

Campaign for Fiscal Equity, Inc.

SOUND BASIC EDUCATION TASK FORCE
Ensuring Educational Opportunity for All

PART I.
AN ADEQUATE FOUNDATION FOR ALL:

Reforming New York State's
System for Providing Operating Aid
to Local School Districts

May 11, 2004

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EXECUTIVE SUMMARY*

Currently, state aid for education in New York State is distributed through over 50 separate and unnecessarily complex formulas and grants-in-aid. The approach recommended in this proposal consolidates 39 of these current categories into a single foundation allocation, while increasing the percentage of the state share and providing districts with predictability and transparency in the way their schools are funded. Its main components are as follows:

1. A COMPREHENSIVE FOUNDATION AMOUNT

Virtually all school district educational expenses, except for transportation, facility construction costs, debt service, and high cost public and private special education placements, would be encompassed by a single, comprehensive sound basic education foundation amount (“the SBE foundation amount”). BOCES aid, textbook, library and computer aid to private schools, teacher centers, and special grants that are not part of local districts’ basic educational operations would be funded separately through the State Education Department (SED).

2. ADJUSTMENTS FOR STUDENT NEED AND LOCAL COST FACTORS

Each district’s SBE foundation amount would be based on a statewide average foundation amount per pupil adjusted by (a) a needs index reflecting poverty, disability levels, numbers of English language learners, and a small school size factor; and (b) a geographic cost of education index. Both of these indices are derived from the results of the *New York Adequacy Study*.

* This proposal for operating aid reform is based on the final report of the *New York Adequacy Study*, released on March 30, 2004. It replaces and revises the Campaign for Fiscal Equity’s preliminary proposal for operating aid reform, dated March 1, 2004, which was based on the preliminary report of the *New York Adequacy Study*.

3. DIVISION OF RESPONSIBILITY BETWEEN LOCAL SCHOOL DISTRICTS AND THE STATE

The responsibility for financing each district's SBE foundation amount would be divided between the local district (or local municipality in the case of the Big Five urban districts) and the state government on the basis of the district's relative "ability to pay" as measured by poverty-weighted property and income wealth ratios. No district would receive less state funding than it received during 2003-2004.

a. MANDATORY LOCAL CONTRIBUTION

Each local school district would be expected to make a defined contribution to the financing of its SBE foundation amount based on an "ability to pay" formula. For districts whose students are not making satisfactory progress toward meeting the Regents Learning Standards, the local contribution would be mandatory. Local districts would be free to make a local contribution greater than this defined minimum to provide educational opportunities above the SBE adequacy level.

b. MANDATORY STATE CONTRIBUTION

The state would be required to provide the difference between the foundation amount and the amount generated by the local share and base-year federal aid. Under this proposal, the overall result would be that state share of total statewide educational expenditures would rise from the current 47 percent to 52 percent. The state share of total revenues excluding federal aid would increase from 49 percent to 55 percent.

4. FOUR-YEAR PHASE-IN / FOUR-YEAR STABLE FUNDING

Initially, the new Adequate Foundation for All Plan should be phased in over a four-year period, with approximately 25 percent of the incremental allocation for each district added each year. To promote stability and long-term planning by school districts, the state should formally adopt a four-year funding plan

setting forth in advance the amount each school district will receive for each of the following four years, subject only to annual inflationary increases or adjustments for extraordinary unforeseen events. The foundation amount and the educational need and cost indices should be reviewed and reconsidered during the third and fourth years of the four-year period, on the basis of a new costing-out study.

In sum:

A DISTRICT'S STATE FUNDED OPERATING AID =

- (a) The Statewide Per Pupil SBE Foundation Amount TIMES
- (b) The District's Enrollment TIMES
- (c) The District's Educational Need Index Factor TIMES
- (d) The District's Geographic Cost Index Factor LESS
- (e) The District's Local Operating Aid Contribution
(Based on the District's Relative Poverty-Adjusted Property Wealth and Income Wealth Per Pupil)

The foundation approach described in this proposal is the most effective means for implementing the Court of Appeals' constitutional mandate. The Court of Appeals' decision requires that the resources that students actually need for the opportunity for a sound basic education be made available to students in every school. Accordingly, now that the *New York Adequacy Study* has identified the amount of funding that is actually needed, the best route to constitutional compliance is to ensure that this SBE amount is actually made available to all students in all schools, and that the state's education finance system is reformed in accordance with the fair funding principles set forth in this report.

