



ASSOCIATION  
OF SCHOOL  
BUSINESS OFFICIALS

**Testimony Provided to at the Joint Legislative Budget Hearing, January 26, 2022**

**For the**

**New York State Senate Committee on Finance**

**New York State Assembly Committee on Ways and Means**

## **Introduction**

Governor Hochul's 2022-23 Executive Budget proposal, for the first time in recent memory, provides school districts, school officials, and the organizations that support them with a hopeful look to the future and the long-awaited promise of fully phasing-in the Foundation Aid formula. ASBO New York, the organization representing the school business officials working tirelessly on the management of school district finances, is heartened by the direction the Governor has taken in advancing these proposals, and looks forward to working with her, her staff, and members of the Legislature in making many of these proposals a reality. In doing so, we hope to secure a fiscally sound future for all school districts in the years to come.

## **What's in the Executive Budget**

### **Foundation Aid**

First and foremost, Governor Hochul's proposal maintains her commitment to fully phasing-in the Foundation Aid formula, a promise of funding dating back nearly 15 years. Last year, this Legislature enacted a budget that put the state on the path to providing the nearly \$4 billion promised in Foundation Aid, the largest general operating formula provided to school districts. The Executive Budget continues this work, funding the second of a three-year phase-in that will complete with the 2023-24 budget cycle. We applaud this next step and urge the Legislature to accept the proposal.

Due to a number of complicated factors, despite the investments that the formula makes, one-third of districts would not receive additional Foundation Aid through the phase-in alone. Of these 258 districts, 164 (64%) have a Pupil Needs Index above the statewide rate, meaning the costs of educating their students are likely higher than average, all else being equal. To address this, the Executive Budget provides a guaranteed 3% increase to all school districts, regardless of phase-in status. Likewise, we applaud this proposal, as we know districts continue to face challenges from the COVID-19 pandemic that will drive school spending above pre-pandemic levels.

That said, it is worth pointing out that in this particular moment inflation is running higher than 3%, so some amount of increased state and local revenue for schools will be consumed by increased costs for existing goods and services. The phase-in and minimum guarantee and the proposed levels are welcome, but it is important to

consider them within the context of the inflationary cycle. The table below shows that many districts whose Foundation Aid increase does not keep pace with current inflation also tend to be more reliant on local revenues, whose growth is constrained by the tax cap, and also received less funding through the various federal stimulus programs enacted since the start of the pandemic.

Level of Foundation Aid Increase	Number of districts	Foundation Aid Increase	Foundation Aid as a % of spending	Stimulus as a % of spending
<b>EXCEEDS inflation</b>	338	14%	31%	13%
<b>LESS THAN inflation</b>	334	3%	28%	11%
<b>Due minimum increase</b>	309	3%	27%	11%

### Expense-based Aids

In a break from recent years, Governor Hochul has not proposed so-called reforms to any of the expense-based aid formulas that would create a cost shift from the state to school districts. We have long supported the full funding of the expense-based aid categories and are pleased with the direction the Governor is taking.

However, this budget includes the perennial proposal to shorten the timeframe under which schools can file claims for these aids. It would be nearly impossible to provide an accurate and timely submission under this new deadline, likely leading to a loss of state aid. We ask that the Legislature reject this “database freeze” proposal, as it has done on an annual basis.

### Transportation and Building Forgiveness

Many school districts over the years have been subject to draconian and inequitable penalties to their state aid, often as a result of inadvertent clerical errors. Our organization has long supported the forgiveness of these penalties and supports the Governor’s proposal to do so. However, we do have concerns about the repayment of those penalties already collected by the state, as we note below.

### COVID Recovery Funding

The Executive Budget includes \$100 million over a two-year period for addressing learning loss and mental health of students in high needs schools as a result of the pandemic. This is a worthy goal, and we look forward to better understanding the details of the proposed matching process, and what types of expenses will be covered. In implementing programs like this, it is important to consider the administrative burden that a grant process, if poorly designed, can place on the use of funds. We also know that mental health extends beyond the students, and

we hope that there will be recognition that staff mental health in schools is an important building block in this effort.

