

March 2021

Federal Aid, Governor's Proposals Combine for a Complex Funding Picture for the City's Schools

Governor Cuomo's Executive Budget proposal for fiscal year 2022, released on January 19th, 2021, would increase state education aid thanks to \$3.9 billion in federal relief funding for school districts appropriated in December 2020. (Unless otherwise noted, all years refer to city fiscal years.) However, only \$2.1 billion of this increase in federal funding would represent new resources for schools across the state; almost half—\$1.7 billion—would be used to offset a reduction in state education spending. New York City would receive 69 percent of its initial federal relief funding allocation, largely due to a proposal to shrink and consolidate several expense-based aids into a new category called Services Aid. Other cuts, including reducing the value of School Tax Relief (STAR) payments and eliminating charter school rental assistance, would further reduce the year-over-year increase in federal relief funding that flows to the city.

The Mayor's Preliminary Budget for 2022, released a week prior to the Governor's Executive Budget, anticipated an increase in state education aid of \$1.4 billion for the upcoming year. Counting both the reduced state aid and the increased federal relief funding for New York City approved through December, the Governor's Executive Budget would meet this expectation, increasing education aid to New York City by \$1.5 billion.

State aid for education in the 2021-2022 school year could ultimately increase beyond the Governor's proposal. Since the Governor's Executive Budget was released much has changed, most notably the enactment of the American Rescue Plan Act (ARPA) earlier this month, which will provide roughly \$12.5 billion in new fiscal relief to the state as well as about \$9 billion targeted for K-12 education. State tax revenues have also significantly exceeded the Cuomo Administration's earlier projections. Together, these changes have largely eliminated the

state's projected near term budget gaps. The New York State Senate and Assembly one-house budget resolutions, released on March 13th, 2021, would both rely on higher tax revenues—with no mention of ARPA funds—to eliminate the Governor's major proposed education cuts, remove any supplanting of state spending with federal relief funds, and increase state education spending by over \$3 billion more than the Executive Budget. As the Governor and the State Legislature move towards adopting a budget by the April 1 deadline, it is not clear how much of what the Governor proposed in January will be dropped. This brief focuses on the Executive Budget's proposals for state education aid.

Comparison of Federal Coronavirus Acts for The 2021 and 2022 State Fiscal Years

Governor Cuomo's Executive Budget for state fiscal year 2022 follows the same strategy that was used in state fiscal year 2021, using federal relief funding to supplant state education funds to school districts. This year's proposal uses funding from December's federal Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA). It includes enough federal funding to offset cuts to state aid formulas and still increase combined state and federal funding. Last year, the federal funds provided through the Coronavirus Aid, Relief, and Economic Security Act (CARES) were used to supplant state funds to hold total state education funding flat from the 2019-2020 school year to the 2020-2021 school year, despite the fact that the federal funds were intended to address school districts' new Covid-related needs.

The majority of CARES and CRRSA education dollars are distributed to states based on their share of Title I-A funding relative to other states in the country, which depends on the number and concentration of students from low-income families among the states. Most of this



New York City Will Receive \$1.4 billion More in Federal Coronavirus Education Relief in 2021-2022 than 2020-2021

Dollars in millions

	Total	New York State	New York City
CARES (2020-2021)	\$16,182	\$1,201	\$721
CRRSA (2021-2022)	58,364	4,325	2,151

SOURCES: U.S. Department of Education, Office of Elementary and Secondary Education; New York State Education Department School Aid Runs
NOTE: This table excludes additional coronavirus relief funds for higher education.
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funding is then passed on to school districts, also by Title I-A share relative to other districts in the state. For the 2020-2021 school year, New York State received a total of \$1.2 billion for K-12 education from the CARES Act, and will receive \$4.3 billion for education from CRRSA for the 2021-2022 school year. Of the \$4.3 billion of CRRSA funding the state expects for the upcoming school year, \$3.9 billion will be distributed to school districts, \$249 million to nonpublic schools, \$216 million to charter schools, and \$8 million to other entities and administration. New York City's Department of Education (DOE) in turn received \$721 million of the state's \$1.2 billion of CARES funding and expects to receive \$2.2 billion of the \$3.9 billion in CRRSA funding going to districts.

Executive Budget Cuts

Local District Funding Adjustment. The Governor's Executive Budget proposes a state aid cut, the Local District Funding Adjustment (LDFA), to replace last year's Pandemic Adjustment. Unlike the Pandemic Adjustment, the LDFA would replace some, but not all, of the increase in federal aid. The LDFA is equal to the lesser of a district's School Tax Relief payment or its federal CRRSA allocation, and that amount is deducted from a district's total state aid.

