

2021-22 Executive Budget Proposal



February 09, 2021

ASBO
NEW YORK

ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS

Summary

The 2021-22 State Budget comes at a pivotal time with school districts facing the twin challenges of a public health crisis and economic downturn. To ensure that school districts have the resources needed today without compromising future generations, ASBO New York (ASBO) calls for the following federal and state responses:

- Federal stimulus providing at least \$15 billion in support to New York State
- From the Executive Budget Proposal
 - We oppose using federal money to fill in State Aid cuts. The Executive Budget sets up a fiscal cliff that would devastate school districts
 - We oppose the Local District Funding Adjustment and reductions to STAR reimbursements
 - We oppose any consolidation or reductions to expense-based aids
 - We support the governor's proposal to extend Transportation Aid to support pandemic-related operations and encourage this to be extended to costs related to maintaining transportation capabilities
 - We support funding essential upgrades to the State Education Department's State Aid Management system
- Foundation Aid has been frozen since the 2019-20 Enacted Budget. It is time for the state to commit to fully funding the formula
- The state should use federal stimulus funds to support extraordinary COVID-19 expenses
- School districts should have more financial flexibility through expanded allowable fund balance and the allowable use of reserves in challenging times
- The Tax Cap calculation should be adjusted to make the allowable growth factor the greater of 2% or inflation, to eliminate negative Tax Caps, and to allow districts to exclude pandemic-related expenses from their calculations

These recommendations are discussed in more detail in the rest of this paper.

Introduction

The COVID-19 pandemic and associated economic recession have profoundly shaped school district operations during the 2020-21 school year and they promise to have as large an impact on the 2021-22 New York State budget. Throughout 2020-21, school districts incurred pandemic-related expenses required for safe operations in the midst of a public health crisis, all while facing temporary State Aid withholding that threatened to become permanent and, in the best-case scenario, seeing a freeze in Foundation Aid. On January 19, Gov. Cuomo introduced his proposed 2021-22 state budget, which uses money from the federal Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) December 2020 stimulus to cover significant reductions in state support for public schools. This document provides our reaction to the governor's proposal and our agenda for the 2021-22 state budget. The key principles are as follows:

- The 2021-22 state budget needs to provide necessary support to school districts for current operations without endangering the long-term financial sustainability of school districts. School Aid should meet school district needs and be consistent and predictable in order to support long-range planning.
- The federal government needs to provide additional support to New York State. The Executive Budget is built on an additional \$6 billion in federal stimulus from a forthcoming bill. Gov. Cuomo also made clear that if the state were to receive \$15 billion, his budget proposal would eliminate built-in cuts. **It is essential that the federal government enact an additional stimulus bill that would provide meaningful support to states and localities.**

The 2021-22 Executive Budget Proposal

Federal money and state reductions

The 2021-22 Executive Budget proposes reducing School Aid and STAR payments to districts, using a significant portion of the most recent federal stimulus's support to districts to fill in the cuts, and block granting and cutting eleven expense-based aids. If enacted, the budget would paper over state aid cuts in the short term, but set up much deeper long term reductions in overall funding support.

The governor's budget proposal uses \$2 billion of the \$3.8 billion in CRRSA funds provided to school districts to fill in reductions in state support for public schools. This would be the second consecutive budget featuring federal monies filling in state spending reductions. For 2020-21, the state created a one-time Pandemic Adjustment that reduced School Aid for each district by the amount of its CARES Act allocation, a net \$1.1 billion decrease in State Aid.

The budget combines School Aid with STAR payments and then reduces both. As shown in the table below, the state's financial plan includes large cuts in projected state support for school districts, not just in the governor's proposal this year, but dating back to a year ago. Compared with projections made before the onset of the COVID-19 pandemic, the governor's proposed budget cuts School Aid by \$10 billion over the next four years, along with a \$3.5 billion reduction in STAR reimbursements. After accounting for federal support through the CARES and CRRSA money to school districts, the \$13.5 billion cut falls to \$8.6 billion. This creates a dire fiscal cliff that will threaten the educational and operational viability of districts across the state.

Traditional School Aid ("GSPS") (Excluding CARES and CRRSA)					
(\$ in millions)					
	2019-20 SY*	2020-21 SY	2021-22 SY	2022-23 SY	2023-24 SY
Feb. 2020 Executive	\$27,368	\$28,550	\$29,375	\$30,969	\$32,336
April 2020 Enacted	\$27,368	\$26,780	\$27,918	\$28,911	\$29,854
Jan. 2021 Executive	\$27,368	\$26,451	\$27,289	\$28,475	\$29,572
Change since last year		(\$2,099)	(\$2,446)	(\$2,494)	(\$2,654)
Total Lost GSPS					(\$9,693)
*From April 2020 Enacted					

