

# Local Government Snapshot



NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

Thomas P. DiNapoli • State Comptroller

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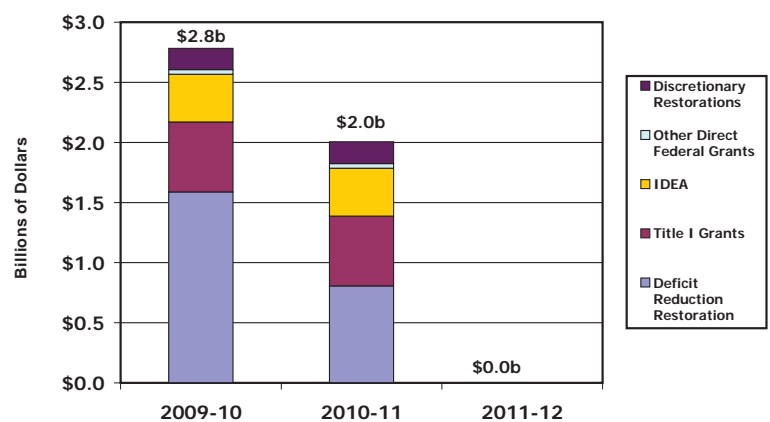
## School Districts and the Stimulus “Cliff”

- The American Recovery and Reinvestment Act (ARRA) provided New York State with roughly \$31 billion in 2009 and 2010.
- Of the \$11.3 billion of ARRA funds appropriated in the State’s 2009-10 adopted budget, including recent deficit reduction plan actions, \$7.6 billion passes through the State to a variety of State, local and other programs. Although this is good news for New York’s local governments, the funding is only temporary, so long-term planning is essential.
- Based on the State’s projections of ARRA funding for 2010-11, school districts face a potential funding gap of at least \$2.0 billion in school year 2011-12, unless federal aid is renewed or replaced by State or local sources.
- As of November 2009, New York State faced cumulative budget deficits of \$27.5 billion from 2009-10 through 2011-12, and despite recent passage of a deficit reduction plan, is unlikely to have the resources to fill this funding gap.

### ARRA Restored Aid Cuts and Added High-Need Funding

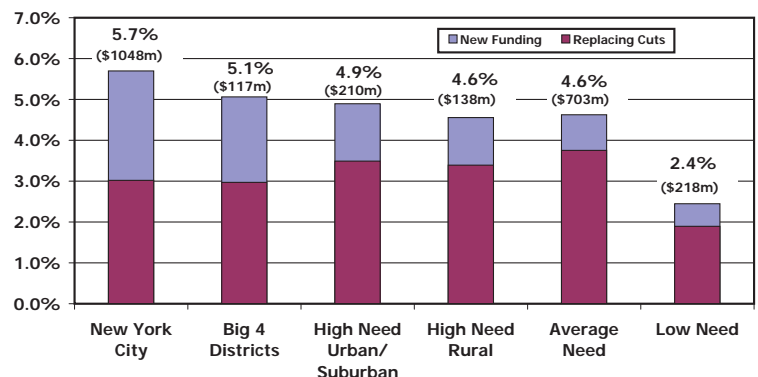
- Of the \$2.8 billion New York’s schools are anticipated to receive in 2009-10, \$1.6 billion restored proposed education aid cuts, \$1 billion was additional funding directed to programs serving high-needs and special education students, and the remainder restored other educational programs.<sup>1</sup>
- The \$2.8 billion flowing to school districts in 2009-10 represents 5.3 percent of total school budgets.

### ARRA Funds Are Temporary - And Deficit Reduction Actions Have Decreased Amounts For 2010-11



Source: State Education Department. Additional calculations by OSC.

### Percentage of 2009-10 School Year Budget from Major ARRA Sources by Level of Need



Source: State Education Department; calculations by OSC. Amounts shown do not include minor categorical aid programs such as McKinney-Vento grants or non-foundation aid restorations, such as mentoring programs and teacher centers.

<sup>1</sup> The \$2.8 billion includes all additional federal money going to school districts, according to the State Education Department, including categorical grants and non-foundation aid restorations. The graphs of aid as a percentage of budget by need and by region do not include nearly \$400 million from these smaller programs, as that data was not available on a district-by-district basis.