STAR is a program that provides school tax relief to homeowners in New York State, either through a property tax exemption or a personal income tax credit. Since STAR was established, the state has resisted characterizing it as school aid. This year marks the first time that the state reimbursement payment for property tax revenue lost to the exemption has been included in the official school district education aid tabulations of total state assistance (a.k.a. "school aid runs"). STAR benefits are greatest in two types of school districts: those with low property wealth that impose high local tax rates to compensate and high wealth districts that can raise large amounts for their school budgets.

In the case where a school district's STAR payment is greater than its CRRSA allocation, the district would face a LDFA cut equal to its CRRSA allocation. If the opposite is true and a district's CRRSA allocation is greater than its STAR payment, the cut would be equal to the value of the STAR payment, allowing the district to retain some part of the new federal relief funding. New York City, with a large CRRSA allocation and smaller STAR benefit, would lose the value of the STAR reimbursement (\$144 million) from its total state aid for the 2021-2022 school year.

New York City's Pandemic Adjustment represented over half of the state's Pandemic Adjustment cut for the 2020-2021 school year because of the city's large number of students in poverty. Because New York City has a comparatively low STAR payment, however, the city accounts for only 10.7 percent of the state's LDFA for the 2021-2022 school year.

In the 2020-2021 school year, the biggest cuts in state funding under the Pandemic Adjustment occurred in districts with large Title I-A allocations—the districts with the largest share of students in poverty. This year, those high-poverty districts would experience relatively smaller cuts.

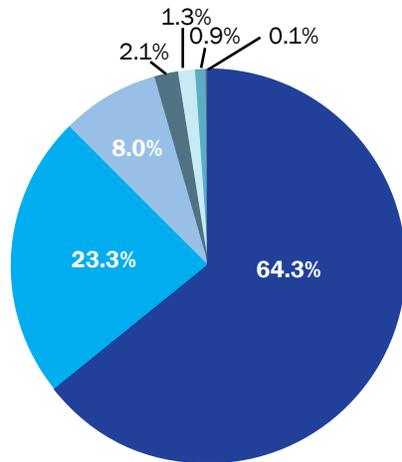
Services Aid. The Executive Budget proposes a consolidation of 11 expense-based aids into a new aid category called Services Aid, with the intent to "ease the administrative burden on school districts and provide greater simplicity and flexibility in School Aid." A similar proposal was floated last year but was ultimately dropped during budget negotiations. Last year's proposal would have folded 10 aids into Foundation Aid, the single largest school aid category, which allocates largely unrestricted funds to school districts based on student need. The proposal this year would keep Services Aid separate from Foundation Aid. More important, the consolidated aids that would comprise Services Aid adds Transportation Aid to the 10 categories that were proposed for consolidation last year. This addition is significant for both New York City and State, as Transportation Aid alone is greater than the sum of the 10 other aids slated for consolidation at both the city and state levels.

In addition to Transportation Aid, the aids that would comprise Services Aid include: BOCES Aid; Textbook Aid; Computer Software Aid; Special Services Aid, which includes Career Education Aid, Academic Improvement Aid, and Computer Administration Aid; Library Materials Aid; Academic Enhancement Aid; Computer Hardware and Technology Aid; High Tax Aid; Supplemental Public Excess Cost Aid; and Charter School Transitional Aid. Of these aids, New York City does not qualify for High Tax Aid or

**Projected New York City Services Aid
Assuming No Consolidation or Reduction:
School Year 2021-2022**

Type of Aid

- Transportation ■ Special Services ■ Textbook
- Computer Software ■ Computer Hardware
- Library Materials ■ Academic Enhancement



SOURCE: New York State Education Department School Aid Run
NOTE: Special Services Aid includes Career Education Aid, Academic Improvement Aid, and Computer Administration Aid.
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Supplemental Public Excess Cost Aid, and is precluded from receiving BOCES Aid. The State Laws of 2008 also exclude New York City from receiving Charter School Transitional Aid; IBO estimates that had it been eligible, the city would have qualified for more than \$300 million in Charter School Transitional Aid each year from school year 2017-2018 through 2019-2020.

These 11 aid categories total \$3.7 billion for the 2020-2021 school year and—based on their formulas— would rise by 8.1 percent to \$4.0 billion for 2021-2022. However, the Executive Budget applies a Services Aid Reduction based on a per-pupil amount of either \$603.02 for New York City or, for all other districts, \$145.80 multiplied by a District Wealth Factor. New York City’s proposed Services Aid cut, \$620 million of the \$693 million statewide reduction, would reduce the city’s year-over-year Services Aid from \$879 million in the 2020-2021 school year to \$288 million in 2021-2022. Additionally, decoupling these aid categories from their formulas creates the risk that in the future these expense-based aids will not be funded at a sufficient level to fully reimburse the city for the costs of providing the services.

