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The Importance of State Education Aid to the Department of Education’s Budget

State Education Aid Expected to Grow. The preliminary budget estimates that state education aid—which supports 45 percent of the Department of Education’s budget—will total \$9.7 billion in the current year. This represents a \$481 million increase over the \$9.2 billion in state aid received for 2015. The Mayor’s 2017 preliminary budget projects that state aid will grow by 5 percent to total \$10.2 billion in 2017 (all years are city fiscal years).

By far the largest share of state aid (at 70 percent of total state aid expected for 2017) comes to the city in the form of foundation aid, which has relatively few restrictions on how the funds are used. In contrast, general support aids (at 16 percent of 2017 state aid) tend to be based on approved operating expenditures for items such as transportation, building aid, career education, and computer administration. Restricted categorical aids (at 14 percent of 2017 state aid) have more prescriptive funding requirements designed to ensure funds are spent for specific purposes, such as pre-kindergarten, special education, or school lunch.

For 2017, the Mayor’s budget projects that the city will receive a \$422 million year-over-year increase in foundation aid. The Governor’s executive budget proposal for 2017 would provide \$171 million less than what the city’s preliminary budget is anticipating in foundation aid for the year. However, the two houses of the Legislature have each indicated their support for greater increases in state foundation aid than the Governor has proposed. Going forward, the Mayor’s plan anticipates increases of \$169 million annually for the out-years, which would raise foundation aid to \$7.4 billion, \$7.6 billion, and \$7.8 billion in 2018, 2019, and 2020, respectively.

The City’s Plan for the Increased Foundation Aid. The preliminary budget anticipates using the increases in foundation aid to bring all schools up to their full fair student funding (FSF) formula amount. The FSF method was introduced by the DOE in 2008 and is designed to allocate dollars to schools for classroom instruction based on the characteristics of their students, with more money allocated for students with academic challenges. When FSF was introduced, the city did not have sufficient resources to fund the full amount due each school under the formula. At the time the city was expecting to receive additional state aid under terms of the settlement of the Campaign for Fiscal Equity lawsuit. It was assumed that the settlement would provide the city with sufficient resources to be able to meet the formula amounts within a few years.

But the state has failed to abide by the 2007 legislation that settled the lawsuit, with scheduled increases in foundation aid frozen or scaled back in the intervening years. As a result, the city has never been able to provide every school with its full share of fair student funding. The preliminary budget assumes that the increase in foundation aid expected by the city would allow the DOE to bring each school up to at least 87 percent of its FSF formula amount.

State Aid <i>Dollars in millions</i>			
	Fiscal Year		
	2015 Actual	2016 Projected	2017 Projected
Foundation Aid	\$6,210.0	\$6,670.2	\$7,092.2
All Other General Support Aids ¹	1,585.0	1,584.9	1,607.6
Restricted Categorical Aids ²	1,448.5	1,469.8	1,470.6
Total State Aid	\$9,243.5	\$9,724.9	\$10,170.4

SOURCES: New York City Comprehensive Annual Financial Report of the Comptroller, Mayor’s Office of Management and Budget Financial Management System Revenue Reporting
 NOTES: ¹General support aids tend to be expenditure based and reflect approved operating expenditures. These aids include transportation, high cost, private excess cost, building aid, career education, computer administration, education grants, and aid for academic achievement.
²Restricted categorical aids have more prescriptive funding requirements that are meant to ensure funds are spent for a specific purpose.
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How State Foundation Aid Is Used					
<i>Dollars in billions</i>					
Budget Category	Fiscal Year 2016	Fiscal Year 2017	Foundation Aid Support	Share of Budget Category Supported with Foundation Aid	Share of Total Foundation Aid
Classroom					
Classroom Instruction	\$11.3	\$12.0	\$4.6	39%	67%
Nonclassroom					
Agencywide Fringe	3.0	3.2	0.934	29	11
Pass-Through Payments	1.6	1.6	0.672	42	10
Instructional Support	2.1	2.1	0.351	16	5
Noninstructional Services	3.3	3.2	0.361	11	5
Instructional Administration	0.294	0.309	0.101	33	2
Central Administration	0.354	0.362	0.038	10	6
TOTAL	\$22.0	\$22.8	\$7.0	30%	100%
SOURCES: IBO analysis of Financial Management System data					
<i>New York City Independent Budget Office</i>					

Just over half of DOE's expense budget (\$11.3 billion) is allocated to classroom instruction and about two-thirds of foundation aid (\$4.6 billion) is used within the classroom. The largest single source of funding for the classroom is foundation aid, which funds 39 percent of all classroom instruction in 2017. Other state aid pays for an additional 12 percent of classroom instruction expenditures, leaving roughly half paid from city and federal sources.

What about the remaining \$2.5 billion in foundation aid for 2017 that is not allocated to classroom instruction?

- More than \$934 million in foundation aid is used to fund fringe benefit costs (11 percent of all foundation aid). Fringe benefits consume 14 percent of the DOE's budget and more than \$2.2 billion of fringe is supported by tax-levy dollars. All fringe costs include not only that for classroom teachers but also fringe for the other 25,000 nonpedagogical employees.
- Payments to contract schools and providers of pre-kindergarten special education services outside of DOE facilities—called pass-through payments because the money is passed through to outside organizations—are the next largest category. Together these types of expenditures account for \$672 million (10 percent) of foundation aid. Pass-through payments are 7 percent of the DOE's expense budget. Foundation aid provides 42 percent of the cost of these services with the rest of the cost supported by other state aid (41 percent) and tax-levy dollars (17 percent).
- Instructional support and noninstructional services each received about a 5 percent share of available foundation aid for a combined total of over \$712

million. Although instructional support is budgeted separately from classroom instruction, many services in this category are in fact provided within the classroom. These include items such as special education assessment, related services, and categorical programs that supplement existing instructional services. Instructional support services have a total budget of \$2.1 billion, with \$351 million coming from foundation aid. However, federal funds supply the lion's share of support for this category (57 percent).

- Noninstructional support services for transportation, food, and school safety, along with facility-related expenses all facilitate the learning process for students, although they are not direct instructional services. Taken altogether these services are partially supported by about \$360 million in foundation aid revenue. Over \$1 billion in state aid supports noninstructional expenditures of which 11 percent is foundation aid.
- The final budget categories—instructional and central administration—do not receive much foundation aid. This is expected since neither category includes costs of classroom teaching but rather administrative operations that sustain the educational system as a whole. Together these two budget categories are supported by an 8 percent share of foundation aid (\$139 million). The central administration budget is \$362 million for 2017, with 73 percent provided by city funds and only 10 percent funded with foundation aid. The remaining 10 percent is funded with a combination of federal and other categorical funds.

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