

Education Funding in the State Budget

Local impacts of proposals set forth in HB 2, as amended by the House Finance Committee

New Hampshire's public schools are facing a steep drop in state funding, partially due to pandemic-related enrollment fluctuations. Proposals brought forth by House budget writers would close roughly \$18 million of the \$89 million gap in state funding between 2021 and 2022, while the Senate has proposed a measure that would add back about \$45 million.

There are a number of proposals to alter the state's adequate education aid formula to address concerns related to the COVID-19 pandemic. This memo serves as technical assistance for policy makers and the public on the estimated fiscal impacts of several proposals, as well as background on Maintenance of Effort (MOE) requirements included in the American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER) Fund under the American Rescue Plan (ARP) Act of 2021, Public Law 117-2, enacted on March 11, 2021.

New Hampshire's Public Schools are faced with \$89 million reduction in state funding in 2021

Under current law, New Hampshire's public schools are facing an \$89 million drop in state funding between School Year (SY) 2021 and SY2022. This drop is primarily due to three factors:

- 1. Decrease in student enrollment (approximately \$14 million):** While the state has been experiencing an annual 1% decline in K-12 student enrollment for the past decade, New Hampshire public schools had a roughly 4% drop in student enrollment between SY2020 and SY2021. This is due to a number of factors, but largely due to the COVID-19 pandemic and local decision making around reopening. School leaders have said that many of these drops are concentrated in Kindergarten and Grade 1 students, meaning that families have chosen to delay or skip younger grades all together, but these leaders do anticipate those students to return in Fall 2021.
- 2. Decrease in the number of students who participate in federal school meal programs (approximately \$19 million):** New Hampshire public schools have an estimated 25% fewer students enrolled in the Free

Key Takeaways

- New Hampshire public schools are facing an \$89 million drop in state funding between SY2021 and SY2022, which will disproportionately affect the state's most vulnerable children and schools.
- Amendments to HB 1 and 2, as proposed by the House Finance Committee, would recoup approximately \$15 million of the \$89 million drop in public school funding between SY2021 and SY2022.
- Senate Bill (SB) 135, passed by the NH Senate in March, would recoup approximately \$45.6 million of the \$89 million drop in public school funding,
- Disproportionate cuts to "high-need" communities could put federal relief funding in jeopardy due to Maintenance of Effort and Equity requirements included in the American Rescue Plan.



and Reduced-Price Lunch (FRL) program in SY2021 compared to SY2020.* This is primarily due to a federal waiver granted by the U.S. Department of Agriculture, which directed schools nationwide to provide school meals to all children regardless of participation in the FRL program. School leaders have said that because of the waiver, they have not been able to receive all FRL applications, which has affected the count of eligible students. Public schools receive a certain amount of funds for each FRL-enrolled student, meaning that a drop in students equates to a drop in state funding. Experts have noted that though the count of FRL-enrolled students has dropped in SY2021, the number of eligible students has increased above SY2020.

3. Expiration of one-time targeted aid (approximately \$60 million): In the last biennium, budget writers included roughly \$60 million for SY2020, targeted to communities with low property tax capacity through Fiscal Capacity Disparity Aid, and to communities with high proportions of students eligible for Free and Reduced Lunch. These targeted aid programs expire at the end of the current biennium.

Because of the nature of the factors, about two-thirds of the loss in funding affects our most vulnerable students and communities. The students who were disproportionately affected by the pandemic are also those who live in communities disproportionately affected by the drop in state funding, at a time when they likely need more support to fully recover.

This drop may also affect the state’s eligibility for federal funding, particularly eligibility to fully receive the \$350 million allocated for New Hampshire’s K-12 schools through the American Rescue Plan.

There are two current proposals to address these factors: the House Finance Division II proposal and Senate Bill (SB) 135, which was passed by the Senate and is now in the House Education Committee. Table 1 outlines the differences in the proposals, with the net difference in school funding from SY2021 noted in parentheses.

Table 1: Effects of Proposals on Various Adequate Education Funding Streams, SY2021-SY2022

	SY2021 Aid	Current Law, SY2022	Governor’s Proposal/ Division II	SB 135
Base Adequacy Aid (Student Enrollment)	\$620,471,740	\$606,590,405 (-\$13,881,335)	\$606,590,405 (-\$13,881,335)	\$634,177,321 (+\$13,705,581)
Free and Reduced Lunch (FRL) Differentiated Aid	\$84,719,977	\$65,562,642 (-\$19,157,335)	\$83,103,943 (-\$1,616,034)	\$86,686,414 (+\$1,966,437)
Total Cost of an Adequate Education	\$769,048,533	\$737,350,886 (-\$31,697,647)	\$754,471,393 (-\$14,577,140)	\$786,061,574 (+\$17,013,041)

* These students, who have enrolled in their district’s Free and Reduced-Price Lunch (FRL) program and have submitted the necessary paperwork, are referred to throughout this document as “FRL-enrolled.”

Governor's Proposal/Division II

The Governor's proposed budget recoups about \$17.1 million of the \$89 million loss in state funding by adjusting the calculation of students eligible for Free and Reduced-Price Lunch (FRL). HB 2, as written and as adopted by House Finance Division II, calculates the proportion of students eligible from SY2020, to apply to SY 2021 student enrollment rates to create a new calculation of students eligible for FRL during SY 2021.

If this number is greater than the actual count of FRL-enrolled students for SY2021 in a district, the new calculation will be used.