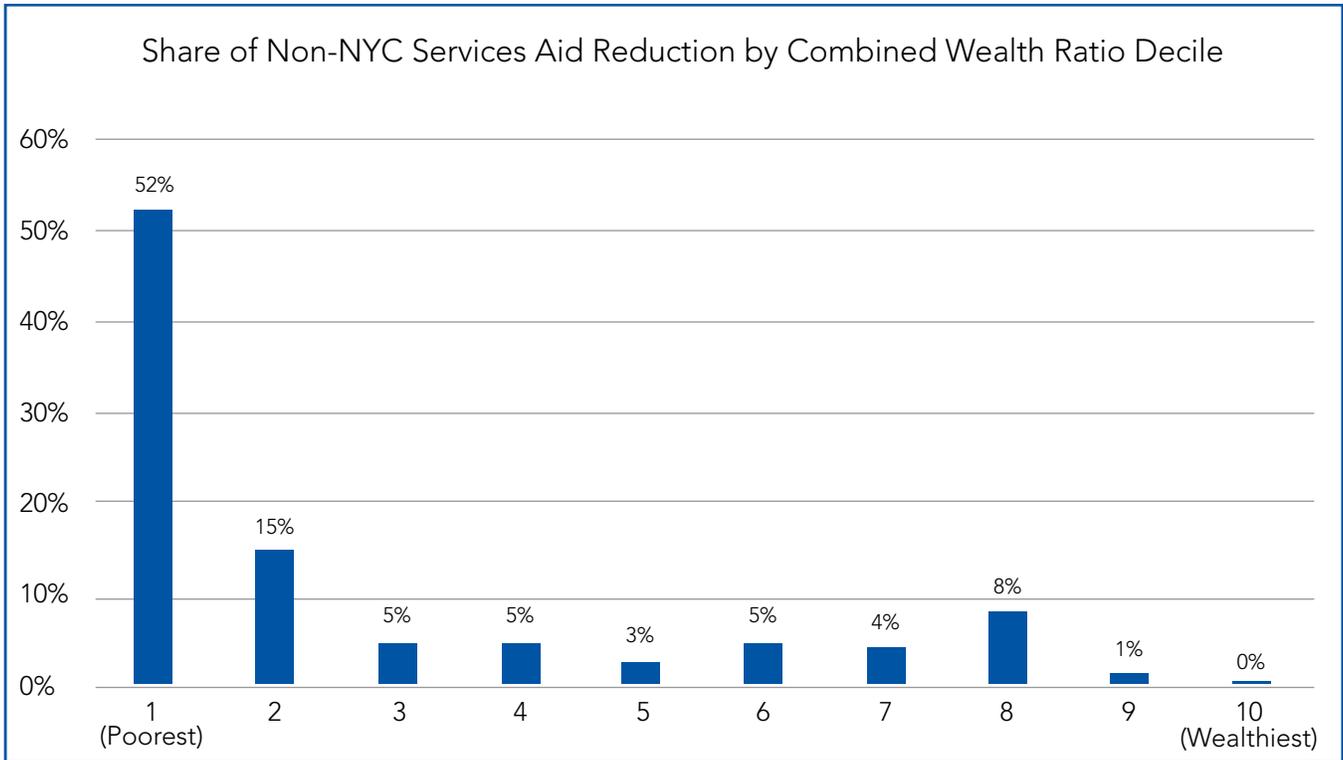
STAR (Excluding CRRSA)					
(\$ in millions)					
	2019-20 SY*	2020-21 SY	2021-22 SY	2022-23 SY	2023-24 SY
Feb. 2020 Executive	\$2,184	\$2,000	\$1,912	\$1,796	\$1,693
April 2020 Enacted	\$2,184	\$2,073	\$1,979	\$1,858	\$1,750
Jan. 2021 Executive	\$2,184	\$2,030	\$587	\$489	\$405
Change since last year		\$30	(\$1,325)	(\$1,307)	(\$1,288)
Total Lost STAR					(\$3,890)
*From April 2020 Enacted					

Total State Support (excluding CARES and CRRSA; including GSPS and STAR)					
(\$ in millions)					
	2019-20 SY*	2020-21 SY	2021-22 SY	2022-23 SY	2023-24 SY
Feb. 2020 Executive	\$29,552	\$30,550	\$31,647	\$32,765	\$33,919
April 2020 Enacted	\$29,552	\$28,853	\$29,897	\$30,769	\$31,604
Jan. 2021 Executive	\$29,552	\$28,481	\$27,876	\$28,964	\$29,977
Change since last year		(\$2,069)	(\$3,771)	(\$3,801)	(\$3,942)
Total Lost State Support					(\$13,583)
*From April 2020 Enacted					

Consolidating expense-based aids

The Executive Budget proposes converting 11 existing expense-based aids¹ into a new Services Aid category, which will then be reduced and frozen. The Services Aid reduction is \$693 million; it effects 237 school districts.