AN ADEQUATE FOUNDATION FOR ALL: REFORMING THE STATE’S SYSTEM FOR PROVIDING OPERATING AID TO LOCAL SCHOOL DISTRICTS

New York’s Current Funding Formulas

Currently, state aid for education in New York State is distributed through over 50 separate formulas and grants-in-aid. Unnecessarily complex and administratively burdensome, the current state education finance system has suffered from years of modifications built upon prior modifications. The complexity of the system has also allowed great inequities to arise in the tax burdens shouldered by residents of different districts. The approach recommended in this proposal would consolidate most of these funding streams into a single foundation allocation, while increasing the overall state share of total education funding and determining individual districts’ local shares through a fair, wealth-based formula. This method would make educational funding fair, comprehensible, and transparent, while also providing districts with needed predictability and stability in planning for school operations.

The glaring deficiencies of New York State’s education finance system have been decried repeatedly. In the last 30 years, four special task forces (known as the Fleischmann, Rubin, Salerno, and Moreland Act Commissions) have all issued voluminous reports. The Office of State Comptroller has also issued a series of reports on educational finance, offering many suggestions for reform, while the New York State Board of Regents regularly makes recommendations for major changes to the system. These studies have consistently concluded that the current system:

- involves numerous complex formulas that fail to meet any reasonable test of transparency and that sometimes operate at cross purposes;
- contains too many categorical grant programs and other expenditure restrictions;
- is unfair to pupils and taxpayers in school districts with lower than average revenue-raising capacity and/or higher than average needs;

- includes some formulas that discourage cost efficiencies;
- fails to provide adequate consideration to students with special needs; and
- does not recognize regional and/or local cost differences.

Extensive evidence regarding the actual workings of the state education finance system was presented to the court during the trial in *CFE v. State*. After reviewing this evidence, the trial court held that:

The evidence demonstrates that the state aid distribution system is unnecessarily complex and opaque. It is purportedly based on an array of often conflicting formulas and grant categories that are understood by only a handful of people in State government. Even the State Commissioner of Education testified that he does not understand fully how the formulas interact.

However, more important than the formulas' and grants' needless complexity is their malleability in practice. The evidence at trial demonstrated that the formulas do not operate neutrally to allocate school funds---at least with respect to annual increases in State aid. Rather the formulas are manipulated to conform to budget agreements reached by the Governor, the Speaker of the State Assembly, and the Senate Majority Leader.¹

The Court of Appeals agreed “with the trial court’s description of the existing education funding scheme as needlessly complex, malleable and not designed to align funding with need.”² Furthermore, it specified that to determine whether state aid bears a “perceptible relation” to student needs, relative costs, local ability to pay, and the impact of the statewide State Tax Relief Program (STAR) must accurately be taken into account.³

¹ *CFE v. State of New York*, 187 Misc.2d 1, 83 (S.Ct, N.Y. Co, 2001).

² *CFE v. State of New York*, 100 N.Y.2d 1, 61 (N.Y., 2003).

³ *Ibid*, p. 57-63.

Several years ago, CFE, together with the New York State School Boards Association (NYSSBA), the League of Women Voters, the Schuyler Center for Analysis and Advocacy (SCAA), and approximately 200 statewide and local organizations, conducted an extensive multi-year series of public engagement meetings throughout the state.⁴ These meetings resulted in a virtual statewide consensus that the present archaic funding system, which the governor himself has called a “dinosaur” that should be placed on the “ash heap of history,”⁵ must be replaced with a new education funding system. This new system should

- be based on an objective analysis of the actual cost of providing all students the opportunity for a sound basic education;
- provide sufficient state resources, coupled with a reasonable local effort, calibrated to local revenue-raising capacity, to assure that every student has the opportunity for a sound basic education;
- consider the extra resources necessary to meet higher educational standards and to educate students with special needs;
- be simple, rational and “transparent”;
- provide sustained and stable funding that will promote long-term planning by schools and school districts;
- allow and encourage school districts to raise and spend funds above the threshold for sound basic education; and
- take local cost differences into account.

