

2023-24 State Aid Proposal



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ASBO
NEW YORK

ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS

Executive Summary

After decades of intermittent struggles and progress, the 2023-24 State Budget offers New York the hope of fulfilling the historic promise of the Foundation Aid formula while simultaneously moving school districts forward in a number of important academic areas. The supports provided through the formula and the extraordinary federal Covid relief funds have set New York and its school districts on a path to success; now is the time to ensure that success comes to fruition. ASBO New York's 2023-24 State Aid Proposal would do just that by strengthening district operations and providing much needed supports for educating all students.

Through this proposal, School Business Officials ask that the Governor and Legislature:

- Fulfill the promise of Foundation Aid and complete the formula phase-in;
- Provide a minimum increase to all school districts, tied to inflation;
- Fully fund expense-based aids and expand support for career and technical education programs;
- Establish fully funded zero-emission transportation pilots in school districts to develop best practices and state policy revisions;
- Expand the capital outlay exception for Building Aid;
- Provide universal free school meals to all students;
- Increase the base slot amount for Universal Prekindergarten grants, provide additional programmatic flexibility, and make UPK transportation eligible for Transportation Aid;
- Adopt a series of coalition civil service reforms to address staffing shortages;
- Pay all outstanding funds due to school districts through Prior Year Adjustments;
- Allow the duplicative state funding transparency reporting requirement to sunset;
- Align the property tax cap to the reality of inflation and growing needs of school districts;
- Allow districts to increase fund balances consistent with industry standards.

Foundation Aid

In the 2021-22 Enacted State Budget, New York committed to fully funding the Foundation Aid formula over the next three years. As part of this, 2022-23 saw all school districts with remaining aid to be phased-in receive half of their Foundation Aid still due. Under current law, the 2023-24 school year will be the final year of the three-year phase-in. We commend the Governor and Legislature for undertaking this historic level of support for public schools and at long last fully funding Foundation Aid. However, economic challenges affect all school districts, not only those with Foundation Aid still due, so 2023-24 Foundation Aid needs to meaningfully support every district.

As shown in Figure 1, fully funding Foundation Aid currently projects a statewide increase of \$2.7 billion. When breaking this increase down across Need/Resource Capacity Categories, the majority of the projected increase (58.2%) will go to high-need school districts.

Figure 1. Foundation Aid Still Due by Need/Resource Capacity Category

Need/Resource Capacity	Foundation Aid Still Due	17-18 to 22-23 Foundation Aid Still Due per Pupil	Percent of Foundation Aid Funded
New York City	\$568,742,084	\$967	94%
Big Four Cities	\$178,243,381	\$1,697	91%
High-Need Urban/Suburban	\$602,690,882	\$3,460	82%
High-Need Rural	\$198,813,987	\$1,125	90%
Average-Need	\$800,380,567	\$1,001	86%
Low-Need	\$312,304,096	\$747	79%
Statewide	\$2,661,174,997	\$1,198	89%

Foundation Aid is built on three core questions:

- What does it cost to successfully educate students?
- How many additional resources are needed to educate high-need students?
- How many of these resources does a school district have the capacity to provide through local resources?

The table in Figure 1 also includes the amount of Foundation Aid Still Due per pupil from 2017-18 through 2022-23. The Big Four Cities and high-need urban/suburban districts have the greatest disparity in state resources; high-need urban/suburban districts were \$3,460 per student away from full funding in this time period.

While full funding will offer much needed support to the roughly 70% of school districts still on the phase-in calculation, districts that currently receive their full formula amount also face the same economic challenges, including inflation, supply chain disruptions, and labor shortages and accompanying increased costs. Furthermore, because of the property tax cap, these districts are restricted in their ability to raise their local tax levies to address the current challenges. This year 97.1% of school districts on save harmless had district-specific tax caps less than the rate of inflation. To ensure all school districts are sufficiently funded, the state should provide a due minimum increase of calendar year CPI-U to all school districts.

ASBO New York Recommendations:

- Fully fund Foundation Aid
- Provide all school districts a due minimum increase equivalent to the rate of growth in CPI-U

Expense-Based Aids

Expense-based aids provide critical support to school districts by supporting a wide range of school district operations, including pupil transportation, building construction, and BOCES services. Fully funding these aids provides essential continuity and support to school districts. School district spending in the various expense-based aid categories is undertaken with the expectation of receiving the full amount of aid for which the district is eligible in the following year.

