

## A Lost Generation? The Impact of State Aid Cuts and COVID-19 on Students

### Introduction

New York State public school districts face serious fiscal challenges which, if not addressed soon, threaten to undermine the educational attainment of a generation of students. Schools have been dealt a double-whammy of additional costs related to safely re-opening schools this fall due to the ongoing COVID-19 pandemic while state revenue declines have raised the specter of mid-year school aid cuts for the first time since 1990-91.



The state has already withheld 20% of the aid schools were due to receive in July and August. While the state recently pledged there would be no withholding from the end of September state aid payments, Gov. Andrew Cuomo has made it clear that only additional federal funding will stave off additional cuts in the 2020-21 school year. A 20% state aid cut this year would amount to more than \$5 billion statewide. The state currently projects a \$14.5 billion General Fund revenue decline over what had previously been forecast for the current fiscal year, which is part of a \$62 billion reduction over the next four years.

To determine the impact of COVID-19 and potential state aid cuts on school finances, the Association of School Business Officials of New York and the New York State School Boards Association surveyed school business officials in the 680 school districts and BOCES across the state that have membership in ASBO. A total of 181 responses were received — a rate of 27%.

Districts that responded to the survey reported spending \$219 per student on expenditures directly related to COVID-19 to make sure schools were ready to open this fall. This included spending on personal protective equipment (PPE) such as masks

### KEY TAKEAWAYS

- ▶ New York schools have incurred additional costs related to the ongoing COVID-19 pandemic at the same time state revenue declines have raised the specter of mid-year school aid cuts.
- ▶ The state currently projects a \$14.5 billion General Fund revenue decline over what had previously been forecast for the current fiscal year, which is part of a \$62 billion reduction over the next four years.
- ▶ Multi-year state aid reductions would leave nearly four in 10 school districts either financially insolvent (25%) or unable to provide a sound, basic education to their students (13%).
- ▶ Districts statewide plan on spending an average of \$500,000 to cover costs related to COVID-19 in order to open schools this semester — for either in-person or remote instruction.
- ▶ Federal stimulus is necessary for New York's schools to stave off painful cuts to programs and staff.



and plastic shields, cleaning supplies and digital technology that would allow students to learn remotely. School districts began their 2020-21 school years planning for scenarios ranging from fully in-person to all-remote, as well as hybrid models that combined the two approaches. These costs strained school district budgets, even before considering aid withholding or cuts.

Even more concerning, school business officials potentially face a state aid cut of 20% in 2020-21 that would amount to a reduction of about \$2,093 per student. As *Figure 1* illustrates, the threatened state aid cuts are nearly 10 times the cost of pandemic related re-opening expenses. The two combined amount to more than \$2,300 per pupil.

As the sidebar about the Copiague district makes clear, the threat of state

aid withholdings becoming permanent has already led some districts to make painful choices, affecting student equity and threatening New York’s constitutional guarantee of a sound, basic education.

### Survey results

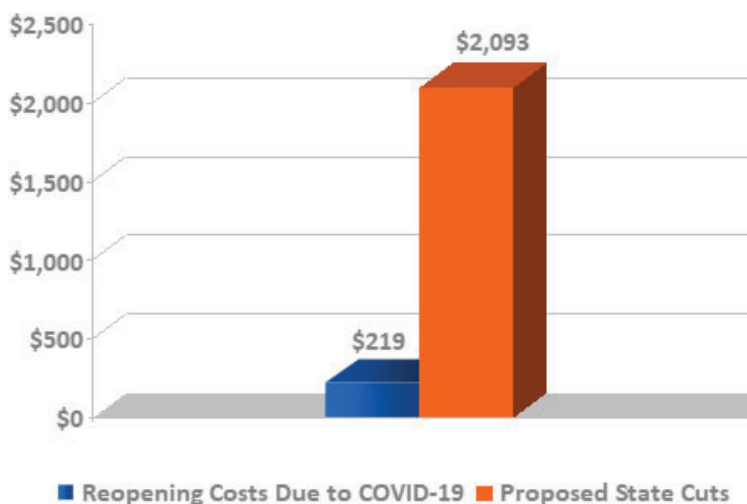
#### State aid cuts

State aid cuts will have a negative impact on school districts in both the short- and long-terms. Survey respondents made clear the devastating impact that multi-year aid reductions would have on their schools.