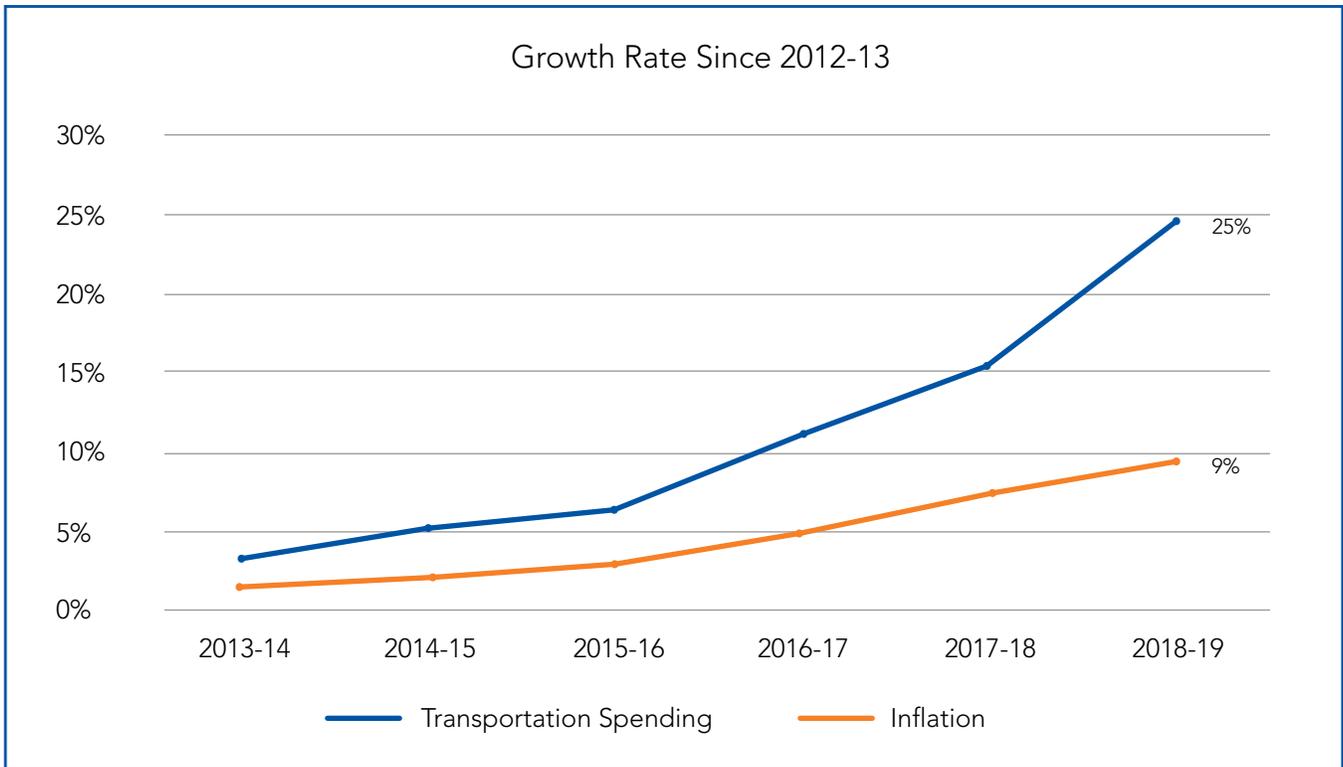
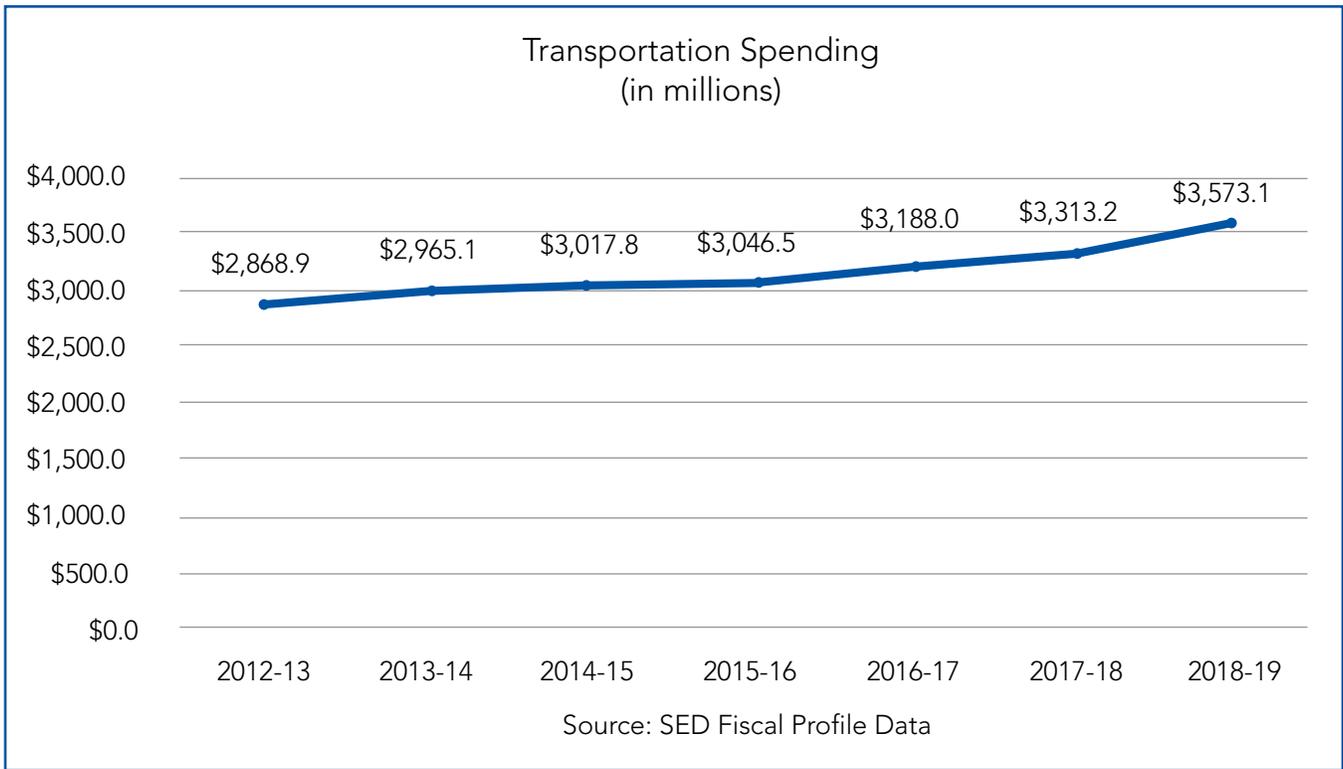
The Services Aid reductions are enormously regressive, as shown in the following table. Looking at proposed Services Aid reductions by Combined Wealth Ratio decile,² 67% of the reduction for school districts outside of New York City is felt by the two poorest deciles. The wealthiest 50% of school districts would only see a 19% reduction; the top 20% would only have their Services Aid cut by 1%.



