

The NEW State Aid Formulae—Change But No Change

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Most news reports about the 2005 legislative session in Albany focused on the amazing phenomenon of an on-time budget, the first since the early 1980's. As usual, education activists wanted to find out about the increases in state school aid for New York City, which came to \$322.7 million. The hidden story, however, was that the Governor's Flex Aid proposal was adopted after many prior attempts. Complicated formulas and computations have now become even more complicated. The central irony of this complexity is that the bulk of school aid is still distributed to school districts based on a percentage increase over their last year's amount. So all this new complexity comes down to a thin veneer over a funding system where the formulas don't matter all that much. The same underlying dynamics remain: New York City gets a 38 percent share of any increase and the Assembly trades increases to other districts with high-student needs for the Senate's increases to suburban and upstate districts with low-student needs but poor tax bases.

Beyond the mind-boggling Flex Aid proposals layered on top of business-as-usual school aid distributions, there were two other big downsides to the short budget negotiations for public education. Formulas geared to specific school services were block granted, though there are requirements that some of these functions be continued at the same spending level. The most serious downside is that for a second year in a row the legislature refused to tackle a funding remedy for the Campaign for Fiscal Equity, despite a clear set of recommendations from a panel of court-appointed referees. To explain why the legislature continued to ignore this huge elephant in the middle of the living room, Assembly Finance Committee Chair Denny Farrell complained on a television news show (*New York One's Inside City Hall*) that parents and advocates have become "silent" under mayoral control. This might come as a surprise to thousands of CFE supporters who sent e-mails, trailed elected officials, and attended rallies.

The only good news is that two fragile formulas in Building Aid emerged from the budget negotiations. They might result in more reimbursement to New York City when it builds new schools. The city has often received an average of 64 percent reimbursement for its capital repair projects, but it has received as low as a 22 percent reimbursement rate for new school construction. The result of the state's unfair Building Aid formulas has been that the bulk of the \$10 billion that New York City spent from its capital budget in the last decade went to repairs, not to end overcrowding. Though these two new formulas do not close the gap, they hold the potential of raising reimbursement rates for new school construction to 50 percent.

Flex Aid The Governor had proposed a Flex Aid structure for the last three years. A 2004 Court of Appeals ruling that narrowly interpreted the legislature's budgetary powers as accepting or rejecting the language and funding proposals in the Executive

Budget, played a significant role in shaping the 2005-2006 school aid formulas. The impact of the new formula structure on school programs will require close monitoring over the next year.

The new Flex Aid formula provides \$3,465,759,129 in aid to NYC, (or 1.7% increase) over last year's budget and \$4,964,873,210 for the rest of the state (an increase of 1.4%). This new structure did not significantly change the level of annual increases in state school aid over the last few years. Aid for *BOCES + Special Services, Excess Cost - Public + Private, Building Reorganization Incentive, Transportation (incl. Summer School), Hardware & Technology, Software, Library, Textbooks, UPK, Early Grade Class Size Reduction, Teacher Support Aid* and the newest aid grant *Sound Basic Education*, all combine for a state aid total of \$2,474,391,510 to NYC and \$4,535,840,852 for the rest of the state.

Flex Aid is a mega category, almost a block grant, that merges Operating Aid with a host of discrete targeted formulas (*Education Related Support Service Aid (ERSSA), Extraordinary Needs Aid (ENA), Limited English Proficiency Aid (LEP), Minor Maintenance and Repair (MMR), and Summer School*).

Flex Aid provides for distribution of funds through different calculations of the formulas broken down into parts or tiers. This funding is flexible and may be interchanged with any other item of appropriation for general support of schools. Though there are no strings attached for the expenditure of Flex Aid, Minor Maintenance and LEP funds have separate Maintenance of Effort provisions. Those districts across the state that operated approved LEP programs in 2004-05 are required to set aside a portion of their Flex Aid to continue providing services to LEP students in the 2005-06 school year. The amount of Flex Aid shall be at least equal to the amount of LEP aid that was payable in 2004-05 school year. The same provision applies to Minor Maintenance, which is used to make minor building repairs.