In addition to fully funding expense-based aids, the state should expand support for Career and Technical Education (CTE) programs, including reducing the limitations on aid for BOCES CTE instructors. ASBO New York also endorses the State Board of Regents' call for a new CTE aid tier that would broadly support CTE programs and operations.

ASBO New York Recommendations:

- Fully fund all expense-based aid formula
- Support CTE by
 - Raising the salary cap for BOCES CTE Instruction
 - Creating a new tier of CTE aid through BOCES as well as for non-component districts

Zero-Emission School Bus Mandate

The 2022-23 Enacted State Budget introduced a zero-emission school bus mandate that established a 2035 deadline for all student transportation to be provided by zero-emission school vehicles. A complete conversion of pupil transportation involves a complete restructuring of our transportation infrastructure, including changes in maintenance facilities and equipment, operations, electricity consumption, and physical infrastructure. While there are a few cases of school districts operating electric buses, there is a dearth of experience and best practices that all districts in the state can tap into in complying with this requirement.

In November, New York voters approved a \$4.2 billion Environmental Bond Act, which includes at least \$500 million in funds dedicated to zero-emission school buses. Using these funds to support electric school bus pilots will provide much needed insight into the transition to zero-emission transportation. These pilots should be conducted in school districts around the state, with an emphasis on having at least one in each power utility's service area.

ASBO New York Recommends:

- The state fund and operate full-district transportation pilots along the following criteria:
 - At least one pilot in each area serviced by a power utility company
 - Diversity in school district geography and enrollment size in order to gain experience from urban, suburban, and rural areas of the state.

Capital Outlay Exception

School district capital projects receive Building Aid over defined periods of time based on the type of project--reconstruction (15 years), additions (20 years), or new construction (30 years). One exception to this schedule is for a small project that is up to \$100,000, completed within a single school year, and paid for with cash. A school district can receive full Building Aid for these capital outlay exception projects the following year. This \$100,000 cap has been frozen in place since 2003-04, despite two decades of increased construction costs. Raising the cap would increase the amount of construction spending that can be utilized with this exception, while reducing costs associated with borrowing, from closing costs to interest.

ASBO New York Recommendation:

- Raise the threshold for Capital Outlay Projects from \$100,000 to \$250,000

Child Nutrition

The pandemic brought challenges never before seen by school districts, as policymakers, administrators, teachers, and faculty were forced to think creatively to ensure that students and their families received critical services and support. In light of the unprecedented economic uncertainty, the federal government provided waivers and funding allowing schools to serve meals to all students, regardless of financial status. In what amounted to a statewide Community Eligibility Program (CEP), all students were eligible for free breakfast and lunch.

There is a national push to secure federal funds to allow this program to continue. At the state level, California, Colorado, and Maine have taken the initiative to make free school meals available to all students permanently. Nevada has extended free meals for the 2022-2023 school year.

One in seven students in New York experiences food insecurity, which leads to poorer educational outcomes for these students. Enacting a universal meal program will help these students and their families while providing much-needed financial support to middle-class families.

ASBO New York Recommendations:

- New York State establish and fund a permanent Healthy School Meal For All program
- Maximize federal reimbursement through the continued collection of necessary direct certification data and local outreach

Universal Pre-Kindergarten (UPK)

In recent years, New York State has significantly expanded its support for UPK programs. The 2022-23 budget included \$125 million in additional funds, between formula allocations and grants. The overall formula allocation for school districts is currently \$1 billion in the 2022-23 school year. ASBO New York fully supports UPK. However, the current structure of UPK funding makes it difficult for many school districts to translate these funds into opportunities for young children. The property tax cap's constraint on local revenues makes it difficult for school districts to fund new programs, so there are many school districts that are financially unable to support introducing and expanding UPK. The base allocation level of \$5,400 per slot has not been updated since 2006-2007. Raising the base slot and adding additional flexibility in using allocated amounts will result in a meaningful expansion of UPK opportunities in New York. These flexibilities could include allowing for funds to exceed slot amounts when school districts face constraints in operating programs; these constraints include class size and availability of building/classroom space.

Transportation can be a barrier to UPK usage for some students. Making transportation expenses for UPK programs eligible for Transportation Aid would expand opportunity for students.

ASBO New York Recommendations:

- Increase base slot amount
- Expand allocation flexibility to increase school district ability to utilize allocations
- Make UPK expenses eligible for Transportation Aid

Staffing

Labor shortages have impacted school districts throughout the country, with a recent Institute of Education Science study showing that 53 percent of schools faced staffing shortages heading into the 2022-2023 school year.¹ School districts in New York have struggled to fill transportation and other civil service positions. ASBO New York has joined a coalition that includes other education and municipal associates in supporting several civil service reforms will improve school district efforts to ensure adequate staffing while staying committed to the merit-based civil service system.

