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Public Hearing on New York State School Aid

Submitted to the Rockefeller Institute of Government, SUNY

August 14, 2024

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Good afternoon and thank you for the opportunity to offer comments. I am Patrick Orecki, Director of State Studies for 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 government.

My comments this afternoon build on CBC's prior testimony and years of research. In our [initial comment](#) and [accompanying report](#), published last month, we identified basic shortcomings in existing school aid formulas and made seven recommendations. Overall, CBC encourages the Institute—and subsequently lawmakers—to consider the Foundation Aid formula in the context of all school aid funding sources available to localities, and to ensure that State spending is targeted based on need. Currently, arbitrary floors and ceilings, inadequate data inputs, and a failure to properly account for local fiscal capacity result in poor targeting of State aid.

Today, I would like to further expand on these points, with two priorities: (1) to specify three improvements to formulas that would better account for localities' circumstances and actions, and (2) to support our recommendation to allocate more school aid based on need with additional analysis.

In addition to our prior recommendations to eliminate the hold harmless provision and arbitrary floors and ceilings in the formula, CBC recommends [three improvements](#) to the formulas for Foundation Aid and other expense-based aid formulas to better account for local circumstances and actions.

First, formulas should more accurately estimate a district's capacity and willingness to raise revenue and should use the actual local contribution as the expected minimum local contribution

when it exceeds the estimate. Often a district contributes more than the formula determines it can or should, with most districts doing so in the 2023-24 school year. In fact, 152 districts contributed enough local resources to provide a sound basic education before receiving any State aid.

Second, calculations of local fiscal capacity should account for localities' other spending obligations—including State mandates such as Medicaid, and others driven by economic or social factors such as poverty and unhoused residents—by adjusting the expected local contribution. The Medicaid local share, for example, shifts \$8 billion in costs of the State-run Medicaid program to counties, and therefore local taxpayers, so their school aid obligations should account for that.

Third, indices of need and regional cost should be updated regularly and be sufficiently granular to capture variation. For example, the regional cost index is dated and geographically broad; it may not capture differences between urban, suburban, and rural areas in the same region. The pupil need index relies on outdated measures of poverty, and imprecise measures of qualification for free and reduced lunch and English Language Learner enrollment. It does not sufficiently account for other factors that could increase student need—and therefore district costs—such as numbers of residents in transitional housing, special education needs, or the negative impact of concentrated poverty.

Additional analyses build on our prior recommendations to target expense-based aids and the School Tax Relief (STAR) program funds based on district need by describing inadequacies in expense-based aids and illustrating the impact of distributing those aids proportional to existing Foundation Aid allocations.

Building and Transportation Aid are the two largest expense-based aid categories, together totaling nearly \$6 billion. These formulas attempt to account for local capacity and regional cost variances, among other factors. However, as previously described, the local capacity formulas are limited, and floors and ceilings distort the allocation of these aids.

School districts' building and transportation costs should be explored further to identify reforms that would incentivize efficiency of spending and to improve the funding distribution to better reflect local needs and resources.

The State will allocate \$447 million in Library, Textbook, Software, and High Tax Aids in the 2024-25 school year without accounting for local wealth. Library, Textbook, and Software Aids provide schools with a fixed dollar-per-student allocation regardless of student need or local resources. High Tax Aid is allocated based on prior district funding levels and has been frozen since 2014—it no longer serves its original purpose of incentivizing districts to raise more local revenue. If these aids were distributed proportional to Foundation Aid, the share flowing to

districts in the four lowest deciles based on wealth, which includes New York City, would increase from 45 percent to 75 percent, directing \$135 million more to these lower-wealth districts.

Finally, the STAR program—school aid by another name—shifts \$3.3 billion of education funding from locally-raised property tax revenue to the State each year. STAR’s design means that more money flows to wealthier districts: Last year districts in the bottom three deciles of wealth received \$501 million from STAR while the top three deciles received \$942 million.

If STAR funding were reallocated proportional to Foundation Aid, aid to the bottom three deciles would double to \$1 billion while funds flowing to the top three deciles would be cut by two-thirds, substantially redistributing aid. On a per-student basis, districts in the lowest wealth decile would receive an average of \$1,674 more per student than they currently receive from STAR, while districts in the top decile would decrease by \$1,157 per pupil.

This section included a great deal of datapoints, so allow me to put it more simply: If expense-based aids and STAR were distributed proportionally to Foundation Aid, they would be better targeted based on student needs and local wealth.

Thank you again for the opportunity to offer comment today. Thank you to the Rockefeller Institute staff and experts on completing the public hearing portion of your work. We look forward to reading your final report.