The consolidation of expense-based aids would fundamentally break the model of state support for needed school services and instead shift the financial burden more onto school districts. For example, the graph below shows transportation costs from the 2012-13 through the 2018-19 school years. In this time period, as shown in the second graph, transportation spending by school districts increased 25%, from \$2.9 billion to \$3.6 billion, which is almost triple the rate of inflation over the same time period of 9%. ASBO strongly believes in providing students with needed and safe transportation and that the cost of such transportation is unlikely to fall in the future. This leaves two choices: asking districts to absorb a greater share of the cost or reducing the quality of provided services. The former is not viable; the latter is unacceptable.

¹ The 11 aid categories are BOCES Aid, Textbook Aid, Software Aid, Library Materials Aid, Computer Hardware and Technology Aid, Supplemental Public Excess Cost Aid, Transportation Aid including Summer Transportation Aid, Special Services Aid, Academic Enhancement Aid, High Tax Aid, and Charter School Transitional Aid.

² All analysis by deciles excludes New York City



Beyond simply shifting the burden of needed spending, consolidating these aid categories would cause irreparable harm to the state's Boards of Cooperative Education Services (BOCES). BOCES provide educational, financial, and operational support to school districts from career and technical education to distance learning programs to shared services. BOCES are a core component of New York's public education model.

Transportation Aid

During the COVID-19 statewide shutdown in the spring of 2020, school districts used transportation resources to provide services to remote students, including meal delivery, providing students with instructional materials, and serving as mobile hotspots. ASBO welcomes the Executive Budget proposal to make such activities eligible for Transportation Aid. Unfortunately, this expansion wouldn't include any spending undertaken by school districts to maintain transportation services, whether from districts that operate their own transportation and, following CARES Act guidance, kept staff on payroll or districts that contract out transportation or districts that made full or partial payments to their contracted transportation providers. Finally, such eligibility expansion should apply to all COVID-19 related transportation spending from during the 2021-22 school year.

Eliminating Prior Year Adjustments

The calculation of State Aid to school districts can be retroactively changed, for reasons including data updates or new filings. When such changes mean that the state has overpaid a school district, the adjustment is deducted from the next aid payment. However, when the new calculation means that the state owes a school district additional aid, the school district is added to a list of Prior Year Adjustments. In recent years, the state has allocated \$18 million per year to cover Prior Year Adjustments, a fraction of the \$304 million in unpaid claims. The earliest claims on the list date back to 2011 and there are more than 3,800 separate adjustments on the unpaid list.

The governor's proposed budget would eliminate all adjustments that would result in additional payments to school districts. ASBO opposes this proposal.