¹ Institute of Education Sciences, "2022 School Pulse Panel." <https://ies.ed.gov/schoolsurvey/spp/>

ASBO New York Recommends:

- Establish that there may be a maximum of two years between civil service recruitment exams while also expanding the use of continuous recruitment positions when possible
- Standardizing grading metrics between counties for civil service exams
- Modernize civil service exam content using input from the field
- Create a pathway for provisional employees to become permanent
- Remove civil service requirements for part-time positions
- Allow for electronic canvassing of candidates
- Expand the rule of 3 to the rule of 5
- Temporarily extend the retirement income cap for an additional year for school employees

Prior Year Adjustments

State Aid payments to school district can be updated after districts receive the funding for multiple reasons, including updated school district data or new filings. When these updates result in the school district owing money to the state, the overpayment is deducted immediately from State Aid payments. However, when the updated calculation results in a school district receiving additional aid, the district is added to the “Prior Year Adjustment” queue. Over the last two years, the state has not appropriated any funds for paying claims, so the queue has grown; it is currently at \$299.8 million. In addition, the state provided much needed relief for many aid penalties due to administrative paperwork errors, but these amounts are paid through the queue as well. These are funds that school districts should have received. The state should pay off the claim queue and introduce equitable treatment for prior year adjustments by changing state policy, so all adjustments are addressed without relying on a claim queue.

ASBO Recommendation:

- Fully pay off the existing Prior Year Adjustment queue
- Moving forward, treat all claims equally by immediately paying additional aid when the adjustment results in additional aid to a school district or BOCES

Transparency Reporting

School districts currently report building level spending on a per pupil bases as part of the federal Every Student Succeeds Act (ESSA). In addition, school districts also report per pupil budgeted amounts as part of a state transparency requirement that was introduced as a temporary stopgap prior to ESSA reporting implementation. The state transparency reporting requirement is scheduled to sunset this year and ASBO strongly supports its expiration. The reporting is a significant burden on school district operations, while producing less accurate and often duplicative data.

ASBO New York Recommendation:

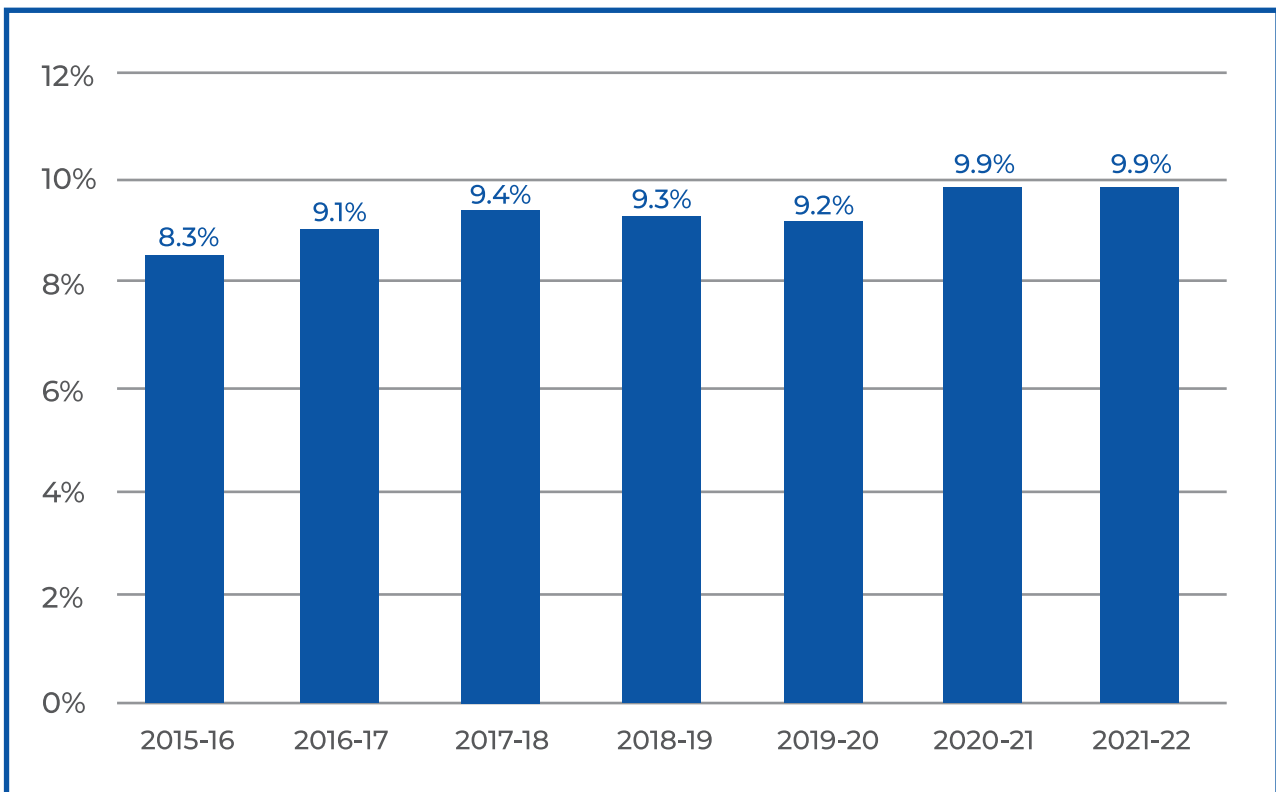
- Allow state transparency reporting mandate to sunset

