

March 2014

City Continues to Shoulder Largest Share of School Funding

The Mayor's Preliminary Budget assumes that city funding of the Department of Education (DOE) in 2015 will exceed state funding for the fourth year in a row. City funding is projected to increase by \$548 million to reach 48 percent of the DOE's budget. State funding is expected to increase by \$234 million, bringing state funds to 43 percent of the DOE total. Prior to 2012, the state traditionally contributed a larger share of the DOE's funding than did the city.

This reversal of roles would not have occurred if the state had fulfilled the commitments it made in 2007 to resolve the *Campaign for Fiscal Equity Inc. v. State of New York* case. However, state revenues plunged after the 2008 financial crisis and the promised aid was repeatedly postponed. Although state revenues have stabilized and begun to recover, education aid has not been restored to the levels promised in 2007. Because of this ongoing shortfall, New Yorkers for Students' Educational Rights (NYSER), a coalition of advocacy groups and parents, filed a complaint last month with the New York State Supreme Court against the State of New York.

Many of the members of NYSER had previously been part of the Campaign for Fiscal Equity, the organization that brought the earlier court case. The campaign brought suit against the state in 1993, challenging the adequacy of funding for New York City public schools. A 13-year legal battle ended in November 2006 when the state's highest court—the Court of Appeals—issued a final ruling in the case. In its decision, the court ruled that in order to provide a “sound, basic education” to New York City public school students, the operating funds provided to the Department of Education needed to increase by \$1.9 billion, with the increase phased in over four years.¹ This figure was provided as the basis from which the State Legislature would start in developing school finance legislation.

In response to the decision, the State Legislature enacted the Education and Budget Reform Act of 2007, which was signed into law on April 1, 2007 by then-Governor Eliot Spitzer. The act specified increases in state aid that were even larger than what was outlined in the decision and provided increases to local school districts across the state, not just New York City. Specifically, the state committed to increasing funds by \$7.0 billion statewide, to be phased in over a four-year period. New York City's portion was expected to total \$3.2 billion by the end of the 2010-2011 school year, of which \$2.4 billion was expected to flow through Foundation Aid, a newly created formula-based aid.^{2, 3}

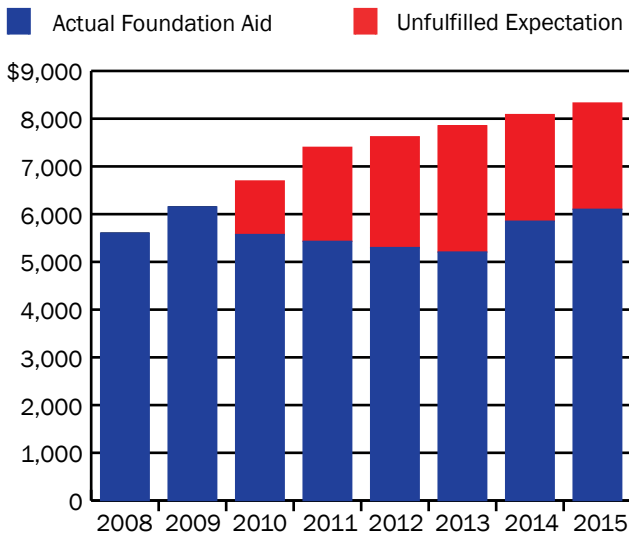
Aid and Accountability. Foundation Aid was a centerpiece of the legislation, designed to replace numerous preexisting formula aids and distribute the new funding more equitably, based on student need, community income, and local property wealth. In all, 13 streams of state aid revenue were collapsed to form Foundation Aid.⁴ During the 2007-2008 school year—the first year of the agreement—a district would receive Foundation Aid equal to the sum of prior year aids now considered Foundation Aid plus 20.0 percent of its promised total four-year increase.⁵ In year two, the 2008-2009 school year, 22.5 percent of the total promise of increased Foundation Aid would be phased in, with increases of 27.5 percent and 30.0 percent to follow in years three and four, respectively. After school year 2010-2011, when the Foundation Aid phase-in was complete, all districts would continue to see annual increases in Foundation Aid of at least 3.0 percent.