CFE presented these principles for reform to the court. Most of them were adopted by the trial court and included in the specific remedies that have now been ordered by the Court of Appeals.⁶ The foundation funding proposal that will be described in the following pages

⁴ See Campaign for Fiscal Equity, *Blueprint for Better Schools* (Fall, 1999).

⁵ George Pataki, *State of the State Address* (January 3, 2001).

⁶ The trial court’s order explicitly included virtually all of the fair funding principles that had been endorsed by the statewide public engagement meetings. Most of these were specifically affirmed by the Court of Appeals, with the notable exception of the trial court’s references to “transparency” and “sustained and stable funding.” The Court of Appeals, though decrying the complexity of the present system, declined to specifically order “transparency” since it knew of no practical way for a court to assess compliance with such an order. It also declined to include “sustained and stable funding” because, as applied to New York City, such a reference might be read to refer to specific fiscal dependency issues that it was not prepared to address. See *CFE v. State of New York, supra*, 100 N.Y. 2d at 59-61.

incorporates all of these fair funding principles in a dynamic, comprehensive statewide funding reform. The proposed foundation approach will satisfy both the court’s immediate mandates and the need for a broad statewide political consensus for a state education finance system that will “ensure an effective, efficient and accountable system...that provides all public school students with the opportunity to acquire a sound basic education.”⁷

The Advantages of a Foundation Approach

Historically, most states have purported to include a foundation amount that would guarantee sufficient funding for each child to obtain an adequate education as a basic building block of the state’s education finance system. These foundation programs typically required local school districts to levy taxes at a rate aimed at generating enough revenue to fund a basic education, with the state supplementing the amount actually raised by poor districts when their tax base did not yield the predetermined foundation level.⁸

Traditionally, however, no real methodology was used to determine what the foundation amount should be. Instead, legislatures tended to establish the foundation amount based on the amount of funding they were willing to allocate for educational services with little regard for actual needs. Moreover, the foundation amounts that were established tended to erode dramatically over time because of budget pressures, competing political priorities, and inflation. For example, in New York State the current foundation amount is about \$4,000 per

Although the Court of Appeals’ order does not explicitly mandate “transparency” and “sustained and stable funding,” the order certainly does not preclude these broad principles and, in fact, the judges appear to encourage transparency and stability, even though they question whether these obviously desirable goals are susceptible to specific enforcement by the courts. CFE thinks it indisputable, as a matter of sound public policy, that any reformed state education finance system must be readily comprehensible to the public and that it promote stability and long-term educational planning.

⁷ George Pataki, Executive Order No. 131, § 5 (b) (2003).

⁸ The idea of the foundation program originated with a proposal to a New York State Educational Finance Inquiry Commission. See George D. Strayer and Robert M. Haig, *Financing of Education in the State of New York* (1923), p.173-74. See also, James W. Guthrie, Walter I. Garms and Lawrence C. Pierce, *School Finances and Education Policy: Enhancing Educational Efficiency, Equality and Choice* (2d ed. 1988), p. 133-137 .

pupil, even though the average expenditure is \$11,584 per pupil, with districts comprising the bottom 10 percent spending approximately \$9,662 per pupil.⁹

The emergence of the standards-based reform and education adequacy movements have transformed the possibilities for utilizing the foundation approach as a valid means for ensuring an adequate education for all students. Explicit state standards and sophisticated costing-out methodologies that have been developed in recent years can establish and update a fair and adequate foundation level. Once the level of funding needed to provide all students an adequate education is identified, that amount can (and should) become the foundation upon which the entire state education finance system is built.

The foundation approach is clearly the most effective means for implementing the Court of Appeals' constitutional mandate in *CFE v. State of New York*, as both the New York State Board of Regents and the Governor's Commission on Education Reform recognized by calling for dramatic new foundation approaches.¹⁰ The Court of Appeals' decision requires that the amount of resources that students require for an opportunity for a sound basic education, as determined by an objective costing-out study, must actually be made available for students in every school. Accordingly, now that the *New York Adequacy Study* has identified the amount of funding that is actually needed to provide all students the opportunity for a sound basic education, the best route to constitutional compliance is to ensure that this SBE amount is made available for all students in all schools. To accomplish this, the state's education finance system should be reformed in accordance with the fair funding principles set forth in this report.