Property Tax Cap

The now-permanent property tax cap has been in effect for ten years and has slowed the growth in school district levies. Under the law, each school district has its own specific tax cap that is calculated by starting with a statewide factor (the lesser of 2% or CPI-U) and then adjusted for certain local financial factors. When inflation was closer to 2%, district-specific tax caps were generally around CPI-U. Since the calculation is lagged by a year, in 2022, 92% of school districts had district-specific Tax Caps that were less than the rate of inflation, even though 2021 inflation was much lower than 2022 inflation projects to be. In order to maintain the Tax Cap limits while insulating school districts from high inflation, ASBO proposes making the Maximum Allowable Growth Factor the greater of 2% or CPI-U.

In addition, the current structure of the Tax Cap makes it difficult for school districts to increase revenue for unexpected expenses. One of the challenges that school districts face is growth in student need. In order to support school districts in educating students, ASBO is calling for a Tax Cap exemption covering spending on English language learners or Students with Disabilities in school districts that are experiencing significant growth among those students. Figure 2 shows the overall increase in ELL students as a share of New York enrollment; it is important to note that ELLs are highly concentrated. A little over 40 percent of school districts have no English Language Learners; there are 34 districts that have experienced one-year ELL growth of at least 10% and have at least 50 ELLs enrolled. Creating a new exception will provide essential support for school districts with significant growth in spending on ELLs.

Figure 2 English Language Learner Rate, 2015-16 to 2021-22



The growth in Students with Disabilities (SWDs) has not been as dramatic statewide, but the rate is increasing. In 2015-16, 17.3% of students in New York schools were classified as SWDs; in 2021-22, the rate was 18.0%.

Finally, the tax cap calculation uses the previous year's levy as its starting point. This creates a strong incentive for school districts to levy at their district-specific tax cap, because there is no meaningful way to incorporate these funds into future budget proposals. Creating a mechanism to do so would benefit taxpayers and school districts.

ASBO New York Recommendations:

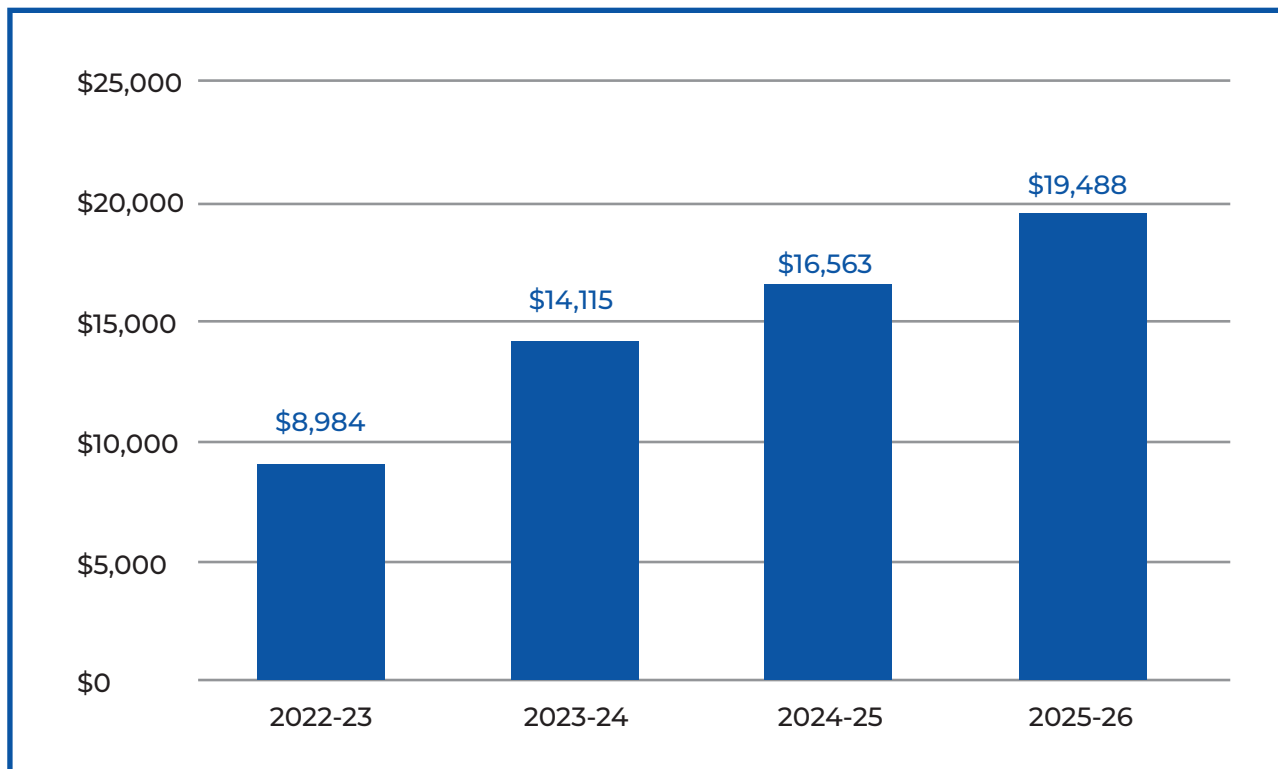
- Make the Maximum Allowable Growth Factor the greater of 2% or calendar year change in CPI-U
- Create a Tax Cap exemption for school districts that are experience significant growth in spending on English language Learners and Students with Disabilities
- Allow school districts to incorporate previously unlevied funds into their district-specific tax caps

Fund Balance and Reserves

School districts are currently allowed to maintain up to 4% of the following year's budget in unrestricted, unallocated fund balance. These funds are critical for school districts to handle unforeseen challenges, from a global pandemic to a local natural disaster. The Government Finance Officers Association (GFOA) recommends that public entities retain two months of operating expenses in unrestricted fund balance, which at over 16% is well above the current 4% cap.

At a state level, New York has recognized the importance of maintaining a healthy fund balance. As shown in Figure 3, the Division of Budget currently projects the state's fund balance will grow from \$8.984 billion at the close of 2022-23 to \$19.488 billion at the end of 2025-26. This 2025-26 amount is projected to be 15% of state spending, which is in-line with the GFOA recommendation.

Figure 3. Projected State Fund Balance (in millions of dollars)²



² NYS Division of Budget, "Mid-Year Update to the Fy 2023 Enacted Budget Financial Plan."

<https://www.budget.ny.gov/pubs/archive/fy23/en/fy23en-fp-myu.pdf>

Increasing the fund balance cap would provide economic benefits for the state and local communities. Fund balance levels are a key component of school district credit ratings, which can lower borrowing costs. More adequate reserve funds would save the state and taxpayers money, while improving school district sustainability.

During the height of the COVID pandemic, school districts faced financial difficulties due mainly to increased operating costs and cash flow constraints stemming from economic uncertainty. To address these concerns, the State temporarily provided municipal governments with additional flexibility in their use of reserve funds. School districts were permitted to temporarily transfer funds from reserve funds to pay for operating expenses attributable to the COVID-19 pandemic, provided that they reimburse said reserve funds within five years.

School districts often utilize short-term loans such as bond anticipation notes or revenue anticipation notes to provide funds while waiting for funds from local property tax collection or state aid. With interest rates continuing to climb, the cost of utilization of these financial services has also increased. Allowing school districts to borrow from their reserve funds, as they were allowed to under previous legislation, would save taxpayers money. At the same time, proper safeguards would remain in place to ensure the financial integrity of school districts.

ASBO New York Recommendations:

- Raise the cap on unrestricted fund balance to 10% through a three-year phase-in of two percentage points per year
- Allow school districts to utilize borrowing from reserve funds as an alternative to high-interest, short-term borrowing financial instruments

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