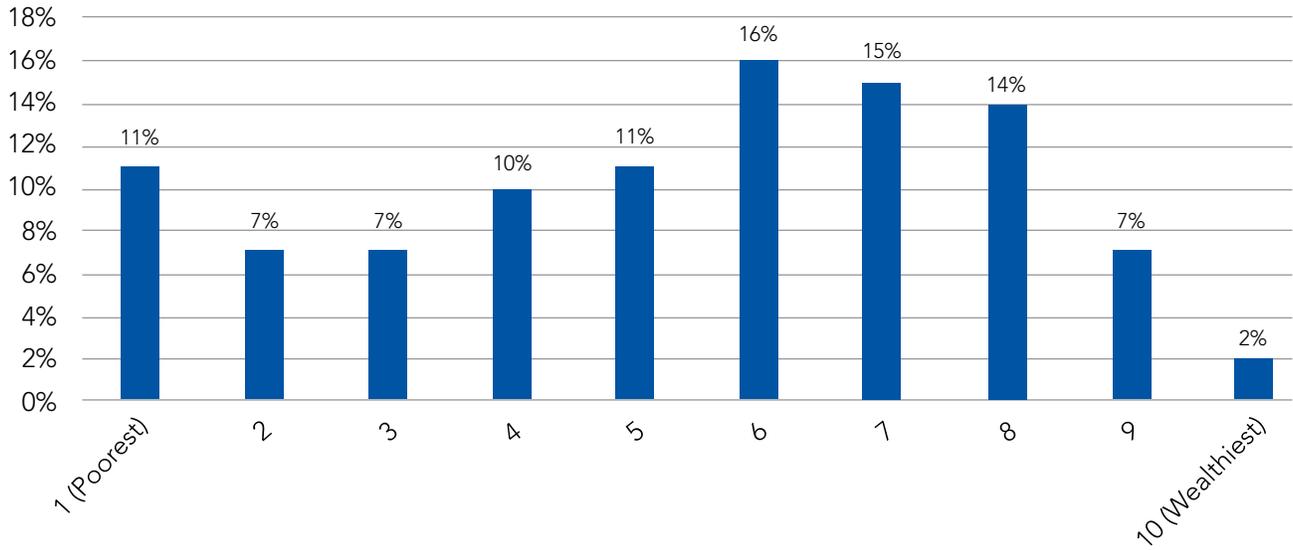
Upgrades to State Aid System

ASBO strongly supports the Executive Budget proposal of \$41 million to update the State Education Department's State Aid system. This much needed upgrade would modernize the filing process for school districts and increase responsiveness and reliability.

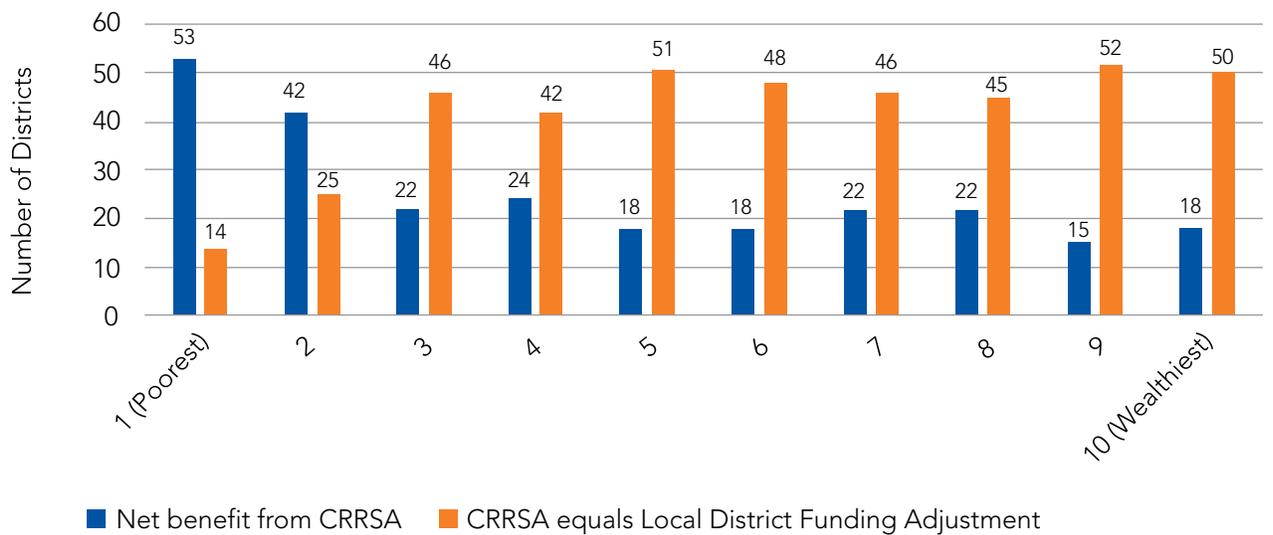
Local District Funding Adjustment

The Executive Budget makes no change to the expiration of the 2020-21 Pandemic Adjustment that fully off-set the March 2020 CARES Act funding. However, it creates a new Local District Funding Adjustment to implement the state spending reductions previously mentioned. For a given district, the adjustment is equal to the lesser of its CRRSA allocation or its STAR payment. Statewide, for 254 school districts, their CRRSA allocation is larger than their Local District Funding Adjustment, meaning they would receive a net increase of federal funding. For 419 school districts, the Local District Funding Adjustment fully accounts for the CRRSA funds.