Additionally, no district’s Services Aid Reduction and LDFA may exceed that district’s CRRSA allocation. This provision benefits wealthier districts by limiting their Services Aid reduction. For a district with a greater STAR payment than

CRRSA allocation, the district’s LDFA would be equal to its CRRSA allocation. In this case, any reduction in Services Aid would violate the provision that the Services Aid Reduction plus the LDFA not exceed the CRRSA allocation. In fact, since these wealthy districts would not face a Services Aid reduction, they may in fact see their Services Aid allocation increase based on the existing formulas for the aids that would be consolidated into Services Aid.

Other Impacts on New York City Schools. The Governor’s Executive Budget also contains several other changes that impact New York City. First, the proposed budget would eliminate a \$26.4 million discretionary fiscal stabilization grant that New York City has received since the 2001-2002 school year. Additionally, Foundation Aid is held flat year-over-year in the Governor’s Executive Budget, at \$18.4 billion statewide and \$8.1 billion for New York City, \$1.1 billion below the formula amount introduced as part of the resolution to the Campaign for Fiscal Equity court case in 2006.

The Governor’s proposed budget would also eliminate the city’s reimbursement for charter school rental costs and decrease charter school supplemental tuition payments by \$27 million. Under state law, New York City must either provide charter schools with space in DOE facilities or pay charter school rental costs.

The Governor’s proposal for the coming school year would eliminate the 60 percent state reimbursement the city receives for charter school rental costs but leave the city’s obligation intact. New York City received \$47 million reimbursement in the 2019-2020 school year to offset 2018-2019 charter school rental costs, but would receive none beginning in the 2020-2021 school year. The Cuomo Administration claims this change would “encourage the use of available co-located space within public facilities.” The Mayor’s Office of Management and Budget expects charter school rental costs to rise over the coming years and anticipates that the city would lose out on state reimbursements of \$64 million in school year 2020-2021, \$85 million in 2021-2022, and \$100 million in 2022-2023 under the Governor’s proposal.

The Governor’s proposal would also decrease charter school tuition payments, paid with school district funds to support charter schools educating students from the district on a per capita basis, in proportion to Services Aid and LDFA reductions facing school districts. IBO estimates that charter school tuition paid by New York City would decline by a total of \$54 million for payments incurred in

the 2020-2021 school year; because state reimbursement lags the tuition payments, the reduction in state assistance would occur in the 2021-2022 school year. However, the city would only realize \$27 million of that savings. The remaining half would be saved by the state in the form of a \$27 million reduction in supplemental charter school tuition payments to New York City.

Some of the decreases in state aid to New York City would be offset by increases in other aid categories. Building Aid, Private Excess Cost Aid, and High Cost Excess Cost Aids together are expected to increase by \$77 million.

Federal Aid Supplanting State Funds

In a change from fiscal year 2021, when New York State used its entire CARES education allocation to offset a \$1.1 billion state aid cut (the Pandemic Adjustment), this year's Executive Budget proposes to use 45 percent of its CRRSA allocation to supplant state aid.

New York City received \$721 million in CARES Act funds for the 2020-2021 school year, but also an equivalent cut in state aid. For 2021-2022, New York City will receive \$2.2 billion in CRRSA funds. Because the state aid reduction for the 2021-2022 school year would be applied differently than the previous year, New York City's LDFA cut would be just \$144 million, although the city would face additional cuts in other state education aid categories. Overall, 31.0 percent of New York City's CRRSA allocation would be used to supplant cuts in state aid for school year 2021-2022 due to Services Aid and LDFA reductions. Taken together, the school aid cuts and federal CRRSA dollars would result in an increase in state school aid funding by \$2.1 billion overall and by \$1.5 billion for New York City.

Combining both federal rescue packages over school years 2020-2021 and 2021-2022, \$2.9 billion (57.4 percent) of New York State's \$5.0 billion in federal education relief funding would supplant state funding. For New York City, 48.4 percent of the city's total \$2.9 billion in education relief funding would replace state funds compared with 69.6 percent out of \$2.1 billion for districts in the rest of the state.

The city's DOE receives a combination of federal, state, and local funding to support operations. Additionally, costs accounted for outside of the DOE budget and managed centrally support pensions, health care, and debt service costs attributed to DOE.