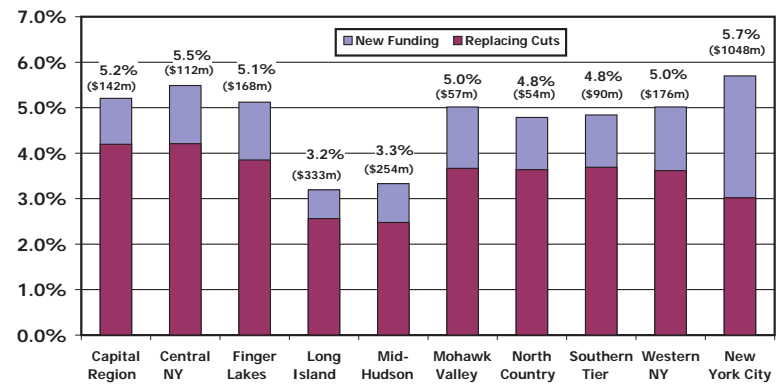
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- State Education Department data show that New York City and high-to-average-need districts are most vulnerable when ARRA funding ends. Wealthier districts are at less risk.
- Schools on Long Island and in the Hudson Valley have received less ARRA funding, so they would be less impacted, on average, when ARRA funding ends.

## Tax and Budget Implications

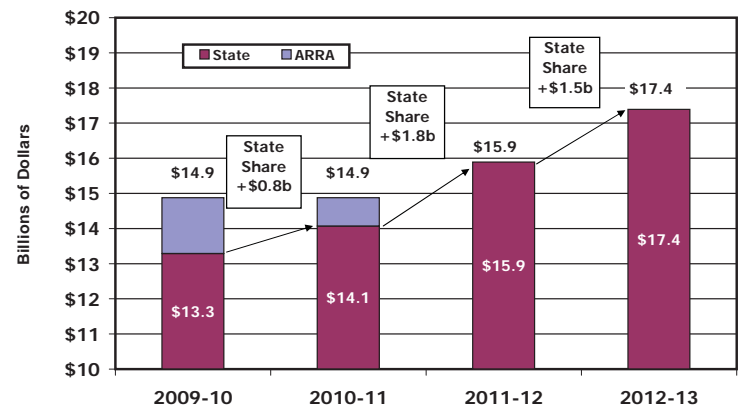
- ARRA funding allowed independent school districts to hold tax levy increases to 2.1 percent statewide for the 2009-10 school year, compared with an average annual increase of 6.2 percent in the preceding ten years.<sup>2</sup>
- Independent school district budgets increased by 2.3 percent, less than the average of 5.6 percent from 1997 to 2007. The lower increase was largely due to actions taken by school districts in response to warnings about possible State aid cuts in the period leading up to the development and passage of 2009-10 school budgets, and recognition that the federal stimulus funding was temporary.
- Assuming that proposed State aid cuts had been enacted without deficit reduction relief from ARRA, on average independent districts would have had to raise property taxes by as much as 7.7 percent or cut costs by as much as 3.2 percent, or some combination thereof, in order to make up the difference.

Percentage of 2009-10 School Year Budget from Major ARRA Sources by Region



Source: State Education Department; calculations by OSC. Amounts shown do not include minor categorical aid programs such as McKinney-Vento grants or non-foundation aid restorations, such as mentoring programs and teacher centers.

Foundation Aid 2009-10 to 2012-13 State Share Will Have to Rise Sharply



Source: ARRA from State Education Department; Foundation Aid Totals from 2009-10 Enacted Budget Financial Plan; calculations by OSC.

- For all districts, the total ARRA funding gap of at least \$2.0 billion in 2011-12 would equate to an average local property tax increase of 7.7 percent, assuming school budgets and the shares funded through State aid and property taxes remained constant – an unlikely scenario given spending pressures from pensions, health care and collective bargaining agreements.
- The State is projecting that foundation aid (the main source of school aid to most districts) will increase by nearly 17 percent over three years between 2009-10 and 2012-13. However, to backfill the stimulus funds that disappear in 2011-12 and meet this commitment, the State's share of foundation aid will need to increase by 31 percent (\$4.1 billion) over three years – an unlikely scenario given the State's own fiscal situation.
- Clearly, school districts need to begin planning now for difficult budget pressures in 2010-11 and the stimulus "cliff" in 2011-12.

<sup>2</sup> Residents in the "Big Five" dependent school districts (New York City, Buffalo, Rochester, Syracuse and Yonkers) do not vote on budgets directly. These dependent districts receive local revenue from the city, and their local share is impacted by city tax limits and other issues that do not apply to independent districts.