The other central component of the legislation was an accountability system known as the “Contracts for Excellence.” Low-performing districts that received annual increases in Foundation Aid of either 10.0 percent or \$15 million were required to specify how planned increases would be used and all districts were required to devote



2007 State Legislation: New York City's Expected vs. Actual State Foundation Aid

Dollars in millions



SOURCE: New York City Comptroller's Comprehensive Annual Financial Report
 NOTE: Years 2008-2013 are actual spending, 2014 and 2015 are projected.

New York City Independent Budget Office

aid increases to initiatives proven to raise student achievement. State-approved initiatives included class size reduction, increased learning time, school restructuring, teacher and principal quality initiatives, and full-day kindergarten and pre-K.⁶

The first two years of the Foundation Aid phase-in went according to plan, with a total increase to the city's schools in 2008-2009 of \$1.1 billion above the 2006-2007 funding level. However, in the third year, as statewide economic conditions worsened, then-Governor David Paterson and the State Legislature deferred the planned increase, pushing the completion date back by three years.⁷ In addition, the Legislature introduced a deficit reduction measure to help balance the state budget. This measure was first used in the 2009-2010 state budget and came to be known as the Gap Elimination Adjustment (GEA).⁸

Foundation Aid Declines. Due to these constraints, state Foundation Aid for New York City declined by \$579 million in city fiscal year 2010 compared with the amount in the previous year. In spring of 2010, increases for what was originally scheduled to be the start of the fourth and final year phasing in the Foundation Aid expansion were pushed

back yet again as the state continued to freeze Foundation Aid and again imposed the GEA. The state has continued to limit the growth of Foundation Aid and kept the GEA in place, thereby constraining increases in state aid for the city.

In January 2013 the city's state aid revenue was dealt a further blow when negotiations with the United Federation of Teachers regarding new teacher evaluations stalled, missing a state deadline. The impasse resulted in a loss of \$250 million of the planned increase in Foundation Aid for the 2012-2013 school year. The city ultimately reached an agreement with the teachers, narrowly missing an additional penalty that would have threatened funding in subsequent years. With a further cut avoided, Foundation Aid bounced back somewhat in 2014 but it remains \$2.2 billion below the amount projected for the city under the 2007 legislation.

Some Aid Growth Ahead. In the Mayor's Preliminary Budget, Foundation Aid revenue is projected to grow by 2.7 percent in 2015, from \$5.9 billion to \$6.1 billion and then by 3.9 percent to \$6.2 billion for 2016. By 2018, the city expects to receive \$6.9 billion in Foundation Aid, although this would still be below the \$7.6 billion originally expected by 2012.

The deadline for adopting the state budget is April 1st. Foundation Aid and the continuation of the GEA are key issues in the budget negotiations now underway between the Governor, the Senate, and the Assembly. Although the NYSER case is unlikely to affect the outcome of the current negotiations, in the longer term the case may increase pressure to bring state aid levels closer to what was promised in 2007.

Endnotes

¹http://www.nycourts.gov/reporter/3dseries/2006/2006_08630.htm, accessed February 24, 2014

² http://www.goodflow.net/static.php?page=legislation_and_regulations&category=our_work, accessed March 6, 2014

³Mayor's Office of Management and Budget, Monitor's Briefing Package, Fiscal Year 2008 Adoption

⁴These include the following: Net Support-Operating Aid, Special Reading, Improving Pupil Performance, Public Excess Cost Aid, Limited English Proficiency Aid, Magnet Schools, Teacher Support Aid, Ed Related Support Services Aid, Extraordinary Needs Aid, Minor Maintenance, Early Grade Class Size Reduction, Summer School, and Sound Basic Education

⁵<http://www.budget.ny.gov/pubs/archive/fy0708archive/2007-08ForecastMethodologies.pdf>, accessed February 27, 2014

⁶<http://www.budget.ny.gov/pubs/archive/fy0708archive/fy0708schoolaid/schoolaid.html>, accessed February 28, 2014

⁷<http://schoolfunding.info/wp-content/uploads/2011/07/CFE-Past-Present-and-Future.pdf>, accessed February 25, 2014

⁸http://www.nyssba.org/clientuploads/nyssba_pdf/CapitalConference/Gap-Elimination-Adjustment13.pdf, Accessed Feb 24, 2014