Share of Local District Funding Adjustment by CWR Deciles



Allocation of CRRSA Money by CWR Decile

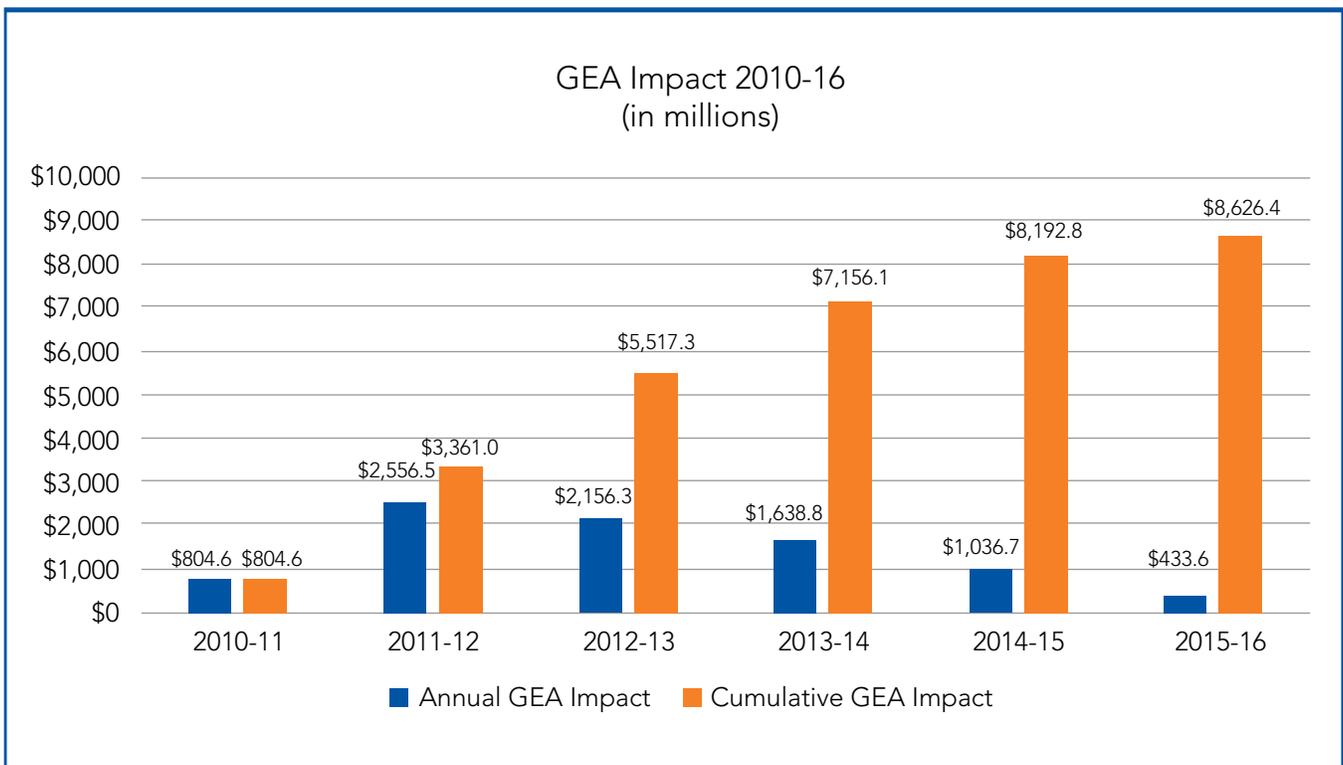


STAR

Property owners who receive the School Tax Relief (STAR) Exemption see their school tax bills reduced; school districts receive payment from the state for the amount of these exemptions. The Executive Budget proposes a \$1.3 billion reduction in STAR Exemption reimbursements to school districts. This reduction amounts to a backdoor cut in state support; since the exemption amount would still be reduced from a taxpayer's bill, the cost would be offloaded onto the district. There is no mechanism allowing school districts to make up this revenue through their Tax Cap calculations, so they would face the choice of proposing to override the Tax Cap in the midst of a recession or reduce other spending to absorb the STAR reduction.

GEA 2.0

The governor's budget proposal would not be the first-time school districts have seen large cuts in State Aid accompanied by temporary fill-ins with federal support. Between 2009 and 2011, the state cut aid to schools through the Gap Elimination Adjustment (GEA) and backfilled those cuts with federal American Recovery and Reinvestment Act (ARRA) funding. When those federal dollars expired, districts faced a \$2.6 billion reduction in State Aid that took five years to fully restore. As the following graph shows, the multi-year impact of the GEA was a net \$8.6 billion reduction in School Aid.



We know from previous experience that the GEA devastated public education; school districts today are vulnerable to a new GEA.

For much of the 2020-21 school year, school districts saw 20% withholdings of some State Aid payments and grants. While we are pleased to note that all withholdings will be fully restored to districts, at the time school districts faced a very real threat of large, multi-year aid cuts. In a report jointly written with the New York State School Boards Association entitled *A Lost Generation? The Impact of State Aid Cuts and COVID-19 on Students*³, ASBO surveyed school business officials in September 2020 about the potential impact of multi-year aid reductions on this scale. While the reductions in School Aid projected by the Executive Budget are smaller than the reductions covered in the survey, the thoughts of fiscal and educational insolvency for districts around the state are deeply troubling.

