

June 2020

School Aid Shortfall:

State Aid for New York City Schools Falls, and Could Fall Further

New York State's enacted budget for state fiscal year 2021 eliminated a proposed 3.0 percent increase in school aid that had been included in the Governor's Executive Budget, presented in January, before the Covid-19 pandemic emerged. The Mayor's Executive Budget, released April 16th, proposes to replace the lost state aid with \$382 million in city funds. School aid remains uncertain for the coming school year, however, as the state's enacted budget also provides the Governor with the power to impose additional mid-year cuts to state aid to localities, including school districts.

The school aid the state is providing for the 2020-2021 school year relies on \$1.1 billion in federal relief funds from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). While the city received a disproportionately high share of the state's federal dollars, the city's allocation supplanted state cuts rather than increasing state aid to meet the greater needs of New York City's public school students.

State Budget

In January, the Governor's Executive Budget proposed a statewide school aid increase of \$826 million (3.0 percent) from the 2019-2020 school year. For New York City, the state's Executive Budget proposal would have meant that state aid was \$130 million less than the city had been counting on in its Preliminary Budget. Two months later, the state's enacted budget only provided a \$96 million (0.4 percent) increase statewide for the upcoming school year, with state aid to New York City *falling* by \$18 million (0.2 percent) compared with the prior year.

Under the enacted state budget, the city's Department of Education (DOE) shortfall in state education aid, relative to the aid the city expected in January, grew to \$360 million.

The state budget also yielded the city \$22 million less in expected assistance for debt service on Building Aid Revenue Bonds, for a total shortfall of \$382 million.

To cover this shortfall, the Mayor's Executive Budget uses city funding to backfill the \$382 million state aid hole in the DOE budget. The additional city funds offset a range of changes to state aid, most notably a \$417 million decrease in Foundation Aid compared with funding anticipated in the Preliminary Budget. Foundation Aid—the single largest category of school aid—was held constant at \$18.4 billion statewide and \$8.1 billion for New York City, increasing the gap between Foundation Aid actually received by the city and aid the city would have received based on the 2007 legislation implementing the final court ruling in the Campaign for Fiscal Equity lawsuit. In contrast, there were increases in some aid categories, with transportation aid exceeding the city's Preliminary Budget projection by \$44 million.

The enacted budget also contains a provision allowing the Governor to propose budget reductions if either actual state operating funds tax receipts fall below 99 percent of estimated levels or if actual state operating funds disbursements exceed 101 percent of estimated levels for any of three mid-year periods. Once budget reductions are proposed, the State Legislature has 10 days to pass an alternative plan. If both houses are unable to pass an alternative, the Governor's proposed changes will automatically go into effect. The three measurement periods are April 1st-April 30th, May 1st-June 30th, and July 1st-December 31st.

When the state released its updated financial plan on April 25th incorporating changes under the enacted budget, it anticipated that the Governor would use this new authority to make an estimated \$10.1 billion in across-the-board



reductions after the April measurement period. The vast majority of the cuts, \$8.2 billion, would consist of recurring reductions in aid-to-localities, a broad category that includes school aid, Medicaid, and social services. While the distribution of these cuts was not specified, the financial plan estimated the reduction to school aid at 20 percent to 30 percent. A 20 percent cut would reduce school aid by \$5.5 billion statewide and \$2.3 billion for New York City.

The state Comptroller reported that as of April 30th—the first date for assessing whether the state budget remains in balance—state tax receipts were \$8.2 billion below the plan, a gap sufficient to trigger the mid-year adjustment process. As of this writing, the adjustment process has not begun and may be deferred until the next budget balance test date, June 30th, at which point it may be clearer whether additional federal pandemic aid to states and localities will be forthcoming.

The enacted budget also contains a “pandemic adjustment,” a reduction of more than \$1.1 billion in school aid statewide, \$717 million of which is a cut in school aid to New York City. This reduction is offset by the “CARES Act restoration,” an equal amount of funding from the federal CARES Act.