### Electric School Buses

Over a multiyear period, the Executive Budget would require making bus fleets emit zero emissions through converting to electric buses. This is a laudable goal, and the provisions related to aidability of these expenses appear to be consistent with current practice. However, such a large undertaking that would fundamentally transform how schools operate their transportation systems may have unintended consequences and leave districts with large upfront costs in a property tax cap environment. We will continue to explore this further and suggest that the state considers a multidisciplinary task force that can provide feedback on the implementation of this provision.

## What's Not in the Executive Budget

Though overall there is a lot to like in this Executive Budget proposal, and we are supportive and grateful for these elements, there are a few areas that we must bring to the Legislature's attention for inclusion in the final Enacted Budget in April.

### Prior Year Adjustments and Penalty Forgiveness

As mentioned above, the Executive Budget provides for the forgiveness of certain aid penalties for school districts. The proposed legislation to enact this policy calls for any aid already taken by the state to be paid back to school districts via the Prior Year Adjustments mechanism, by which schools are paid on a first-come, first-serve basis from a limited pot of funds appropriated each year. However, for the second straight year, this budget does not actually provide such appropriation. Without restoring these funds—and ensuring that the appropriation is a permanent feature of future budgets, and not treated as a legislative addition that is not included in future Executive Budgets—many school districts will not actually receive any relief that the forgiveness proposal will provide. The new aid forgiveness policy adds additional adjustments to the \$287 million already in the queue. Ensuring consistent funding for this program is essential to ensure school districts receive the funding to which they are entitled.

### School Funding Transparency Reports

The Executive Budget maintains the requirement—and associated aid penalty—for school districts to continue the burdensome and duplicative school funding transparency reporting requirements enacted under the previous governor. These reports are in addition to what the federal government already requires of school districts under the Every Student Succeeds Act (ESSA), and are not aligned in a way that reduces the administrative burden in completing them. In addition, ostensibly the state level reporting was instituted to provide school-level funding

data before the federal requirement was fully executed. With two years of data under the federal requirement available, it is time to eliminate this duplicative reporting requirement.

### Tax Cap Reforms

As mentioned earlier, the current inflationary environment is putting fiscal pressure on school districts in a myriad of ways. One of those factors is that the Property Tax Cap is set at the lesser of 2% or inflation. When inflation is lower than 2%, school districts are constrained from increasing their expenses above that level, but when it exceeds 2% they must find cost savings on their own without including the inflationary costs in their property tax levy. In this current inflationary period where the consumer price index far exceeds 2%, this will cause many districts to make difficult choices. Our state aid proposal calls for the tax cap to be reformed to be the greater of 2% or actual inflation.

### Strengthening School District Fund Balances

In her budget address, Governor Hochul touted the need for the state to have a 15% fund balance to deal with future financial crises, and we agree that same principle should apply to school districts. The Director of Budget cited both the Government Finance Officers Association (GFAO) and Center on Budget Policies and Priorities (CBPP) in explaining the need for fund balance of at least 15%. We applaud the state for taking these steps. Recognizing the importance of such funds for school districts, our 2022-23 State Aid Proposal calls for the cap on unrestricted fund balances to be increased from 4% to 10% over a three-year period.

# 2022-23 State Aid Proposal



January 20, 2022

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## Introduction

The 2022-23 school year is a pivotal moment for public education in New York State. After two and a half years of pandemic operations, school districts will be establishing a new, safer normal, while helping students recover from the impacts of severe COVID-19 disruptions. It is critical that the state provide essential support for these actions. Governor Hochul's commitment to fully funding Foundation Aid by 2023-24 is an important step in this direction. ASBO New York's 2022-23 State Aid Proposal outlines a commonsense agenda that puts students first by safeguarding school district operations, providing essential resources, and improving the Tax Cap.

## Safeguarding School District Operations Through Foundation Aid

Foundation Aid is the main state source of general operating funds for school districts, comprising over 70 % of all state aid to school districts. For many high-need districts, Foundation Aid also represents the vast majority of revenues for their operations. In times of great need and growing challenges, Foundation Aid is the essential building block for school districts to safeguard and expand their operations and educational opportunities.

