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Governor's Budget Provides Less School Aid Than Expected, Shifts Costs to New York City

Under Governor Cuomo's proposed budget, state aid for New York City's public schools would be substantially below the level expected by the de Blasio Administration for the coming school year. Foundation aid, the primary source of state school support, along with special education aid would together be \$300 million less than projected in the Mayor's preliminary budget for 2019. Additionally, the Governor proposes cutting state aid to the city for charter schools by \$86 million. If adopted these proposals would likely force the city to make up the shortfall as well as shift costs that had typically been state funded on to the city. At the same time, the Governor is proposing to increase the state's oversight of district spending.

Foundation Aid. Given that the state is confronting a projected \$4.4 billion shortfall, it is no surprise that the Governor chose once again to maintain the current foundation aid formula for the upcoming year, rather than allow the next scheduled step towards fully funding the formula as called for in the 2006 legislation that helped resolve the Campaign for Fiscal Equity lawsuit. Instead, the Governor proposed a \$338 million (2.0 percent) increase in foundation aid statewide for 2019, which includes a \$50 million increase in community school set-aside funding. (Unless otherwise noted, all years refer to city fiscal years.)

New York City would receive a 2.5 percent increase in foundation aid totaling \$186 million, which includes a \$29 million increase in the district's community school set aside. In contrast, the Mayor's preliminary budget anticipates a \$421.8 million increase in foundation aid—\$236 million more than the Governor's proposal.

City Would Fund More Charter School Costs. The Governor's budget proposes a reduction in the amount

of state support New York City receives to fund charter schools. Currently, the city is reimbursed when it pays for charter school leases of private space, and for supplemental charter tuition. If the Governor's proposals are adopted, supplemental tuition reimbursement would be cut, and lease aid would be capped.

According to the Mayor's Office of Management and Budget, the city expects to lose \$24 million in facilities aid for charter schools if the changes proposed by the Governor are adopted. Under current law, New York City is required to provide building space for charter schools located within the district. The school may be located in a public school building, in a public building other than a school, or in private space. When a charter school is not located in a Department of Education school building, the city must pay for the charter school's space expenses either by paying the lesser of actual rental cost or a share of the charter school's basic tuition (currently set at 30 percent). These facility payments are paid in full by the city, up to a total of \$40 million a year; if total costs exceed \$40 million, the state reimburses the city for 60 percent of the excess, with a lag of one year.

Governor Cuomo's proposed changes would require New York City to cover more of the costs of charter school facilities. First, he expands the term "rent" to include specific additional expenditures by charter schools. Rent would include, but not be limited to: lease payments, costs of capital improvements, occupancy costs, maintenance and repairs, utilities, custodial costs, security, insurance, and real property taxes. Second, state reimbursement for the city's charter school facility payments would be capped at \$10 million under the Governor's proposal, rather than 60 percent of the amount over \$40 million. The State



Senate's one house budget bill includes the Governor's proposal and would also increase the cost to city when charters have their facilities assistance paid based on a portion of the basic tuition payment, by raising the share from 30 percent to 40 percent. The Assembly's bill not only ignores the Governor's proposal but would also end the city's obligation to provide rent for new or expanding charter schools. While the Mayor's preliminary budget projects that the city will receive \$33.5 million in charter school lease aid from the state in 2019, the Governor's executive budget would provide just \$6.1 million in reimbursement for charter facilities payments.

Current law requires New York school districts to supplement basic tuition payments to charter schools. While basic tuition for charter schools comes directly from district funds, districts are reimbursed by the state for supplemental tuition with a one-year lag. Existing law provides for \$1,000 of supplemental tuition per charter student. Although the city expects to receive \$114.6 million of state reimbursement for supplemental tuition in 2018, \$60.4 million in 2019, and \$62.3 million in 2020, the Governor is proposing to eliminate these reimbursements just for New York City. If the proposal is adopted, New York City would no longer receive supplemental tuition reimbursements beginning in the 2019-2020 school year for expenses incurred in 2018-2019. The Senate budget proposal not only continues supplemental tuition reimbursements to New York City, but increases the supplement amounts across the state including in the city. The Assembly effectively rejects the Governor's proposal by no longer requiring any district to make supplemental tuition payments to charter schools beginning in the 2018-2019 school year.

Special Education Formula Changes, Less State Funding.

The Governor's executive budget also includes a proposal to change the way school districts are reimbursed for special education summer programs. Currently, districts receive a flat 80 percent reimbursement of approved tuition expenses for July and August programs. There is, however, a statutorily required "chargeback": the municipality in which the student's guardian resides is required to pay 10 percent of the approved costs. Therefore, although districts are eligible for an 80 percent reimbursement in theory, in practice they receive a reimbursement of 70 percent. New York City expects to be reimbursed \$135 million annually under the current reimbursement rate.

Under the Governor's proposal, districts would be reimbursed at a rate equal to their public excess cost aid

ratio, which is the ratio used to determine the share of foundation aid that must be set aside to ensure school districts meet federal maintenance of effort requirements regarding spending for students with disabilities. The proposal, however, does not amend or rescind the 10 percent chargeback. If the new reimbursement formula is adopted, New York City's reimbursement rate would be 46 percent, but the city would only realize a reimbursement rate of 36 percent due to the chargeback. New York City would receive \$68.4 million in reimbursement for services provided to special education students in the summer of calendar year 2019—\$66.6 million below the estimate in the city's preliminary budget. Neither the Senate nor the Assembly budget proposals include the Governor's formula amendments.

A New Definition of Expense-based Aid. Certain expenses incurred by school districts are reimbursable by the state using formulas with no caps or limits on the state obligation, provided the expenses qualify. These include special education, transportation, and building aid. While the Governor's proposal fully funds expense-based aid for 2019, it places a cap on increases in some aid payments beginning in 2020. Transportation aid would be capped at a 2 percent increase over the prior year for each district; total statewide growth in building aid would also be capped at 2 percent.

The Mayor's preliminary budget assumes receipt of \$541.0 million in transportation aid and \$514.1 million in building aid for 2019. Given that the city is projecting roughly 2 percent increases in state transportation aid each year through 2022, the cap would have little impact on state funding for transportation over the next four years. If annual increases in eligible statewide building aid expenses exceed 2 percent, all districts across the state would potentially face reductions in their building aid. The Assembly and Senate both rejected the Governor's proposed 2 percent cap on expense-based aids, making these changes less likely.

Following the Money. In the Governor's January 16th budget address, he demanded more transparency from school districts, calling out Buffalo and New York City in particular. He claimed that certain school districts should not only have a formula that mirrors the state's formula for sending money to poorer schools, but also that these districts prove to the state that such a formula exists on the district level. Under his proposal, the big five school districts—which includes New York City—would be required to submit budget plans for each school for approval by the State Division of Budget and the State

Education Department beginning in the 2018-2019 school year; additional school districts would be added to the mandate beginning in 2019-2020. If a district's school level budget plan is not approved, their state aid increase for that year would be withheld. Although the Assembly did not include the proposal in their one-house budget, the Senate's proposal requires the big five school districts to submit school level budget plans beginning in 2018-2019. However, no plan would be subject to approval.

The Governor's proposal is largely duplicative. Under the federal Every Student Succeeds Act, school districts are already required to report on school spending at the

building level. Moreover, the city Department of Education already releases detailed information on how it distributes the bulk of discretionary funding to schools based on student need through its Fair Student Funding formula. The formula amounts for each school are available on the education department's website as are detailed school-level spending reports once the school year is completed. This information is then provided to the state, as required by state education law enacted in June 2016.

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