This proposal does not adjust for enrollment dips due to the pandemic, despite the Governor's and NH Department of Education's assertion in the beginning of the pandemic that state funding would not be reduced due to drops in enrollment. As you may remember, last spring, the state issued its school reopening guidelines. In this guidance, the Governor and NH DOE noted that if schools encourage students and families to pursue alternative options, including the Virtual Learning Academy Charter School (VLACS), the school districts would not be penalized. However, this proposal does not deliver on that promise.

The proposal results in an approximate \$14.6 million drop in state funding between SY2020 and SY2021, based on enrollment alone. It does not address the expiration of targeted aid.

Senate Bill (SB) 135

Senate Bill (SB) 135, as passed by the Senate and currently being considered by the House Education Committee, would recoup about \$48 million of the \$89 million loss in state funding. The proposal takes the higher of the Average Daily Membership (ADM) count between SY2020 and SY2021 to calculate both the base adequate education and the FRL differentiated aid. It does not address the expiration of targeted aid.

The Pandemic's Effect on Federal Funding

Title I, Part A (Title I) of the Elementary and Secondary Education Act (ESEA), as amended by the Every Student Succeeds Act (ESSA) provides financial assistance to local educational agencies (LEAs) and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. (U.S. Department of Education, *Title I, Part A Program*, 2018.)

In SY2020, New Hampshire received approximately \$46.3 million in LEA grants. New Hampshire allocates Title I funding on rank order based on the number of students enrolled in the FRL program from the previous school year, meaning that the drop in FRL-enrolled children for the SY2021 school year will impact the allocations for SY2022 Title I.

The U.S. Department of Education (USED) is projecting a 4.5% drop (roughly \$2.8 million) in federal Title I-A funding for LEAs between SY2020 and SY2021, which will affect our most vulnerable students.

Manchester, for example, is expecting a 40-50% drop in federal Title I-A funding in SY2021. In SY2021, Manchester received \$7,803,314 in federal dollars, which Superintendent John Goldhardt has said has been critical to supporting the city's students. (Goldhardt, 2021)

The Title I calculation includes the number of students rather than the proportion of students, meaning that SB 135 may go further in closing the gap in federal Title I funding than the method proposed by the Governor and Division II. (*Every Student Succeeds Act*, 2015)

Shifts in Funding and the American Rescue Plan

The American Rescue Plan, enacted on March 11, 2021, includes approximately \$350 million in K-12 funding for New Hampshire's public schools through SY2024. These funds are part of the Elementary and Secondary School Emergency Relief Fund, known as the ESSER III.



Like the previous two ESSER relief packages, ESSER III includes a Maintenance of Effort (MOE) requirement to ensure that states do not decrease the amount of state support for their schools. These MOEs are not new. Nearly all federal education programs include some sort of MOE requirement, including special education funding through the IDEA, Career and Technical Education funding through the Perkins Act, and more.

However, ESSER III also includes a Maintenance of Equity, meaning that the state cannot disproportionately cut funding in SY2022 and SY2023 to “high-need” school districts. Cuts to “high-need” school districts cannot be greater than the cuts to the overall reduction in state funding across all districts in the state.

Neither the Governor’s proposal, nor SB 135, address the nearly \$60 million drop in targeted funding to the state’s low-income communities.

By not addressing the drop in funding, the state may be putting federal ESSER funding at risk.

Sources

Every Student Succeeds Act, 20 U.S.C. § 1122 (2015).
<https://www.congress.gov/bill/114th-congress/senate-bill/1177>

S.B. 135, Amend. 2021-1012h. 2021 Reg. Sess. (NH 2021).

S.B. 135, Amend. 2021-1013h. 2021 Reg. Sess. (NH 2021).

S.B. 135: Relative to the calculation of the cost of an opportunity for an adequate education. House Education Committee Public Hearing of the 2021 Reg. Sess. (March 24, 2021). (Testimony of Dr. John Goldhardt).

Treasury Secretary Janet L. Yellen Response to State Attorneys General Inquiries on Implementation of Section 9901 of the American Rescue Plan Act. U.S. Department of the Treasury. (2021, March 27). U.S. Department of Treasury. <https://home.treasury.gov/news/press-releases/jy0075>

US Department of Education (ED). (2018, October 24). Title I, Part A Program. U.S. Department of Education.
<https://www2.ed.gov/programs/titleiparta/index.html>

On March 24, 2021, Representative David Luneau (D-Hopkinton) introduced two amendments to SB 135 that would preserve the targeted funding and may satisfy the Maintenance of Equity requirements. (See: SB 135 Amend. 2021-1012h and 2021-1013h)

Changes to the Statewide Education Property Tax (SWEPT)

House Finance Division II approved Amendment 2021-1018h, which would decrease the Statewide Education Property Tax from \$363 million to \$263 million, and would authorize the state to draw on General Funds to make up the difference.

Section 9901 of the American Rescue Plan notes that federal relief funding may not be used to offset a reduction in net tax revenue resulting from changes in state law. By reducing the SWEPT state property tax, the amendment may jeopardize \$100 million in ARP ESSER III relief funds.

About Reaching Higher NH

Reaching Higher NH is a nonpartisan 501(c)3. Our mission is to provide all New Hampshire children with the opportunity to prepare for college, for immediate careers, and for the challenges and opportunities of life in 21st century NH, by serving as a public education policy and community engagement resource for New Hampshire families, educators, and elected officials.

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