In the 2021-22 State Budget, New York included a three-year path to fully funding Foundation Aid. The Foundation Aid formula, introduced in 2007, ensures all school districts have the resources necessary to provide students with a sound, basic education. This is the promise of Foundation Aid.

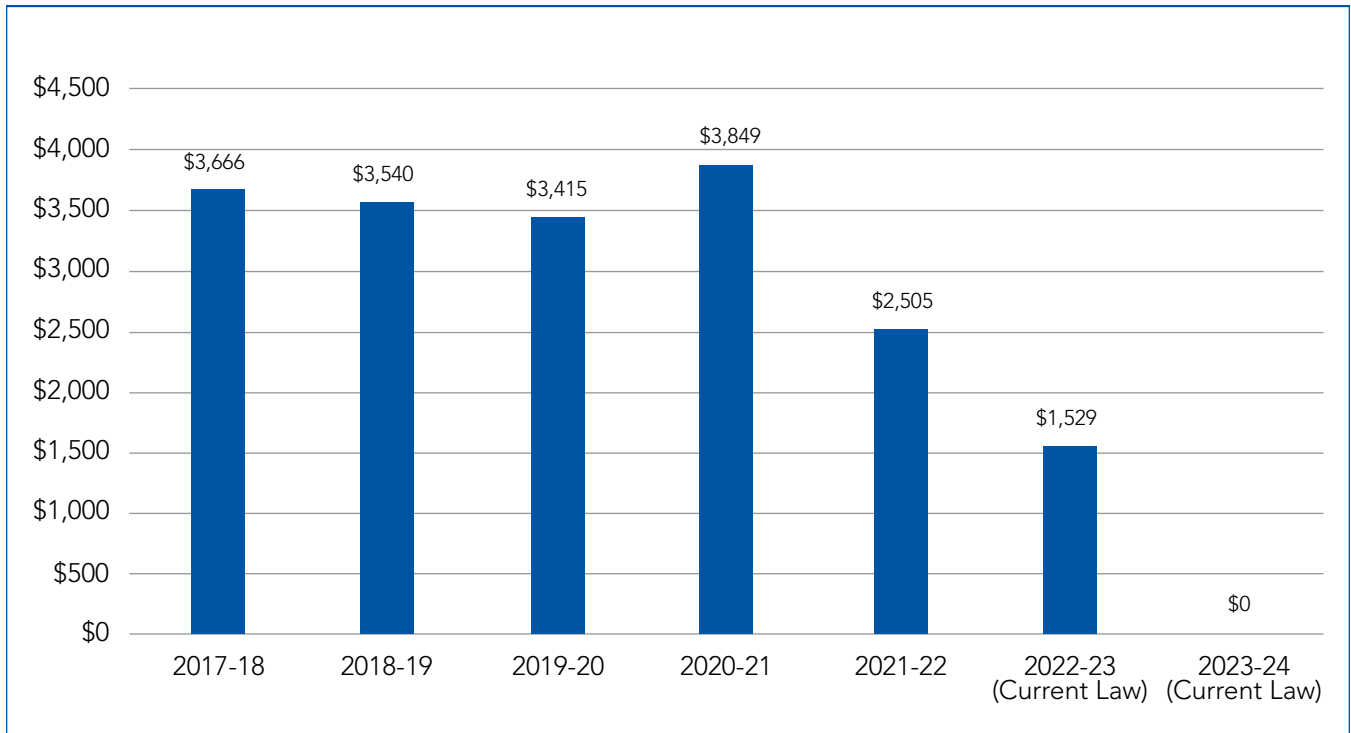
Unfortunately, the state has yet to meet this promise.

New York responded to the Great Recession with long-term reductions, including a multi-year Gap Elimination Adjustment (GEA). In the years following the end of the GEA, the state expanded funding for Foundation Aid, but made little progress toward the goal of fully funding Foundation Aid.

Under current law, New York will provide half of the Foundation Aid still due for 2022-23 and provide all districts with their full Foundation Aid in 2023-24.