A key feature of Flex Aid is that it has 3 tiers. All districts' funding calculations begin with last year's allocation, essentially a save harmless guarantee, and are adjusted by Tier 1 formulas.

- Tier 1 formulas reflect a district's combined wealth ratio and pupil counts (with weightings for poverty). Every district in the state receives a Tier 1-related aid increase.
- Tier 2 is an additional aid booster targeted to high need districts with 60 percent of K-6 students eligible for Free or Reduced Price Lunch (FRPL), and wealth below the state average. Tier 2 contains a "geographic cost of education index." The "geographic cost of education index" reflects differences in cost in different parts of the state.
- Tier 3 formulas adjust aid for districts with a Combined Wealth Ratio (CWR) below 2.0 (with 1.0 being the average for the state), and where 2003-04 per-pupil operating expenditures were below \$8,500 and where 50 percent of students receive free or reduced priced lunch. Tier 3 includes weightings for FRPL, LEP, and sparsity pupil counts. Tier 3 provides additional dollars for Tax Limitation

Aid to districts with a CWR below 1.5 and total residential tax levy ratio below 1.6 percent by totaling the sum of 2004-05 Tax Limitation Aid plus an additional Tier 2 of aid. Statewide, Tier 3 calculations provide over \$87 million in additional school aid statewide.

A way to understand all these Tiers is that the first one merely continues current funding distributions to districts and adds an increase. Tier 2 reflects the Assembly's concern for high-need school districts. The regional cost index will drive more aid to those in the downstate suburbs, but with the new wealth cutoff, suburban districts above average wealth but with many high-need students may no longer see the increases they experienced under Extraordinary Needs Aid. In other words, Hempstead will benefit from Tier 2, but not White Plains. Tier 3 reflects the Senate's concern for school property tax rates in school districts with not much wealth. Next year, it will be interesting to see if eligibility for Tier 2 and Tier 3 changes and the extent of increases under each tier.

The state formula news doesn't end there. There is a category of "Additional Aids," essentially a catchall for the increases districts would have received if not for the folding of 6 formulas into Flex Aid. The "Additional Aids" provides more than \$66 million to the total state aid increase for FY 06. Districts across the state may now spend the operating and student support service funds called Flex Aid in whatever proportion they see fit to meet the operating and service needs of their schools and students.

Below is a side-by-side view of the "old" school year and "new" school year aid categories.

2004-2005 Base Year Aids	SY 2005	2005-2006 Aids	SY 2006
Comprehensive Operating Aid	2,537,024,288	Flex Aid *	3,466,305,284
Education Related Support Services	29,704,502	Flex Aid*	0
Extraordinary Needs	607,741,206	Flex Aid	0
Limited English Proficiency	62,414,939	Flex Aid*	0
Growth	0	Growth	0
Full Day K Conversion	0	Full Day K Conversion	0
Summer School	18,705,807	Flex Aid*	0
Minor Maintenance	33,330,000	Flex Aid*	0
Tax Limitation	0	Tax Limitation	0
BOCES + Special Services	97,244,519	BOCES + Special Services	101,179,018
Excess Cost - Public + Private	918,983,930	Excess Cost - Public + Private	964,162,210
Building	418,614,383	Building	435,438,928
Transportation Incl. Summer		Transportation Incl.	

	331,469,974	Summer	365,494,401
Hardware & Technology	11,040,501	Hardware & Technology	11,299,750
Software, Library, Textbook	103,138,264	Software, Library, Textbook	103,093,981
Universal Pre-K (UPK)	146,528,032	Universal Pre-K (UPK)	146,528,032
Early Grade Class Size Reduction	87,528,758	Early Grade Class Size Reduction	88,837,812
Teacher Support	62,707,000	Teacher Support	62,707,000
TOTAL:	\$5,466,176,103	TOTAL:	5,745,046,416
		Sound Basic Education Aid	195,650,378
		TOTAL State Aid w/ SBE:	\$5,940,696,794

Source(s): SA0405; SA0506. * Includes the "Additional Aids" associated with ERSSA, COA, ENA, LEP, Summer School, and Minor Maintenance & Repair

Building Aid There is another significant change to the formulas in the "hard dollars" category of Building Aid, which is a reimbursable school aid entitlement. These were the outcome of negotiations to enhance the Building Aid Ratio for high needs districts and recognized the additional costs of construction in New York City:

- A new formula creates an Enhanced Building Aid Ratio for high-needs districts by providing a 3 percent "bump up" in aid to these districts.
- A second measure recognizes the increased costs of construction due to "building up" in dense geographical areas as well as other factors including site acquisition, construction, fire codes, and regional costs associated with labor.

