tax cap is commonly referred to as a “2 percent tax cap.” But the actual calculation is more complicated. The base is the “allowable levy growth factor,” then districts apply various exclusions which may cause their actual cap to increase *or decrease* – some districts do have negative tax cap numbers. The base, however, is the lesser of 2 percent or the average increase in the national Consumer Price Index over the preceding calendar year. For the 2016-17 school year, this base is nearly zero – 0.12 percent.

With a 0.12 percent tax cap, school districts would raise an average of only \$17 per pupil. Well over half the state’s school districts would not be able to raise \$25,000 in additional revenue. The sum would support an average increase in total school spending of only 0.07 percent – less than a tenth of a percent.

With a 0.12 percent tax increase, less than 20 percent of the state’s school districts could raise enough funding to preserve the position of even one first-year teacher receiving typical compensation, as the accompanying chart indicates.

What can a 0.12% tax increase buy? For most districts, not even one teacher.	
Median 1st year teacher salary outside New York City (2013-14 -- latest year published):	\$45,000
Estimated 2016-17 employer contribution to New York State Teachers Retirement System:	\$5,274
Employer premium for Empire Plan individual coverage for a state employee:	Approximately \$10,000
Total Compensation:	\$60,274
<i>Less than 20 percent of districts statewide would raise enough to fund one first-year teaching position.</i>	

SOURCE: Council analysis

It is true that school districts can attempt to over-ride the tax cap, but a 60 percent majority of voters is required to do so. If district does seek to over-ride the cap, it is now also asking its voters to forego a direct personal benefit – one of the criteria for taxpayers to receive a property tax rebate from the state is for its school district or municipality to adopt a budget that stays within its tax cap. Also, if a district cannot achieve voter approval, it is barred from increasing its tax levy at all. Since the inception of the tax cap, over-ride attempts have declined each year, from 7.8 percent in 2012, to just 2.8 percent this past May.

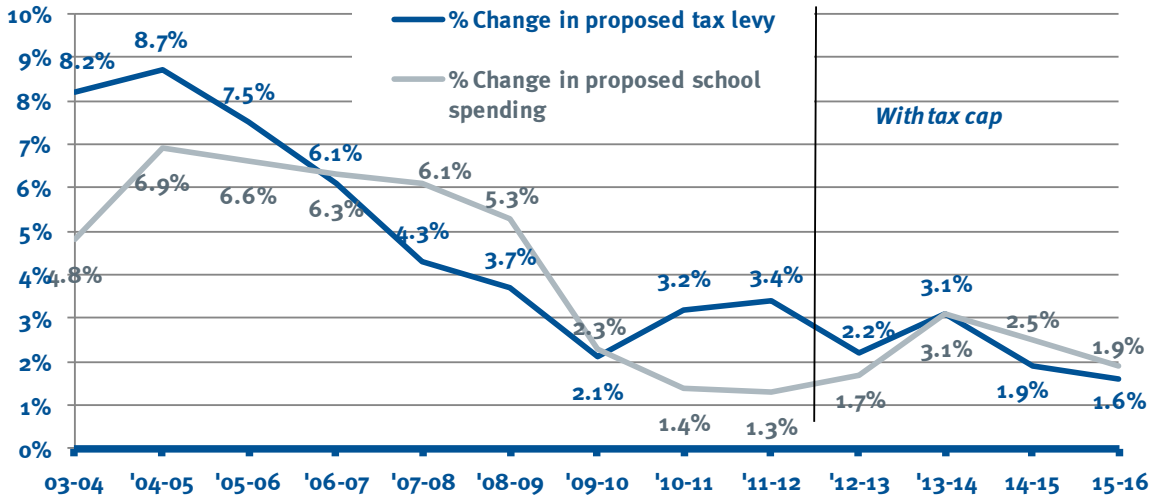
It also true that tax cap exclusions for such items as capital expenses, additions to the local tax base, and legal judgments above a threshold can give a school district a tax cap of more than 0.12 percent. But the exclusions can also reduce a district’s cap and even result in a negative cap target. A year ago, when the base for the tax cap was 1.62 percent, 35 districts had negative cap. With the lower base of 0.12 percent, more districts will face negative tax caps this spring.