As *Figure 2* shows, retrenchment of state aid on this scale would threaten the financial and educational viability of 38% of districts, leaving them either financially insolvent (25%) or educationally insolvent (13%),

meaning they would lack sufficient resources to provide a sound, basic education to their students. An additional 40% of districts would have to make deep staffing cuts, while 14% would scale back programs offered to students. In the survey, 9% of districts indicated they would be able to maintain existing programs, but would do so by using up their fund balance and reserves and/or significantly raising local property tax levies.

**Figure 1. Per student re-opening costs and potential state aid cuts, 2020-21**



**Figure 2. Impact of multi-year state aid cuts**

If 2020-21 state aid is cut 20% and state aid cuts continue for the next two to three years, what is the worst-case scenario for your district?

Staffing cuts	40%
Fiscal insolvency	25%
Program cuts	14%
Educational insolvency	13%
Significant financial strain (large levy increases; exhausted fund balance and/or reserves)	9%

If the cuts lasted only one year, school business officials indicated a number of strategies they would use to cope with a 20% aid decrease for 2020-21. About eight in 10 said they would allocate additional monies from their fund balance to fill the hole left by the loss in state aid. Four other strategies were identified by more than half of school business officials, including: additional use of dedicated reserves (66%), non-instructional layoffs (64%), instructional layoffs (60%) and reducing extracurricular activities or sports (58%). See *Figure 3* for a complete list.

## Copiague

Just days before classes began this September in the Copiague school district, the board of education announced it had to cut 54 staff positions. The reason: lack of state aid.

When New York Gov. Andrew Cuomo announced that the state would start withholding 20% of school aid each month during the 2020-21 school year, Copiague’s school board had no choice but to adopt the staffing cuts, which included 28 teachers and dozens

of custodial, security, teaching assistant and administrative positions. State aid makes up half the budget of the school district that sits on Long Island’s south shore – about \$13 million.

School officials in Copiague warned that without additional funding from the federal government, the state aid withholdings could become permanent cuts. They have urged parents to call on their congressional representatives to secure those funds.

**Figure 3. Responses to aid cuts for the 2020-21 school year**

The state has recently begun withholding 20% of certain aid payments. If there are cuts on this scale, how will your district address them? Please check all that apply	Percentage of respondents
Additional use of fund balance	79%
Additional use of reserves	66%
Non-instructional layoffs	64%
Instructional layoffs	60%
Reduce extracurricular activities or sports	58%
Administrative layoffs	34%
Attempting to negotiate union concessions	24%
2020-21 budget already included significant state aid cuts	22%
Expand the use of virtual learning by shifting standard high school classes fully online	17%
Short-term borrowing	16%
Expand the use of virtual learning by shifting standard middle school classes fully online	16%
Administrative pay reductions	11%
Expand the use of virtual learning by shifting standard elementary school classes fully online	11%
Our district does not receive a significant amount of state aid	7%

### COVID-19

According to the survey, districts statewide plan on spending an average of \$500,000 to cover costs related to COVID-19 in order to open schools this semester — for either in-person or remote instruction. Spending figures vary depending on region, with

schools on Long Island spending an average of more than \$1.1 million, or \$370 per pupil, compared with slightly more than \$100,000 across the Southern Tier, or about \$105 per pupil. See *Figure 4* for a complete list.