⁹ The New York State Education Department, *New York: The State of Learning, A Report to the Governor and the Legislature on the Educational Status of the State's Schools* (2003). (Figures are for 2000-2001, the latest audited figures published by the State Education Department as of 2003). New York State currently uses a percentage equalizing approach, which incorporates a foundation amount as a component of its operating aid formula. Since operating aid is only one of approximately 50 formulas and grants in aid in the overall system, the impact of the foundation base is substantially diluted.

¹⁰ See the New York State Board of Regents, *School Aid Proposal for 2004-2005* (January 2004) and the New York State Commission on Education Reform (the Zarb Commission), *Final Report* (March 2004).

An Adequate Foundation for All: A Specific Foundation Approach for New York State

We believe, therefore, that the most logical and appropriate way to construct a proper funding system for New York State is to accept the results of the *New York Adequacy Study* as the basic foundation for statewide funding and guarantee that the amount identified by the study for each district is actually made available for students in that district. Although the entitlement amount is based on the prototypical educational models in the study, districts would not be required to spend their allotted funds precisely in accordance with the model. They should, however, be required to develop a comprehensive sound basic education plan that will explain how they intend to spend the funds in order to ensure that all of their students will have the opportunity for a sound basic education. They should also be held accountable for adhering to that plan.¹¹

CFE's Sound Basic Education Task Force, working with the Fiscal Policy Institute, has developed an Adequate Foundation for All Plan, which will implement the findings of the *New York Adequacy Study* as follows:

1. A COMPREHENSIVE FOUNDATION AMOUNT

Virtually all school district educational expenses, except for transportation, facility construction costs, debt service, and high cost public and private special education placements,¹² would be encompassed by a single, comprehensive sound basic education foundation amount (“the SBE foundation amount”). BOCES aid, textbook, library and computer aid to private schools, teacher centers, and other special grants that are not part of local districts’ basic educational operations, would be funded separately through the State Education Department (SED).

¹¹ Specific recommendations for such an accountability approach are set forth in Part III of this report.

¹² This category includes both public and private special education placements and replaces the current high cost public and private excess cost aid.

2. ADJUSTMENTS FOR STUDENT NEED AND LOCAL COST FACTORS

Each district's SBE foundation amount would be based on a statewide average foundation amount per pupil adjusted by a) a needs index reflecting poverty, disability levels, numbers of English language learners, and a small school size factor; and b) a geographic cost of education index. Both of these indices are derived from the results of the *New York Adequacy Study*.

3. DIVISION OF RESPONSIBILITY BETWEEN LOCAL SCHOOL DISTRICTS AND THE STATE

The responsibility for financing each district's SBE foundation amount would be divided between the local district (or local municipality in the case of the Big Five urban districts) and the state government on the basis of the district's relative "ability to pay" as measured by poverty-weighted property and income wealth ratios. No district would receive less state funding than it received during 2003-2004.

a. MANDATORY LOCAL CONTRIBUTION

Each local school district would be expected to make a defined contribution to the financing of its SBE foundation amount based on an "ability to pay" formula. For districts whose students are not making satisfactory progress toward meeting the Regents Learning Standards, the local contribution would be mandatory. Local districts would be free to make a local contribution greater than this defined minimum to provide educational opportunities above the SBE adequacy level.

b. MANDATORY STATE CONTRIBUTION

The state would be required to provide the difference between the foundation amount and the amount generated by the local share and base-year federal aid. Under this proposal, the overall result would be that the state share of total statewide educational expenditures would rise from the current 47 percent to 52 percent. The state share

of total revenues excluding federal aid would increase from 49 percent to 55 percent.

4. FOUR-YEAR PHASE-IN / FOUR-YEAR STABLE FUNDING

Initially, the new Adequate Foundation for All Plan should be phased in over a four-year period, with approximately 25 percent of the incremental allocation for each district added each year. To promote stability and long-term planning by school districts, the state should formally adopt a four-year funding plan setting forth in advance the amount each school district will receive for each of the following four years, subject only to annual inflationary increases or adjustments for extraordinary unforeseen events. The foundation amount and educational need and cost indices should be reviewed and reconsidered during the third and fourth years of the four-year period, on the basis of a new costing-out study.