If your 2020-21 State Aid is cut 20% and State Aid cuts continue for the next two to three years, what is the worst-case scenario for your district?	
Staffing cuts	40%
Fiscal insolvency	25%
Program cuts	14%
Educational insolvency	13%
Significant financial strain (large levy increases; exhausted fund balance and/or reserves)	9%

School districts currently face multiple challenges that make them more vulnerable to the impact of a GEA 2.0. First, Foundation Aid has been frozen to the 2019-20 Enacted Budget amount, meaning districts would face future reductions from a position of existing fiscal constraint. Furthermore, because of the unique circumstances stemming from the COVID-19 pandemic, school districts have had to devote significant funding to current operations to simply reopen safely. The challenges of social isolation have caused a general concern about an increase in mental health concerns that are likely to be particularly prevalent among students and staff, which will require additional resources to address. The unique constraints of remote learning and health related disruptions raise the real possibility of growing achievement gaps and other concerns about educational achievement. Finally, because of the Tax Cap, school districts face heavy constraints in raising local revenues to meet their needs.

Supporting Public Schools in a Time of Crisis

The 2021-22 state budget must support school districts in the midst of an unprecedented crisis while ensuring the long-term sustainability of public schools. This section begins with a brief reaction to the Executive Budget before outlining ASBO's agenda. Our proposals include support specific to COVID-19 related concerns as well as recommendations addressing general operations and long-term planning. Underlying our entire agenda is a need for **additional federal support targeting states and localities**.

³The report is available at https://www.asbonewyork.org/resource/resmgr/reports/A_Lost_Generation_Report__20.pdf

Reacting to the Executive Budget Proposal

ASBO makes the following recommendations:

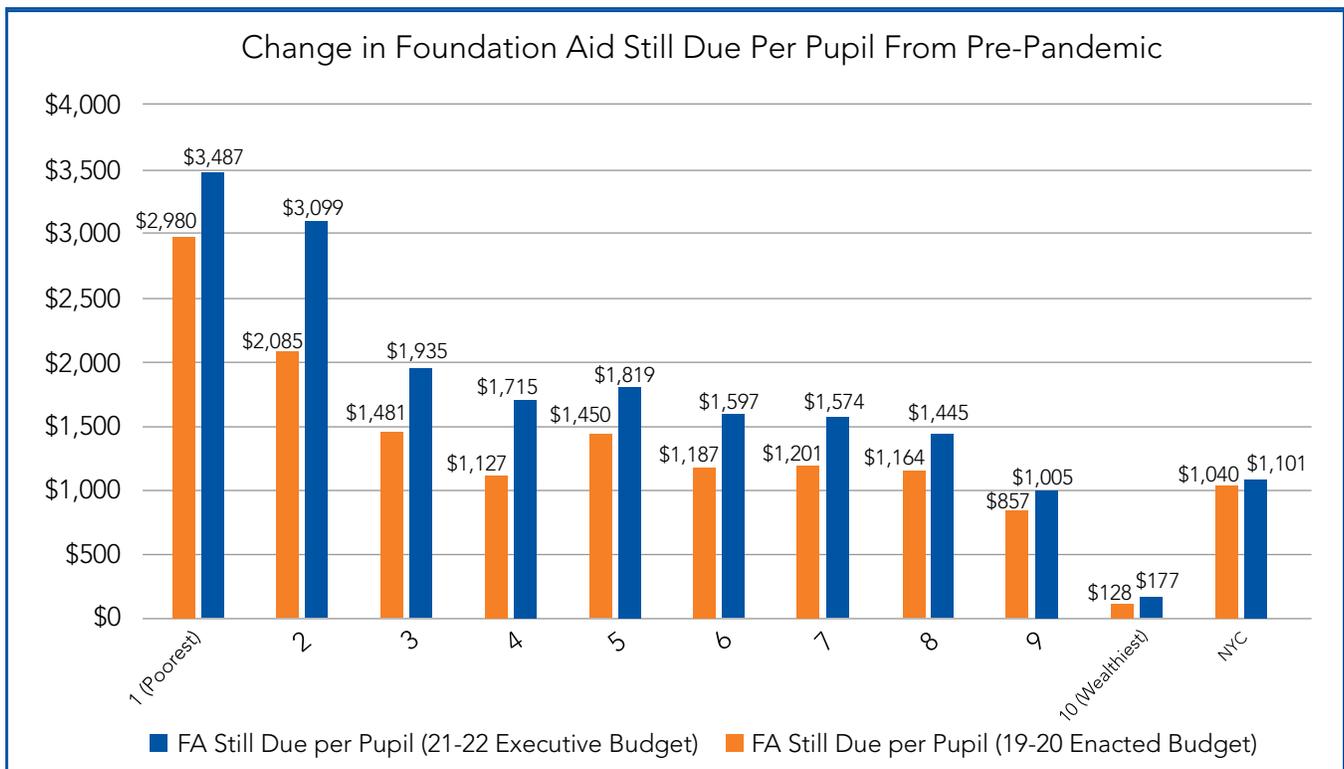
- There should be no reductions to state support for public schools. Specifically, we oppose the Local District Funding Adjustment that would reduce School Aid and STAR Exemption reimbursements
- Expense-based aids should not be subject to a block grant or reduction
- The partial expansion of expenses qualifying for Transportation Aid should be extended so that all pandemic-related expenses school districts incurred during the 2019-20 and 2020-21 school years are eligible for Transportation Aid
- Prior year adjustments should not be eliminated