When asked for the single biggest driver of increased costs in their district, 43% of school business officials said it was the purchase of personal protective equipment, or PPE — the most of any category. The second and third most common were

**Figure 4. Approximately how much is your district spending to cover costs related to COVID-19 in order to open schools this semester?**

	Total spending	Average spending per district	% of budgeted spending	Median district spending	Spending per pupil
State	\$79,189,153	\$501,197	0.80%	\$200,000	\$209
Capital Region	\$9,515,000	\$475,750	0.76%	\$175,000	\$181
Central NY	\$6,019,865	\$401,324	0.91%	\$200,000	\$204
Finger Lakes	\$8,111,000	\$352,652	0.54%	\$200,000	\$125
Hudson Valley	\$17,217,485	\$748,586	1.00%	\$500,000	\$269
Long Island	\$24,465,000	\$1,165,000	1.13%	\$800,000	\$370
Mohawk Valley	\$3,305,000	\$550,833	0.97%	\$187,500	\$315
North Country	\$1,480,009	\$113,847	0.65%	\$100,000	\$113
Southern Tier	\$1,778,794	\$104,635	0.53%	\$100,000	\$105
Western NY	\$7,297,000	\$364,850	0.76%	\$261,000	\$163

technology purchases, such as Chromebooks, routers, cameras, etc. (21%), and additional staffing (15%).

The most common strategies for covering the added expenses related to opening schools this fall was use of fund balance and shifting funds from other areas of the budget. Both were cited by 71% of respondents. Shifting funds from other parts of the budget is particularly salient, since it means those funds cannot be used in areas where they are sorely needed, such as instruction. Figure 5 provides prevalence of funding strategies statewide; regional breakdowns are available in the appendix.

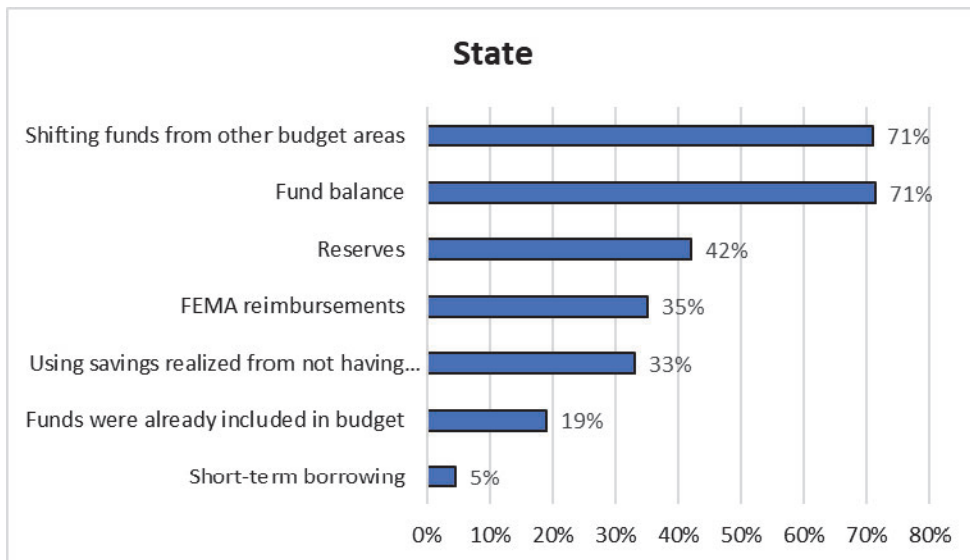
### Support federal stimulus funding

While the state is sending mixed signals about school aid cuts, the scale of the revenue gap in this and future years requires federal support. Gov. Cuomo has made clear that federal funds to fill in state revenue gaps will stave off painful cuts.