In sum, under the Adequate Foundation for All Plan, each district's state education operating aid for all purposes except transportation, facilities, and high cost public and private special education placements would be determined by one single formula that would work as follows:

A DISTRICT'S STATE FUNDED OPERATING AID =

- (a) The Statewide Per Pupil SBE Foundation Amount TIMES
- (b) The District's Enrollment TIMES
- (c) The District's Educational Need Index Factor TIMES
- (d) The District's Cost Index Factor LESS
- (e) The District's Local Operating Aid Contribution
(Based on the District's Relative Poverty-Adjusted Property Wealth and Income Wealth Per Pupil)

The proposed Adequate Foundation for All Plan is consistent with the innovative foundation approach recommended by the Regents in their *2004-2005 State Aid Proposal*. The present proposal, although philosophically similar to that of the Regents, is more comprehensive, in that it incorporates 39 funding streams in the basic foundation (compared with the Regents' 29) and uses the specific findings of the *New York Adequacy Study* in its

methodology for determining each district’s SBE foundation amount. Furthermore, for districts whose students are not meeting state standards, the local share is mandated, not merely “expected” in this proposal; no district’s state aid would be reduced, and the increase in funding and increased state share would be phased in evenly over a four-year period, in contrast with the seven-year period proposed by the Regents.¹³

The Comprehensive Foundation Amount

A comprehensive foundation funding approach that enables school districts to plan effectively to provide a sound basic education for all their students should include virtually all basic operating funds in a single foundation allocation. The few funding streams that must be maintained outside the basic foundation should be clearly identified and strongly justified. Since all of the educational resources needed to provide students the opportunity for a sound basic education were included in the prototypical models recommended by the *New York Adequacy Study*, with the stated exceptions of transportation, facility construction costs, debt service, and high cost public and private special education placements, the amount proposed for each district here would be similarly comprehensive.

This base per-pupil foundation amount would cover 39 existing computerized aids and grant programs under this plan. These would include all basic educational expenditures of each local district except for building aid,¹⁴ transportation, high cost public and private special education placements, and prior year adjustments. High cost public and private special education placement aid is defined as extraordinary special education expenditures for in-district or out of district placements that exceed \$30,000 per pupil per year (cost adjusted). All other public and private special education expenditures would be covered by the basic needs index that includes a weighting for the percentage of students in special education.

¹³ The Zarb Commission recommends combining 22 existing aid categories into one major basic operating aid block grant, combining three other categories into a supplemental needs aid category, and four existing funding streams into a new instructional materials aid category. The Zarb Commission does not recommend any changes in local funding efforts other than extending New York City’s current maintenance of efforts requirements to the big four urban districts. See Zarb Commission, *Final Report*.

¹⁴ A small category of additional building aid, known as “building reorganization incentive aid,” promised in the past to school districts agreeing to consolidate, would also be continued, as would minor maintenance aid.

Prior year adjustment aid, which, in effect, is delayed reimbursement for state aid that was obligated, but not paid, for past years, would also continue to be a state obligation to certain local school districts.

BOCES aid, which is a special program for encouraging cooperation in the delivery of regional services, should be continued, but it should be classified as a state incentive program, administered through SED, and operating outside the basic district foundation allocation. Special services aid to cover services equivalent to those provided by BOCES should be provided to New York City and the Big Four urban districts. BOCES, and the Big Five urban districts should also administer textbook, library, and computer aid to parents of private school students.¹⁵ Textbook aid and computer aid for public schools would be encompassed by the basic operating aid foundation formula. Teacher centers, which are regional facilities that promote professional development, should continue to be funded through SED. In addition, grants for special purposes, such as Roosevelt aid, Office of Mental Health and Office of Mental Retardation and Developmental Disabilities students, and incarcerated youth, which serve specific statewide purposes, should also be funded and administered through SED, outside of the foundation funding allocations. A full list of the current formula aids and grants to be covered by the foundation amount is detailed in **Figure 1.1**.

¹⁵ Historically, textbook, library and computer aids were distributed through local school districts in order to avoid possible constitutional separation of powers concerns. The U.S. Supreme Court's recent decision in *Zelman v. Simmons-Harris*, 536 U.S. 639 (2002) has obviated these concerns and will permit the more logical direct funding of private school services by the state recommended in the text.