School district leaders have worked hard to preserve opportunities for students while holding down tax and spending increases – and were doing so before the tax cap became law. In the four years

under the tax cap, tax increases proposed to voters in May have averaged 2.2 percent; in the four preceding years, the increases averaged 3.1 percent.

But even the small differences in average tax increases over the two most recent periods cannot be explained by the tax cap alone. State aid increases have been greater in the tax cap period (averaging 5.2 percent versus 0.6 percent) and general inflation has been lower (1.3 percent versus 1.8 percent).

**School districts have been holding down tax and spending increases
-- and were before the tax cap**



SOURCE: Council analysis of Property Tax Report Card data. Big 5 city school districts not included (not directly subject to property tax cap).

The property tax cap was extended in the last legislative session and is unlikely to be fundamentally altered in this session. With the current restrictive tax cap, and without more consequential action on mandate relief, New York’s public schools will have to continue to rely upon strong state support to sustain and improve opportunities for students.

Over the near-term, the State Taxation and Finance Department should adopt regulations called for by 2015 legislation, to allow exclusions for the local share of capital expenses for Boards of Cooperative Educational Services and for additions to the local tax base associated with payments in lieu of taxes (PILOTs).

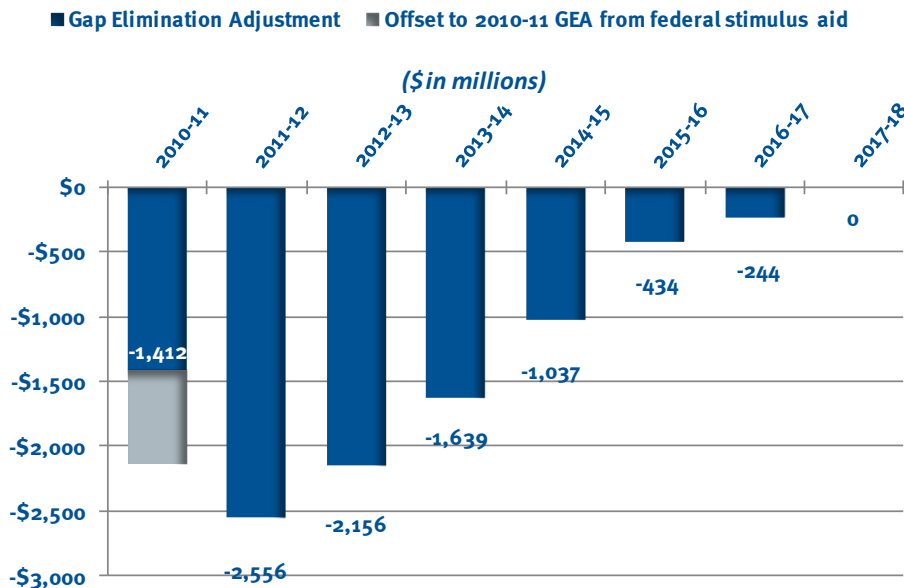
As noted, the cap is commonly cited as a 2 percent cap. One option for longer-term change, therefore, would be to make 2 percent the threshold for triggering the 60 percent super majority approval requirement, rather than the lesser of 2 percent or inflation over the preceding calendar year. A more fundamental change would be to follow the example of Massachusetts. In Massachusetts, communities may increase their tax levy by up to 2.5 percent without seeking voter approval, and only a simple majority is required to over-ride.

3. State budget gaps have been eliminated, the Gap Elimination Adjustment must end as well – this year.

In the depths of the Great Recession, the Gap Elimination Adjustment (GEA) was enacted to reduce state aid to schools, helping to close then massive projected gaps between revenues and expenses for state government. But now state budget gaps are gone and surpluses are predicted for the foreseeable future. The GEA must end as well.

The GEA has operated as a bottom-line reduction in total state aid to schools districts. Aid under regular permanent formulas is calculated, then that sum is reduced by the amount prescribed by the GEA. Over the years, the GEA and its offsetting restorations have been calculated using a mix of factors related chiefly to student needs and local ability to pay for education.