After the Great Recession, the DOE's state and local funding shares declined, and federal relief funding filled the gap. The federal share of DOE funding rose to a peak of 13.1 percent in 2010, before falling again as federal relief funds were time limited. As of 2020, federal funds made up only 6.2 percent of the DOE total budget. The state share, which peaked at 41.3 percent in 2009, declined to 37.4 percent in 2010 and was 35.7 percent in 2020. As the state's share of funding declined, the city's share increased, rising from 48.3 percent in 2010 to 57.5 percent in 2020.

The Executive Budget's proposal to supplant state funding with federal relief in the latest fiscal crisis follows the pattern established a decade ago; IBO projects that the federal share of local education funding in 2021 will rise by 2.1 percentage points to reach 8.3 percent, as the state's share declines by 2.1 percentage points to 33.6 percent. The outcome of state budget negotiations will determine whether the trend will continue in 2022.

Nearly 50 Percent of New York City's Federal Relief Aid for Education Over the 2020-2021 and 2021-2022 School Years Would Supplant State Cuts

Dollars in millions

	New York City			Rest of State			New York State		
	Total Federal Aid	Federal Aid Supplanting State Funds	Percent of Federal Aid Used to Supplant State Funds	Total Federal Aid	Federal Aid Supplanting State Funds	Percent of Federal Aid Used to Supplant State Funds	Total Federal Aid	Federal Aid Supplanting State Funds	Percent of Federal Aid Used to Supplant State Funds
2020-2021	\$720.5	\$720.5	100.0%	\$413.1	\$410.1	99.3%	\$1,133.6	\$1,130.6	99.7%
2021-2022	2,150.8	667.8	31.0%	1,700.8	1,060.9	62.4%	3,851.7	1,728.7	44.9%
TOTAL	\$2,871.4	\$1,388.4	48.4%	\$2,113.9	\$1,471.0	69.6%	\$4,985.3	\$2,859.4	57.4%

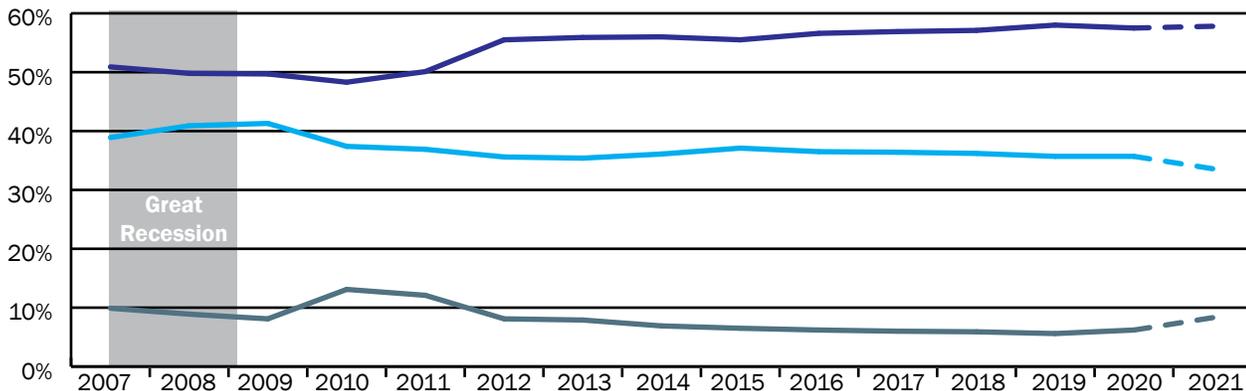
SOURCE: New York State Education Department School Aid Runs

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City Contribution to Education Funding Has Increased Steadily Since Great Recession; Recent Increases in Federal Aid Supplant State Funds

City Projected City State Projected State Federal Projected Federal

Share of Department of Education Total Agency Costs



NOTE: 2021 Projected; Figure includes funds to support Department of Education operations, as well as costs accounted for outside of the department's budget to support pensions, health care, and debt service for the education department.

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The school year 2020-2021 budget and the Governor's proposed budget for school year 2021-2022 both avoid overall reductions by relying on federal aid to supplant state funding. The recently enacted American Rescue Plan Act and negotiations between the Governor and the Legislature may alter these plans. New York State is expected to receive roughly \$9 billion in additional federal assistance for K-12 education with over half due to flow to New York City. With additional federal funds available and stronger-than-expected state tax revenues, there may be increases in both the state and federal shares of city education funding relative to what was anticipated just a few months ago.

However, given that the new relief funds are available until September 30th, 2023, Albany may instead choose to hold some of these federal funds to supplant additional state funds for education in the coming school years. Because federal aid is likely to diminish after the pandemic subsidies as it did in the years after the Great Recession, increases in total education spending in the state and city may be difficult to sustain. Once federal aid returns to more normal levels additional state or city funding would be necessary to prevent year-over-year declines in education spending.

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