Figure 1.1 CURRENT FORMULA AIDS AND GRANTS TO BE COVERED BY THE FOUNDATION AMOUNT

<p align="center">NEW YORK STATE'S CURRENT AID FORMULAE (All Separate Funding Streams)</p>	<p align="center">CFE'S PROPOSAL</p>
<p>Academic Support Aid Categorical Reading Programs Class Size Reduction Aid Comprehensive Operating Aid Computer Hardware Aid Computer Software Aid (Public) County Vocational Education and Extension Boards (CVEEB) Early Grade Class Size Reduction Educationally Related Support Services Aid Extraordinary Needs Aid Full Day Kindergarten Conversion Aid Gifted and Talented Aid Grants for Overcrowded Schools Improving Pupil Performance Grants Learning Technology Grants Library Materials Aid (Public) Limited English Proficiency Aid Magnet Schools Aid Minor Maintenance & Repair Aid Operating Aid Operating Growth Aid Operating Reorganization Incentive Aid Operating Standards Aid Regular Private Excess Cost Aid Regular Public Excess Cost Aid School Tax Relief Program Shared Services Savings Incentive Small City Aid Summer School Aid Tax Effort Aid Tax Equalization Aid Tax Limitation Aid Teacher Support Aid Teacher-Mentor Intern Teachers of Tomorrow Textbook Aid (Public) Transition Adjustment/Adj. Factor Tuition Adjustment Aid Universal Prekindergarten Aid</p>	<p align="center">CATEGORIES CONSOLIDATED INTO A SINGLE BASE SBE FOUNDATION AMOUNT</p>
<p>Building Aid Building Reorganization Incentive Aid High Cost Special Education Placement Aid Prior Year Adjustments Transportation Aid</p>	<p align="center">ADDITIONAL DISTRICT FUNDING NOT ENCOMPASSED BY THE SBE FOUNDATION AMOUNT</p>
<p>Library, and Computer Aids Private School Textbook, Special Statewide Grants (Roosevelt, OMH/OMR Pupils, BOCES Aid Incarcerated Youth, etc.) Teacher Centers Urban Special Services Aid</p>	<p align="center">REGIONAL SERVICES OR STATEWIDE FUNDING PROGRAMS ADMINISTERED BY SED</p>

Adjustments for Student Need and Local Cost Factors

The base per pupil foundation amount for 2001-2002, as determined by the final results of the *New York Adequacy Study*, was \$6,273 for early childhood development programs, \$7,751 for Pre-K programs, \$10,072 for K-5 elementary programs, \$ 9,889 for 6-8 middle school programs, and \$10,443 for high school programs. These statewide per pupil amounts are the statewide SBE foundation amounts used as the starting point for the determination of each district's actual SBE foundation amount in this proposal. As in the *New York Adequacy Study*, and the *Regents 2004-2005 State Aid Proposal*, the district allocations here are based on student enrollment, and not daily attendance.¹⁶

Consistent with the Court of Appeals' mandate that "funding should align with need," the *New York Adequacy Study* provided substantial extra resources for schools with large numbers of students from poverty backgrounds (defined as students eligible for free and reduced price lunch under applicable federal regulations).

The professional judgment process organized by the AIR/MAP team developed prototypical educational service models for schools of different sizes at different levels (K-5, 6-8, and 9-12) with different mixes of poor and disabled students and English language learners. After determining what it would cost to operate such schools (with their different mixes of size as measured by enrollment, poverty, disability, and English language learners) in an average cost district in New York State, the AIR/MAP team used econometric methods to develop an equation for each educational level (K-5, 6-8, and 9-12). These equations related the costs involved in operating such schools in a manner that would provide all of their pupils with the opportunity to receive a sound basic education to the variations that exist among them in terms of size and the incidence of poverty, disability, and English language learners. The AIR/MAP team then applied these equations to every school in New York State to determine the sound Basic education resources requirement for each school. All of the study's calculations were based on 2001-02 school data, the most recent year for which detailed financial, demographic, staffing, and other data are available for all of the state's public

¹⁶ The enrollment approach is also consistent with the Court of Appeals' indications that state funding should be based on enrollment rather than attendance. See *CFE v. State*, 100 N.Y. 2d at 927.

schools. Thus, the study’s results are in terms of the resources that would have been necessary in that year, in 2001-2002 dollars.