CARES Act

One of four federal Covid-19 relief bills enacted so far, the CARES Act contains a nearly \$30.8 billion nationwide Education Stabilization Fund. The state is drawing on two allocations within the fund to pay for New York’s CARES Act restoration: the Governor’s Emergency Education Relief Fund and the Elementary and Secondary School Emergency Relief Fund.

A portion of the \$3.1 billion Governor’s Emergency Education Relief Fund and the \$13.5 billion Elementary and Secondary School Emergency Relief Fund is dedicated to territories, the Bureau of Indian Education (BIE), and competitive grants from the U.S. Department of Education to states/BIE with the “highest coronavirus burden.” The balance, \$16.2 billion, will be distributed to states.

The remaining \$3.0 billion of the Governor’s Emergency Education Relief Fund is allocated to the states in two ways. Sixty percent of the money is distributed based on states’ total population between the ages of 5 and 24, and 40 percent is allocated based on the number of children in poverty, as determined by the Elementary and Secondary Education Act (ESEA). These funds are then distributed to

local educational agencies (LEAs), which include local school districts, charter school operators, and in the case of New York City, the Department of Education, or to institutes of higher education impacted by the Covid-19 pandemic.

The remainder of the Elementary and Secondary School Emergency Relief Fund, \$13.2 billion, is distributed to states according to their share of traditional ESEA Title I, Part A funding. States then pass on at least 90 percent of that funding to LEAs as sub-grants using the same Title I-A basis. While the Elementary and Secondary School Emergency Relief Fund specifies several potential uses for grants, including sanitizing schools and purchasing educational technology, other uses are quite broad, such as activities necessary to “maintain the operation of and continuity of services in local educational agencies,” making the Education Stabilization Fund a uniquely flexible source of CARES Act funding.

New York State’s total allocation from the two components of the Education Stabilization Fund is \$1.2 billion, of which the state is using about \$1.1 billion to offset the pandemic adjustment. The remaining funds may be dedicated to either the higher education portion of the Governor’s Emergency Education Relief Fund or to other state-level uses.

The majority of the New York State’s Education Stabilization Fund allocation is distributed to school districts through the Elementary and Secondary School Emergency Relief Fund based on how Title I-A funding is allocated to LEAs, which in turn depends on the number and concentration of students from low-income families. The state’s pandemic adjustment, a reduction in state aid equal to each school district’s CARES Act allocation, is therefore also larger for districts with more students from low-income families, effectively eliminating the progressivity of the Education Stabilization Fund. For New York City, the \$717 million pandemic adjustment reduced total state school aid by 6.3 percent compared with a 2.6 percent cut for the rest of the state.

The Education Stabilization Fund contains a maintenance of effort requirement, mandating that states maintain support for higher education as well as elementary and secondary education in federal fiscal years 2020 and 2021 at a level no less than the average of the state’s support over the three previous years. For New York State to satisfy this requirement, state-funded school aid would need to remain at a minimum of \$25.3 billion for the 2020-2021 and 2021-2022 school years, 7.8 percent below 2020-2021 school aid in the enacted state budget. However, the CARES Act allows the Secretary of Education to waive this

requirement “for the purpose of relieving fiscal burdens on States that have experienced a precipitous decline in financial resources.” If the state makes the 20 percent reduction to school aid anticipated in the state’s enacted financial plan, statewide school aid would fall to \$21.9 billion, violating the maintenance of effort requirement for school year 2020-2021, unless the Secretary of Education were to waive the requirement.

Implications for Coming Years

New York State’s enacted budget avoided a major reduction in school aid, but larger cuts appear likely for the coming school years. The updated state financial plan incorporating the state’s enacted budget projects that over

\$8.0 billion of the anticipated \$8.2 billion reduction in aid-to-localities funding for fiscal year 2021 will remain in place through 2024. Additionally, since the CARES Act provides only one-time relief, restoring funds lost through the pandemic adjustment after 2021 would require additional federal funding or a return to state funding at pre-pandemic levels. If sufficient federal or state funding does not materialize to offset the pandemic adjustment, this burden would fall disproportionately on New York City, as the city’s pandemic adjustment cut represents a proportionately larger reduction in state school aid compared with the rest of the state.

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