History of the Gap Elimination Adjustment



SOURCE: Council analysis of NYSED School Aid data

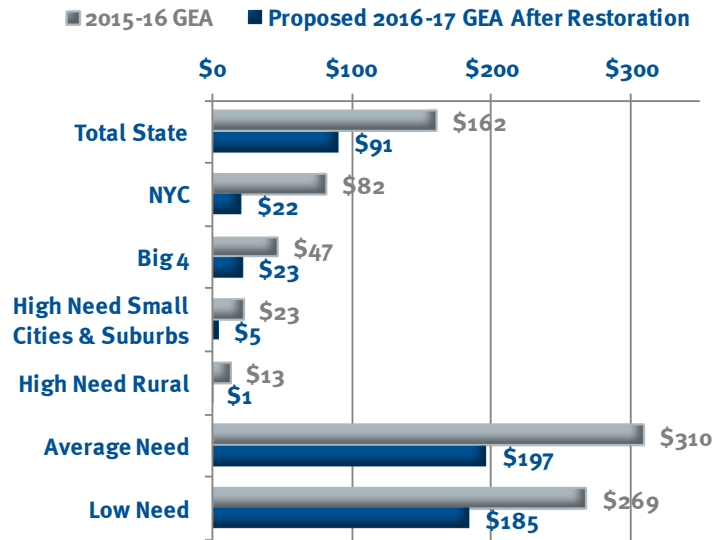
The Governor’s budget would end the GEA over two years, reducing it by \$189 million (from \$434 million in 2015-16 to \$244 million in 2016-17), an average of 44 percent. Two hundred-five school districts would have their GEA fully eliminated in the coming year, and all districts would receive at least a minimum reduction of 30 percent.

At its deepest point, the GEA reduced revenue to schools by over \$2.5 billion. With such a large reduction, poorer districts were initially most hurt, measuring the aid reductions as a percentage of their total school budgets. In succeeding years, the Governor and Legislature have generally targeted restorations against the GEA to accelerate relief to the poorest districts.

In the accompanying chart, the gray bars indicate the aid per pupil each category of districts is losing in 2015-16 through the GEA; the blue bars indicate the per pupil aid loss that would remain in 2016-17, after the Governor’s proposed restoration.

The chart illustrates that, measured by aid loss per pupil, the GEA is now hurting so-called “average need” school districts the most, followed by low need districts. These are also the districts most strongly affected by the near zero percent tax cap, as local revenues generally comprise greater shares of their total revenues than in high need districts.

Gap Elimination Adjustment per Pupil



SOURCE: Council analysis of NYSED School Aid data

But the chart illuminates one more point: ending the GEA is not enough.

Another way of interpreting the chart is to recognize that the gray bars indicate how much each group of districts would gain, on average, by ending the GEA this year and the blue bars indicate how much they would gain beyond what the Governor has proposed in his budget.

Viewed in this way, it becomes evident that if ending the GEA were the only action taken by the Legislature to increase School Aid, high need districts would not receive enough help. For example, fully eliminating the GEA would yield an additional \$13 per pupil on average for high need rural districts over 2015-16, or just \$1 more than what the Governor Cuomo has proposed for 2016-17.

4. Ending the GEA is not enough, the state must commit to re-starting and increasing the Foundation Aid formula.

The Governor’s budget would increase Foundation Aid by \$266 million, or 1.7 percent. An additional increase of at least \$500 million beyond what the Governor has proposed would be needed just to help districts fund current services.

Foundation Aid was enacted in 2007 as part of the effort to resolve the Campaign for Fiscal Equity’s successful challenge to the constitutionality of the state’s system of school finance. It is the primary source of general purpose operating aid to school districts, comprising two-thirds of total School Aid in 2015-16.

After completing two years of a planned four-year phase-in of the formula, Foundation Aid was frozen for three years (from 2009-10 through 2011-12), then received minimal increases for three years (through 2014-15). The state is now over \$4 billion behind in phasing in the enacted permanent law formula.