The chart on the following page shows total Foundation Aid still due in Enacted Budgets post-GEA as well as current law, demonstrating the magnitude of the state's commitment.

**Table 1. Foundation Aid Still Due (in millions), Enacted Budgets 2017-18 to 2012-22 and Current Law 2022-23 to 2023-24**



Statewide, 60% of the current law Foundation Aid increase would go to high-need school districts, 28% to average-need districts, and 11% to low-need districts. Table 2 shows the projected Foundation Aid increase by need-resource/capacity category. By far the most significant per pupil increase is in high-need urban and suburban school districts, which have a projected \$1,877 per student increase.

High-need rural school districts under current law are set to receive a 5% Foundation Aid increase, which is \$650 per pupil. While this is more modest than the increases for other high-need districts, it might give the misleading impression that rural schools are in a stronger financial position. The current Foundation Aid formula fails to capture the multitude of challenges that accompany enrollment declines, particularly the larger declines that are widespread in rural communities.

**Table 2. Current Law Foundation Aid Increases by Need/Resource Category**

	Current Law Foundation Aid Increase (\$)	Current Law Foundation Aid Increase (%)	Current Law Foundation Aid Increase per Pupil	2022-23 Foundation Aid Funded Percent (Current Law)
New York City	\$345,948,975	4%	\$338	96.3%
Big Four	\$104,331,168	6%	\$881	94.3%
High-Need Urban/Suburban	\$386,103,429	17%	\$1,877	87.3%
High-Need Rural	\$87,853,418	5%	\$650	95.1%
Average Need	\$434,713,179	9%	\$623	91.8%
Low-Need	\$169,937,329	17%	\$499	86.8%

In addition to the current law Foundation Aid phase-in, ASBO New York supports a due minimum increase for all districts. The widespread challenges of the past year require additional support. We also call for all districts to be held harmless from reductions in their Foundation Aid calculations, as has been longstanding practice.

Finally, in 2016, the state instituted a Community Schools Foundation Aid carve out. The Community Schools setaside began as \$100 million and has grown to \$250 million over time. Establishing restrictions on the use of Foundation Aid is antithetical to the intention of general-purpose aid under local control and places additional reporting burdens on districts. The Community Schools model is a worthy goal and should be established through a separate funding source, outside of Foundation Aid, and available to all school districts.

### ASBO New York Recommendations

- Maintain the estimated increases in school aid for 2022-23 and 2023-24 based on the 2021-22 Enacted Budget Report
- Guarantee all districts receive at least half of their Foundation Aid still due
- Guarantee all districts receive a minimum increase
- Guarantee all districts are held harmless from aid loss due to demography
- Fund Community Schools as a separate categorical aid that is available to all school districts

## Providing Essential Resources through Expense-Based Aids

In addition to the general operating support through Foundation Aid, the state supports school districts by reimbursing a share of existing spending on vital programs like transportation, school construction, and BOCES services. The state should maintain this commitment by fully funding expense-based aids. For BOCES Aid, ASBO New York recommends expanding the amount of Career and Technical Education (CTE) instructional salaries that are eligible for aid. For decades, the reimbursable share of CTE salaries has been capped at \$30,000. In order to strengthen these essential programs, We recommend raising the reimbursable salary cap to \$60,000 through a three-year phase-in.

In addition to aid categories based on district spending, there are other forms of aid that provide resources to school districts on a per pupil basis. Instructional materials aids cover the costs of library materials, textbooks, software, and computer hardware. The Board of Regents 2022-23 state aid proposal recommends updating the per pupil allocation for inflation, applying a consistent wealth measure to materials aids, and basing all materials aid on enrollment counts. ASBO New York supports these recommendations.