The econometric equations developed by the AIR/MAP team used four variables: ENR representing the school’s size in terms of enrollment; %POV representing the percent of a school’s pupils eligible for free or reduced price lunch;¹⁷ %SPED representing the percent of a school’s pupils with Individual Education Plans (IEPs); and, %ELL representing the percent of pupils evaluated as being limited English proficient.

For elementary schools, for example, each school’s per pupil sound basic education revenue requirement was estimated to equal \$10,072 TIMES the following equation divided by 100:

$$110.38 - (0.0954 * ENR) + (0.00004 * ENR^2) + (58.184 * \%POV) + (6.9231 * \%POV^2) + (97.239 * \%SPED) + (17.855 * \%ELL)$$

Under this equation, the average or normative amount per pupil (\$10,072) would be necessary for an elementary school with the following characteristics:

Enrollment (ENR)	558
Poverty Incidence (%POV) as determined by eligibility for free or reduced price lunch	34.2%
Special Education Incidence (%SPED) as determined by the percent of pupils with IEPs	9.8%
English Language Learner incidence (%ELL) as determined by the percent of pupils evaluated as being limited English proficient	0.9%

¹⁷ Twenty-four school districts do not operate free and reduced price lunch programs. These districts did not have any poverty weightings in the AIR/MAP analysis. For these districts, the State Education Department should add an additional poverty weighting based on relevant data from the U.S. Census Bureau.

For a school with these characteristics, the total SBE revenue requirement would be \$5,620,200 and, as indicated above, the SBE revenue requirement per pupil would be \$10,072. The following tables shows the sensitivity of the funding requirement to changes in two of the need variables, % POV and %SPED, if the size of the school and the percent of limited English proficient students remained constant.

Table 1.1 ESTIMATED TOTAL REVENUE REQUIREMENT FOR ELEMENTARY SCHOOLS WITH 558 PUPILS AND 0.9% ENGLISH LANGUAGE LEARNERS WITH THE FOLLOWING MIXES OF POVERTY AND SPECIAL EDUCATION

<u>%POV ></u>	<u>0%</u>	<u>17.1%</u>	<u>34.2%</u>	<u>51.3%</u>	<u>68.2%</u>	<u>85.3%</u>
<u>%SPED</u>						
<u>0% ></u>	\$3,920,765	\$4,491,320	\$5,084,629	\$5,700,694	\$6,331,910	\$6,993,218
<u>4.9% ></u>	\$4,188,550	\$4,759,105	\$5,352,415	\$5,968,479	\$6,599,695	\$7,261,003
<u>9.8% ></u>	\$4,456,335	\$5,026,890	\$5,620,200	\$6,236,264	\$6,867,480	\$7,528,788
<u>14.7% ></u>	\$4,724,121	\$5,294,675	\$5,887,985	\$6,504,049	\$7,135,265	\$7,796,573

Table 1.2 ESTIMATED PER PUPIL REVENUE REQUIREMENT FOR ELEMENTARY SCHOOLS WITH 558 PUPILS AND 0.9% ENGLISH LANGUAGE LEARNERS WITH THE FOLLOWING MIXES OF POVERTY AND SPECIAL EDUCATION

<u>%POV ></u>	<u>0.0%</u>	<u>17.1%</u>	<u>34.2%</u>	<u>51.3%</u>	<u>68.2%</u>	<u>85.3%</u>
<u>%SPED</u>						
<u>0.0% ></u>	\$7,026	\$8,049	\$9,112	\$10,216	\$11,348	\$12,533
<u>4.9% ></u>	\$7,506	\$8,529	\$9,592	\$10,696	\$11,827	\$13,013
<u>9.8% ></u>	\$7,986	\$9,009	\$10,072	\$11,176	\$12,307	\$13,492
<u>14.7% ></u>	\$8,466	\$9,489	\$10,552	\$11,656	\$12,787	\$13,972

