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## **Testimony at Public Hearing on New York State School Aid**

Submitted to the Rockefeller Institute of Government, SUNY

*July 16, 2024*

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Good afternoon and thank you for inviting us to contribute to this important effort. I'm Andrew Rein, President of the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog dedicated to constructive change in the finances, services, and policies of New York City and New York State governments.

My comments today summarize CBC's preliminary analyses and recommendations. We will provide additional analyses and refined recommendations later in your process.

The State Constitution guarantees every student in grades K-12 the right to a sound basic education (SBE). The goal of State education aid basically should be to direct State resources where they are most needed to fulfill this guarantee, while considering the importance of equity, and the ability, willingness, and obligation of districts to fund education with their local resources.

First, I want to emphasize that school aid reform is important not only to meet educational goals and the constitutional commitment, but also to the State's fiscal future. Education funding comprises nearly 30 percent of State Operating Funds spending. With a \$16 billion structural budget gap, New York needs to ensure education spending is fiscally sustainable or it will damage its capacity to provide the services New Yorkers and New York need to thrive.

The second point I want to emphasize is that for the State to wisely and appropriately use its \$38.6 billion of education aid, it must not only reform Foundation Aid, but also the one-third of aid allocated for various expense-based aids, and the School Tax Relief (STAR) program.

Our work addresses three problems:

1. Many provisions and formulas inhibit aid from being directed to where need is greatest;
2. The calculation of local contribution undercounts what many wealthy localities can and do contribute, thereby sending over \$2 billion of State aid every year to districts that already spend enough local resources to provide an SBE; and
3. Outdated poverty and cost factors miscalculate needs and costs.

To address these, CBC provides seven preliminary recommendations:

1. **Quickly phase out the hold harmless provision to align Foundation Aid with district enrollment and wealth:** The hold harmless provision prevents Foundation Aid from being allocated based on needs by guaranteeing districts receive at least as much funding as they received in the prior year, even if their enrollment fell or local wealth increased. Since Foundation Aid was introduced in 2008, enrollment has fallen in more than 90 percent of districts, and statewide enrollment has declined by over 9 percent. Because of this provision, many districts whose enrollment has declined have received much larger per-student Foundation Aid increases compared to similar districts with steady or increasing enrollment;
2. **Revise the expected local contribution to be the higher of the district's actual contribution, or the district's fiscal capacity:** The Foundation Aid formula inaccurately measures a district's capacity to raise local funds and uses multiple estimates seemingly intended to maximize a district's State aid. It uses these calculations even in districts that provide more support, leading the State to provide resources well above what is needed for the constitutional guarantee to many districts. The formula should more accurately reflect local fiscal capacity and willingness to pay, ensuring State aid is directed to higher need districts or other State needs. A phase-in would mitigate impacts of this changes;
3. **Update district poverty estimates and regional cost measures for a more accurate assessment of need:** The district poverty and regional cost factors are severely outdated, and should be updated more frequently for funding fairness and accuracy;
4. **Reassess arbitrary floors and ceilings in formulas to ensure they are limited to extreme situations:** Aid is distorted by arbitrary caps that require or limit aid, causing over- or under-funding. Foundation Aid has a minimum funding level of \$500 per pupil, ensuring even the wealthiest districts receive some Foundation Aid. Additionally, expense-based aids like BOCES aid have minimum State contributions as high as 36 percent of expenses. Many of these hard floors and ceilings should be reassessed to ensure a more needs-based distribution;
5. **Allocate library, textbook, and software aids based on wealth by modifying the formula or folding the funding into Foundation Aid:** These smaller aid categories currently provide funding on a per-student basis regardless of local wealth. These funds (\$224

million) would be better allocated folded into Foundation Aid, or with wealth adjustments added to their formulas;

6. **Eliminate High Tax Aid:** This funding stream, now totaling \$223 million, initially was intended to incentivize localities to raise more revenue, but has been frozen since 2014. It now provides more aid per student to wealthy districts than below-average-wealth districts. Given its regressive allocation and lack of a clear function, High Tax Aid should be eliminated; and
7. **Eliminate the School Tax Relief (STAR) program to better allocate State resources to where needed most:** The STAR program, which costs \$3 billion annually, benefits homeowners in wealthier districts with higher property values while excluding renters. It provides around \$2,000 per student in wealthy counties like Putnam, Nassau, and Westchester, and as little as \$500 per student in Jefferson County. Eliminating STAR would allow State resources to be better allocated to other fiscal or programmatic needs.

Furthermore, while we do not have recommendations today, we believe you also should examine two other areas that need improvement. One is the factors used to provide extra resources for special student needs—such as for special education, English language learners, and possibly for unhoused students and others. They appropriately drive a lot of dollars and getting this right is key to supporting districts to best address all students' needs.

The other is there is no tie between State aid and district performance. CBC strongly believes that the State should take a more active role promoting performance and spreading best practices, increasing transparency, and improving accountability, especially given the vast amount of resources provided and the criticality of education to New Yorkers' and our state's future.

Thank you for this opportunity, and I am happy to answer any questions.