In the battle for an on-time budget, it was impressive that the legislature was able to negotiate enhancements that would allow NYC to possibly achieve 50 percent or more reimbursement for new school construction, but only for projects approved by SED after July 1, 2005. This is after this fiscal year's allocation for Building Aid which recognizes projects approved by February 15th. The benefits for NYC school construction projects will therefore not be fully realized for another year or two. The Commissioner is required to provide a report to the legislature on or before January 1, 2009 regarding the implementation of the new provisions in Building Aid. It is possible that these two changes in Building Aid could be nullified by the next legislative session, since they will not have been implemented. Essentially, these changes are "for next year," so their continuation needs to be assured.

Business As Usual Despite the changes in Albany this year, there was a persistent and pernicious adherence to "shares" and a lack of action on CFE. For over 18 years, New York City has consistently received only 38 percent of all statewide increases-- the

most precise calculations have New York City's share as 38.86 percent. This year's legislative session reaped no relief for NYC school children from the battle for school aid shares. The only significant input that helped to increase the size of the school aid pie to insure raises to district allocations was the additional \$1.5 billion in revenue and savings the Governor and Legislature could agree upon.

By some accounts, had the Governor's original formulas proposal been enacted NYC would have stood to gain 50% of all increases. However, the traditional fight between upstate and downstate legislators is to distribute the benefit of increases to their regions almost on a per-capita basis. The complex formulas are in reality, backed into an agreement over dollars.

This year there was not even an attempt to provide funding adequacy to New York City students as per Justice Leland DeGrasse's decision in CFE v State of New York. The legislature once again shortchanged New York City schools. The Governor and the legislature simply nodded to CFE in the state's education budget by naming one formula "Sound Basic Education Aid." NYC receives 60% of this category or \$195,650,378, nowhere near the additional \$1.4 billion ordered by Justice Leland DeGrasse as a first year payment. There are no categorical mandates related to expenditure of SBE Aid funds. No district in the state received less than \$25,000 of SBE Aid-- again highlighting the resistance of legislators from the rest of the state to allow New York City schools to gain a meager benefit.

Here is a side-by-side view of state aid for SY 2005-2006 for the city and the state:

2005-2006 Aids	SY 2006 New York City	SY 2006 Total for State
Flex Aid	3,465,759,129	8,430,632,339
Additional Aids	546,155	66,565,874
Tax Limitation	0	135,441,253
BOCES + Special Services	101,179,018	689,726,857
Excess Cost - Public + Private	964,162,210	2,582,819,104
Building	435,438,928	1,463,903,395
Growth	0	27,728,621
Full Day K Conversion	0	3,436,649
Reorg. Incentive (Operating)	0	15,726,342
Transportation Incl. Summer	365,494,401	1,211,989,176
Hardware & Technology	11,299,750	28,846,291
Software, Library, Textbook	103,093,981	253,968,348
Universal Pre-K (UPK)	146,528,032	201,772,955
Early Grade Class Size Reduction	88,837,812	137,967,483

Teacher Support	62,707,000	67,480,000
TOTAL:	5,745,046,416	15,318,004,687
Sound Basic Education Aid	195,650,378	324,867,141
TOTAL State Aid w/ SBE:	\$5,940,696,794	\$15,642,871,828
% Change 05-06 minus 04-05	5.7 %	5.6%

Though the changes to school aid formulas were significant, the adherence to shares and the failure to address the requirements of CFE make the 2005 legislative session not much of a change from the past, except that the budget was passed on time and school aid just got more complicated.