Foundation Aid was an under-appreciated accomplishment in public policy:

- It generally provided the greatest aid per pupil to the neediest districts while promising all districts greater predictability in state support going forward.
- It also used factors that could be understood, evaluated and debated, strengthening state accountability for school funding decisions.
- But some of the factors must now be reassessed and revised, nearly 10 years after enactment and after multiple years of freezes and constraints on the formula.

Need/Resource Capacity Category	Foundation Aid		
	2015-16 Foundation Aid per Pupil	Proposed 2016-17 Increase in per Pupil	Additional Increase to Reach Full Phase-in per Pupil
Total State	\$5,906	\$99	\$1,447
New York City – High Need	6,376	159	1,546
Big 4 Cities – High Need	10,330	190	2,591
High Need Small Cities & Suburbs	7,708	129	3,990
High Need Rural	9,479	145	1,307
Average Need	5,116	31	761
Low Need	2,182	1	662

SOURCE: Council analysis of NYSED School Aid data

Under the Governor’s budget, eligibility for Foundation Aid increases would be restricted to (1) districts designated as either “high need” or “average need” by the State Education Department in 2003 or 2008, or (2) districts which would receive less than the equivalent of a 3 percent increase over the sum of its 2015-16 Foundation Aid and GEA through the combination of the GEA restoration described above and the new Community Schools Aid formula described below. Seventy-five percent of the state’s school districts meet one or the other criteria.

Further increasing Foundation Aid is imperative for the poorest districts this year. Committing to a plan for fully implementing an updated Foundation Aid formula is essential to a financially sustainable future for all districts.

Other Issues

Additional Priorities: This report has focused on the challenges to schools in maintaining current services. But aspirations for New York’s public schools and their students are greater. The Educational Conference Board called for investing \$500 million to advance additional priorities: expanding prekindergarten, supporting struggling schools, assisting districts with concentrations of English language learners, improving college and career pathways, and promoting professional development for teachers.

Prekindergarten: The budget proposes a new \$22 million initiative to expand prekindergarten programs to serve three year-olds. It would also create a three member board to make funding decisions, comprised of appointees of the Governor, Assembly Speaker, and Senate Majority Leader and staffed by the Office of Children and Family Services. The state should consolidate and synchronize the six funding streams now supporting pre-k. But education programs, including pre-k, should be administered by the State Education Department, the constitutionally responsible agency.

Community Schools Aid: As explained, the budget proposes a new \$100 million Community Schools Aid formula to fund the placement of family support services within schools. This is an important and worthy initiative. It is constructive, also, that funds would be allocated by formula, rather than through a competitive process that disadvantages small, poor districts. But adequate funding for current services must be assured.

Prior Year Adjustments: The budget would *not* accelerate the pay-down of over \$300 million in prior year adjustments in state aid owed to school districts. Only \$18.6 million would be appropriated toward those obligations. At that rate, a district could wait over 15 years for payment. In contrast, when a correction favors the state, the money is recouped from the district within three years. A portion of the financial settlements won by the state should be used to accelerate repayment of these aid adjustments, using a one-time resource to meet a one-time obligation.

School Aid Data Freeze: The budget would limit school districts to the lesser of aid calculated based on data on file when the Governor developed his budget, or on updated data. Some aid data is just not available at the time the Governor’s budget is assembled.

State Aid Penalty Tied to Teacher Evaluations: Under current law, districts must negotiate and gain SED approval for teacher and principal evaluation plans by September 1, or lose eligibility for state aid increases. The plans must comply with the latest change in the law – the third major revision in six years. Districts should be allowed to conduct evaluations under their existing plans until they are able to negotiate the mandated changes. It is inconceivable that students would be more harmed by allowing their districts to use existing evaluation plans than by having their schools lose state aid.

STAR: The Governor’s proposed budget would cap STAR benefits at current levels for current beneficiaries. For future home purchasers, the program would be converted into a tax credit under the personal income tax. Credit amounts would be consistent with the current exemptions. A concern for schools is that new beneficiaries would not see the relief on their fall school tax bills.



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