Foundation Aid

Foundation Aid to school districts has been frozen since the 2019-20 Enacted Budget and this wouldn't change in the governor's proposal for 2021-22. Foundation Aid is an evidence-based determination of how much support the state needs to offer school districts after accounting for variations in local fiscal capacity, student need, and geography. The state has never fully funded Foundation Aid, but as the table below shows, prior to the pandemic, it had chipped away at the amount needed to fully fund every district. With the multi-year freeze, Foundation Aid Still Due would increase from \$3.4 billion following the 2019-20 Enacted Budget to \$4.1 billion.

Enacted Budgets	Foundation Aid Still Due
2017-18	\$3,665,921,663
2018-19	\$3,540,272,285
2019-20	\$3,414,576,949
2020-21	\$3,848,762,207
2021-22 (Executive proposal)	\$4,055,290,298

Because Foundation Aid accounts for student need and fiscal capacity, it is a progressive formula, so moving further away from full funding disproportionately hurts high-need school districts. The below table shows the change in Foundation Aid Still Due per pupil from when Foundation Aid was frozen to the Executive Budget proposal by CWR decile. For the highest-need decile, Foundation Aid Still Due per pupil grew \$507 in this time; the growth for school districts in the lowest-need decile was only \$49.



While future state aid cuts would be devastating, the status quo of frozen Foundation Aid threatens educational equity in New York State. For the state to provide sufficient support to public schools and continue advancing educational equity, it needs to recommit to fully funding Foundation Aid.

COVID-19 Expenses

Unlike in previous economic downturns, school districts operating during the COVID-19 pandemic have had to incur significant additional operating expenses. In the previously mentioned ASBO-NYSSBA survey, School Business Officials provided data on the cost of reopening schools for the 2020-21 school year. For the 181 school districts that completed the survey, the reopening costs as of early September 2020 were around \$219 per student. The three most frequently cited cost drivers were PPE acquisition, technology purchases, and additional staffing. It is very likely that because these are recurring costs, year-long COVID-19 expenses are much larger than the \$219 per pupil figure.

Because COVID-19 related expenses are distinct from the costs of normal operations, the state should use federal stimulus funds to help school districts manage pandemic-related costs. Furthermore, the state should build on the governor's proposal and make expenditures maintaining transportation services, whether contract or district-operated, eligible for transportation aid. Any transportation resources used to provide services to students learning remotely should likewise be eligible and this should extend into the 2020-21 school year.

Providing School Districts With the Necessary Tools for Long-Range Planning

Financial Flexibility

School districts are currently limited to a 4% unrestricted fund balance, which severely limits their ability to engage in long-term planning or deal with unprecedented crises. The Government Finance Officers Association (GFOA) recommends “at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” Because school districts are so severely limited in their ability to maintain adequate fund balances, when an unexpected public health crisis emerges or a state budget proposal includes a multi-billion fiscal cliff on the horizon, districts are unable to protect their students and communities from the crisis.

Last summer, New York provided allowances for school districts to borrow from their restricted reserves as they worked to address COVID-19. We supported this change and call for increased flexibility in allowing districts to use their resources in a time of crisis.

Tax Cap Reform

The Tax Cap has been made permanent. The 60% supermajority requirement to pass a budget with a levy that exceeds a district’s Tax Cap is a significant deterrent on school levy increases. In recent years, more than 95% of proposed budgets in the May school vote comply with the Tax Cap; voters approve about two-thirds of proposed overrides, compared with more than 99% of Tax Cap compliant budget proposals. Because the Tax Cap has such an influence on local levies, making common sense adjustments would provide school districts with the ability to make local decisions addressing current and future challenges.

We recommend the following adjustments:

- Using the greater of 2% or the rate of inflation for the allowable growth factor in Tax Cap calculations
- Eliminating negative Tax Caps
- Exempt COVID-19 related costs from the Tax Cap because the Tax Cap is intended to address normal operating costs and a public health crisis requires additional extraordinary spending

Conclusion

The 2021-22 State Budget needs to provide resources for school district operations, recognizing the harm of continuing the Foundation Aid freeze, without compromising the financial future of public education. It is critical that the federal government pass an additional stimulus bill that would provide at least \$15 billion in aid to New York State. The existing Executive Proposal establishes a fiscal cliff, reducing support to school districts by more than \$8 billion after accounting for already existing federal stimulus. This would be a GEA 2.0 that would devastate school districts.

The state needs to rededicate itself to the Foundation Aid formula, which provides school districts with the aid needed to provide an education for all students. In addition, federal stimulus should go to districts to support educating students during a public health crisis.

Finally, providing school districts with more flexibility in their financial management would allow them to engage in better long-range planning while maintaining the capacity to deal with unexpected challenges when they arise.

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