The Government Finance Officers Association recommends that local governments — including school districts — maintain no less than two months' worth of operating expenses on hand. This is significantly higher than school district's current limit. In a world where districts are also operating under the property tax cap,

**At a time when school finances are in a precarious position, it is incumbent upon state and federal lawmakers to find creative solutions to ease fiscal pressures on public school systems.**

Figure 5. Funding strategies to cover the costs of school reopening



### Recommendations

In short, the additional costs of operating during a pandemic, coupled with large cuts in state aid, threaten to irreparably harm New York's public schools. At a time when school finances are in a precarious position, it is incumbent upon state and federal lawmakers as well as school district officials to find creative solutions to ease fiscal pressures on public school systems. We offer the following recommendations:

#### Increase allowable budget fund balance

Fund balance is an amount of operating funds that districts may retain to cover future expenses. Currently, districts may retain up to 4% per year. Any amount in excess of 4% is known as surplus funds, which must be used to offset property taxes or placed in an authorized "reserve fund," to be restricted for specific future expenses. By contrast, local governments have no specific percentage limitation on fund balances.

these burdensome restrictions further reduce districts' ability to meet their fiscal needs. Moreover, a low fund balance is one factor given by the Office of the State Comptroller that indicates poor financial health. The current restrictions leave little room for error for districts to achieve this critical metric necessary to indicate good financial health.

COVID-19 has led to an unprecedented financial situation across the country and the state. School districts, along with other local governments, face dire revenue shortfalls in the coming year. These shortfalls could significantly impact districts' ability to fund basic services. Immediate relief is needed. A major source of relief would be relaxation of the onerous fund balance limits.

One effective way to provide this fund balance flexibility would be to raise the 4% cap. A higher cap would allow districts to retain more cash on hand to meet their future fiscal obligations. At a time when the economic future is incredibly uncertain, this would be a means of allowing districts to better meet the financial challenges that are on the horizon. If such a change had been implemented during the recovery from the Great Recession, school districts would be in a much stronger position today.

## Eliminate negative tax caps

The property tax cap generally limits the amount local governments, including school districts, can raise through property taxes year over year to the lesser of 2% or the change in inflation. Overriding the cap requires the approval of 60% of the voters of a school district. School districts face potentially drastic revenue shortfalls due to the financial impact of COVID-19.

The property tax cap will make this already uncertain fiscal environment even more difficult.

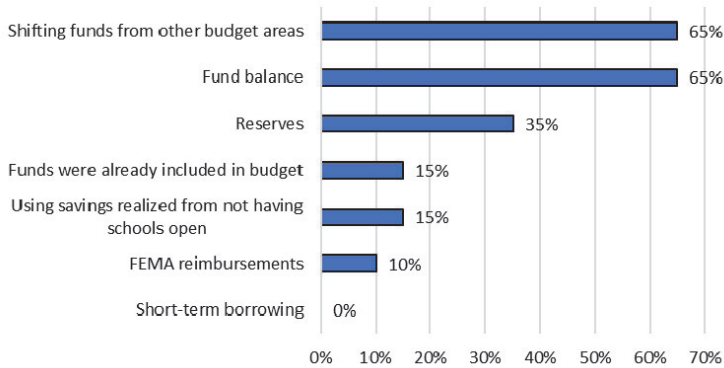
The negative tax cap is a phenomenon in which a district can actually be allowed only a negative year over year increase. This can occur due to a quirk in the tax cap calculation caused by payment of debt service or an increase in payments in lieu of taxes.

Each district has different needs, and the “one-size fits all” approach to the property tax cap places external limits on a budgeting process that is local by its nature. Restoring flexibility to school districts is the best way to meet the needs of students. This is especially true during these challenging economic times.