### ASBO New York Recommendations

- Fully fund expense-based aids
- Increase the reimbursement for BOCES CTE salaries to \$60,000 through a three-year phase-in
- Adopt the Board of Regents proposal to update allocation rates for instructional materials and make all materials aids based on a resident enrollment count



# Strengthening School District Fund Balances

The pandemic has taught us that all levels of government should be financially prepared for unexpected challenges, especially through the availability of “rainy day” funds. For school districts, those rainy days are covered by the unrestricted fund balance, which is the part of a school district’s operating budget that it carries forward to cover future expenses. It is a vital tool in ensuring resilient operations by providing school districts with the capacity to weather current and future challenges. The Government Finance Officers Association recommends that all government agencies maintain a fund balance of at least two months of regular operating expenses or revenues. This guideline would mean an unrestricted fund balance of 16.7% of a school district’s budget level.

Similarly, in her Executive Budget address, Governor Hochul pledged to ensure that the state itself maintain a 15% fund balance.

In New York, school districts are limited by law to a 4% cap on unrestricted fund balance.

This unnecessarily increases risk and uncertainty for students, school districts, and community members. The initial shock of COVID-19 demonstrated the challenges that come from unforeseen disruptions. When auditing districts, the Office of the State Comptroller views low fund balance levels as indicative of potential financial troubles, highlighting the importance of these funds.

ASBO New York calls for an increase in the maximum allowable unrestricted fund balance to 10%, to be phased in by two percentage points annually over three years.

School Year	2021-22	2022-23	2023-24	2024-25
Maximum Allowable Unrestricted Fund Balance	4%	6%	8%	10%

## ASBO New York Recommendation

- Increase fund balance limit to 10% to be phased-in over three years

# Improving the Property Tax Cap

The Property Tax Cap, first instituted in 2012, limits the growth of local levies to the lesser of 2% or the rate of inflation, after accounting for allowable exclusions. Statewide, local revenues accounted for 57.5% of school district revenue in 2019-20, though local fiscal capacity varies between districts. In 2009-10, local revenues made up 50.7% of school district revenue, reflecting that districts have become more reliant on their local resources over this ten-year period. If a school district wants to adopt a budget that increases the local levy beyond its district-specific Tax Cap, it is required to get 60% supermajority approval from its residents.

When it established the Tax Cap, the state recognized that some school district spending needs to be exempted from the Tax Cap, because it is outside the boundary of continuing general operations. For example, paying down debt associated with borrowing for capital projects is removed from the spending subject to the Tax Cap.

To better align the Tax Cap with existing school district practice, ASBO New York recommends creating a mandate exemption that would exempt the cost of complying with new unfunded mandates as part of the Tax Cap calculation practice. Such a change would recognize the additional burden of unfunded mandates and allow the Tax Cap to be more effective in its focus on traditional school district spending.

The economy's rapid economic recovery throughout 2021 brought about levels of inflation that are unprecedented in the era of the Tax Cap. When inflation rates exceed the rate at which districts can increase their levies, it may force districts to reduce educational opportunities in order to remain under the cap and the supermajority threshold, as the consequences of failing to "pierce" the cap may be more dire.

The significant gap between 2021 inflation and the 2% allowable growth means that in real dollars, school districts are being forced into levy reductions while still operating under the additional challenges of COVID-19. To avoid these circumstances, the allowable growth factor should be modified to the greater of 2% or the rate of inflation, to allow districts to maintain the same level of operations even when inflation exceeds 2%.

Finally, every year some districts face negative Tax Caps that require levy reductions, even with a simple majority vote. To ensure smooth, consistent operations, ASBO New York recommends eliminating negative Tax Caps.

#### ASBO New York Recommendations:

- Include an unfunded mandate exemption in the Tax Cap calculation
- Make the allowable growth factor the greater of 2% or the rate of inflation
- Eliminate negative Tax Caps

## Other Vital Investments

While most of the revenues collected by school districts fall into the three categories above, there are other vitally important areas of school finance that require attention in the 2022-23 Enacted Budget.

### Prior Year Adjustments

The calculation of state aid payments to school districts can be adjusted at a later time for a number of reasons, including updated data or new filings. If new calculations result in money owed to the state, it is reconciled through an immediate deduction from the school district's next scheduled aid payment. However, when the updated calculation shows the state owes additional aid to a school district, it is added to the Prior Year Adjustment queue. These claims are paid as funds are available, and districts face significant delays in receiving these funds. Currently, the oldest unpaid claims were added to the queue in February 2012. The Prior Year Adjustments queue totals \$287.9 million, and the 2021-22 Enacted Budget included no funding at all to pay down this queue. Instead of maintaining a system where underpayments and overpayments are treated with such extreme differences, the state needs to commit to paying off all currently owed Prior Year Adjustments in a timely manner.

#### ASBO New York Recommendation

- Commit to fully paying off existing Prior Year Adjustments over the next three years
- Allow school districts to offset deductions from overpayments from any existing claims in the PYA queue
- Eliminate the different treatment given to overpayments and underpayments by paying all PYAs when claimed

## Pupil Transportation

The return to in-person education brought with it the emergence of severe staffing shortages across school districts with regular and substitute bus drivers facing particularly acute shortfalls. While transportation staffing concerns were present before March 2020, the pandemic dramatically escalated the issue. While school districts have adopted numerous recruitment and retention strategies, the depth of the challenge requires an “all hands-on deck” approach. For example, the federal government recently temporarily paused the implementation of additional requirements for bus driver licensing.

At the state level, there are a number of potential avenues to increase recruitment and retention, including the implementation of a statewide transportation benefit for school districts and/or staff. For example, statewide efforts at improving compensation and benefits for transportation staff would make bus driver positions more attractive to potential candidates.

### ASBO New York Recommendation

- Provide targeted aid to high and moderate need districts facing severe bus driver shortages to be used for increased salaries and hiring/retention bonuses.
- Create a tax credit program for school transportation staff.
- Expand expenses eligible for Transportation Aid to support school district efforts to strengthen compensation packages (like family benefits) or to improve the work experience so they can attract and retain drivers.
- Increase salary cap for retired state and local workers in order to expand the potential employment pool for school districts.
- Create an official state commission of stakeholders from across the state in order to identify additional measures that can enhance school transportation retention, efficiency, and safety.

## School Nutrition

Ensuring all students receive healthy meals strengthens educational outcomes. During the COVID-19 pandemic, the US Department of Agriculture (USDA) offered a number of operational flexibilities that allowed school districts to make free meals available to all students. These waivers are set to expire on June 30, 2022, at the end of the 2021-22 school year. ASBO New York would like to see federal action to make these programs permanent, but regardless of what happens in Washington, there are several policies the state should adopt to benefit New York students.

New York should launch a universal meals program that would provide meals to all students. Universal programs reduce bureaucratic red tape and eliminate any potential stigma attached to linking free meals with economic hardship. Maine and California are currently implementing such programs, and the pandemic has shown us that the operations of these programs in New York are possible.

School districts document eligible students in a number of ways, including the Direct Certification Matching Process (DCMP). This lets school districts identify students who are receiving other social benefits that make them eligible for free or reduced-price meals. In New York, Direct Certification connects with programs like SNAP and Medicaid. Broadening the data included in Direct Certification will increase the number of identified students, increasing federal reimbursements and potentially make more school districts meet the current Community Eligibility Provision (CEP) threshold, even without the creation of a universal program.

Operating school nutrition programs has been challenging in the wake of supply chain disruptions. School district purchasing is subject to competitive bidding requirements that include generating bids from at least three bidders, though purchases under a certain level are exempt from competitive bidding requirements. Currently, the state's small purchase threshold is \$20,000 (in contrast to the federal threshold of \$250,000). A modest increase in the small purchase threshold would significantly increase a school district's flexibility to respond to supply shortages and disruptions.

#### ASBO New York Recommendation

- Provide free meals to all students
- Expand data included in Direct Certification Matching Process
- Increase the small purchase threshold

#### Strengthen SED capacity

The State Education Department provides essential support to New York schools, especially in the area of school finance. The agency has faced significant staffing and technical challenges in recent years. ASBO New York supports the SED Board of Regents' proposed funding additions to increase staff in the Offices of Education Finance, Student Success, and Early Learning.

#### ASBO New York Recommendation

- Fund additional staff for the Offices of Education Finance, Student Success, and Early Learning.

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