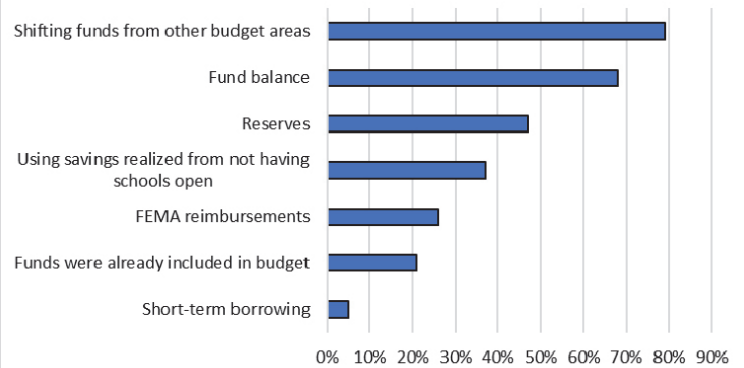
## Appendix

### Strategies for covering added COVID-19 expenses, 2020-21 Regional Breakdowns

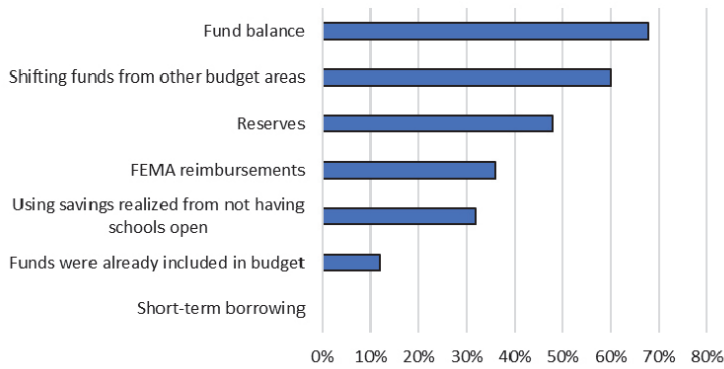
#### Capital Region



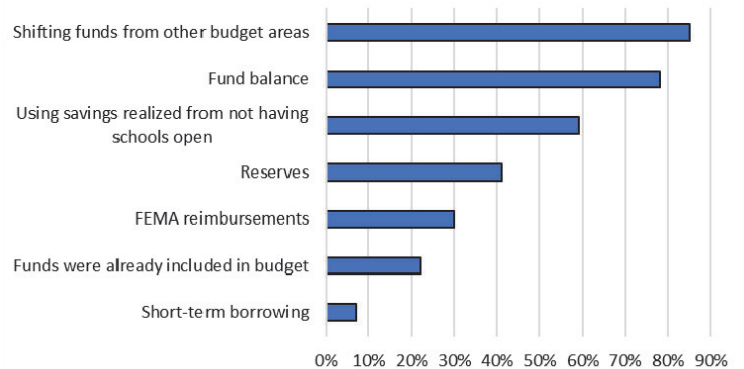
#### Central NY



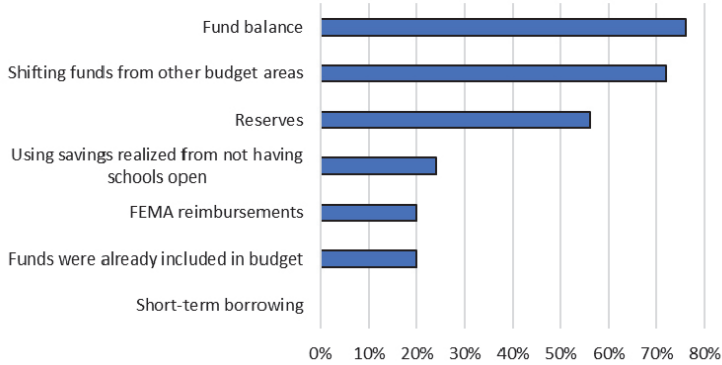
#### Finger Lakes



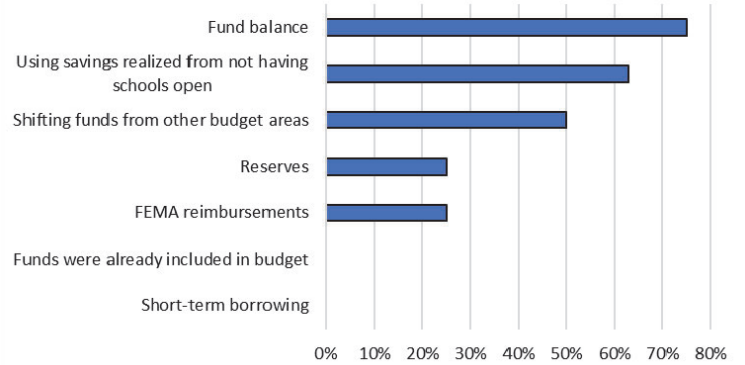
#### Hudson Valley



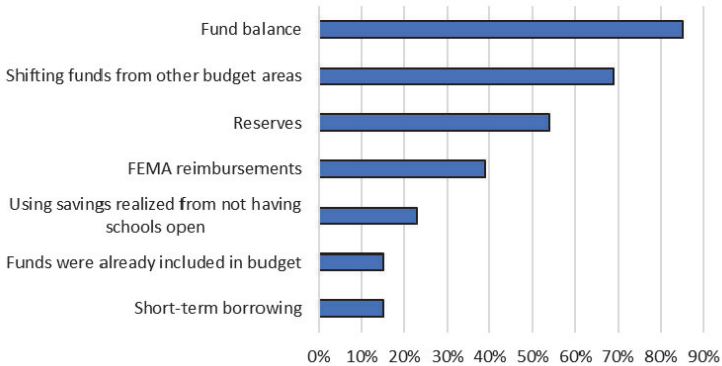
### Long Island



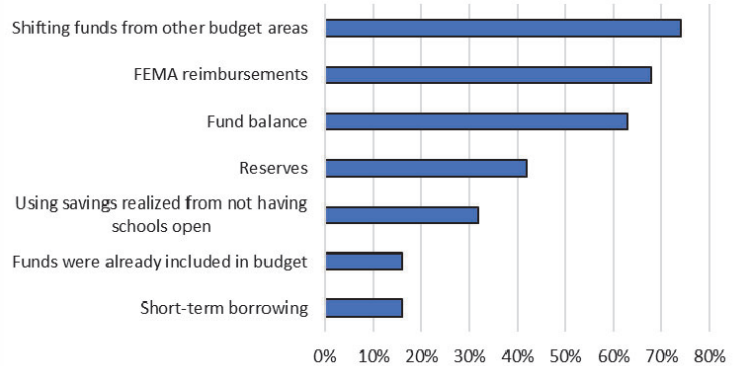
### Mohawk Valley



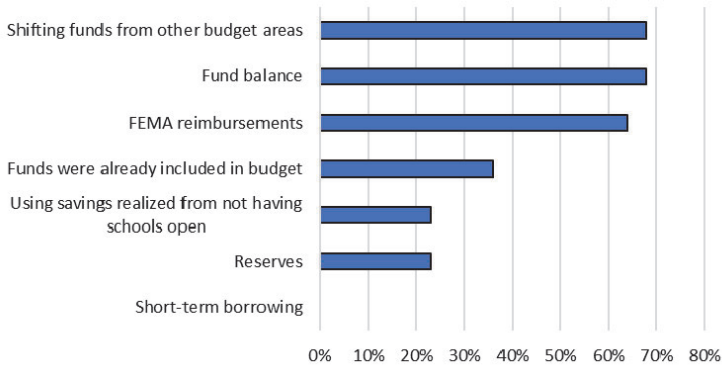
### North Country



### Southern Tier



### Western NY



### Glossary

**Educational insolvency:** the inability of schools to provide all state and federally mandated student instruction and services.

**Fiscal insolvency:** the inability to pay debts when they are due. Fortunately, there are solutions for resolving insolvency, including borrowing money or increasing income so that you can pay off debt.

**Fund balance:** the positive difference between revenue and expenses. These excess funds, which are limited to 4% of a district's operating budget, help school districts deal with unexpected costs, revenue shortfalls, mid-year funding reductions and other cash flow issues.

**Reserves:** a restricted fund to be used for a specific purpose, such as capital expenditures or employee pension payments.

**Short-term borrowing:** a financial obligation that is expected to be paid off within a year.