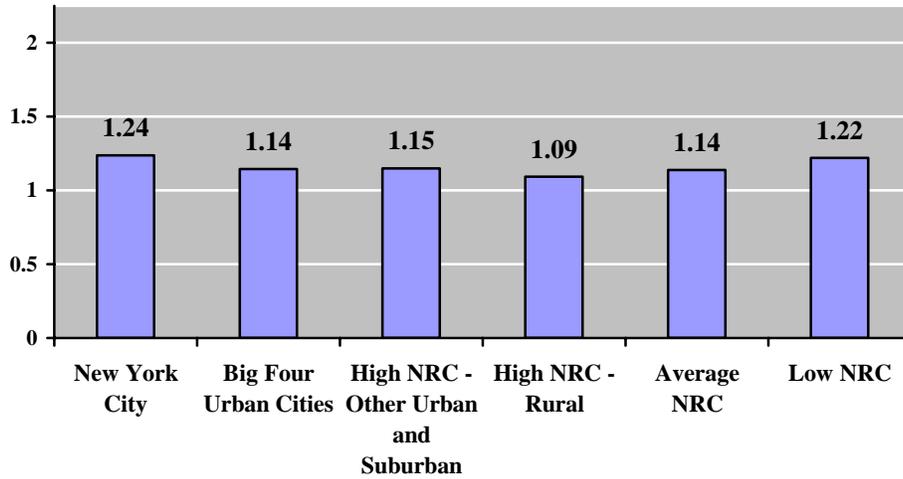
After calculating the resource requirements for every school, the AIR/MAP team then combined these estimates for all of the schools in each of the state's 680 major school districts, and added in factors for district-level administrative costs, district-level special education costs, and the cost of providing expanded pre-K and early childhood development programs for children eligible to receive free or reduced price lunches under the federal guidelines for this purpose. The result was the *New York Adequacy Study's* estimate of the resources necessary at the district level to meet the court's adequacy standard throughout the state.

The equations used to estimate each district's resource requirements are detailed and school specific, but they result in the specification of district-level per pupil revenue requirements. The variations in those district-level per pupil revenue requirements serve, in turn, as the basis for an Educational Need/Scale Index (EN/SI) for each of the state's 680 school districts.

The district foundation amount was also adjusted in accordance with the geographical cost index developed for the *New York Adequacy Study*. That analysis determined how much more or less it costs to recruit and employ comparable school personnel in different geographic locations throughout the state of New York. Using 1.00 as the cost to recruit teachers in the lowest cost district, the range of comparative costs among different school districts throughout the state was as follows in **Figure 1.2**.¹⁸

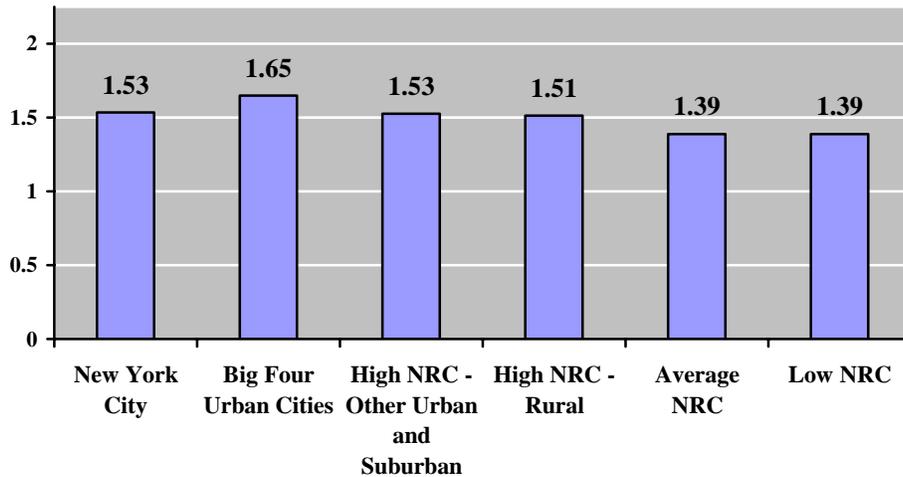
¹⁸ In the *New York Adequacy Study*, the index was described in terms that used 1.0 as the statewide figure. Although precisely the same index is being used here, it has been converted into a scale that uses 1.0 as the minimum range figure to conform to the approach used in the *Regents 2004-2005 State Aid Proposal*.

Figure 1.2 Geographic Cost of Education Index, Weighted Averages by Needs to Resource Capacity of the Districts



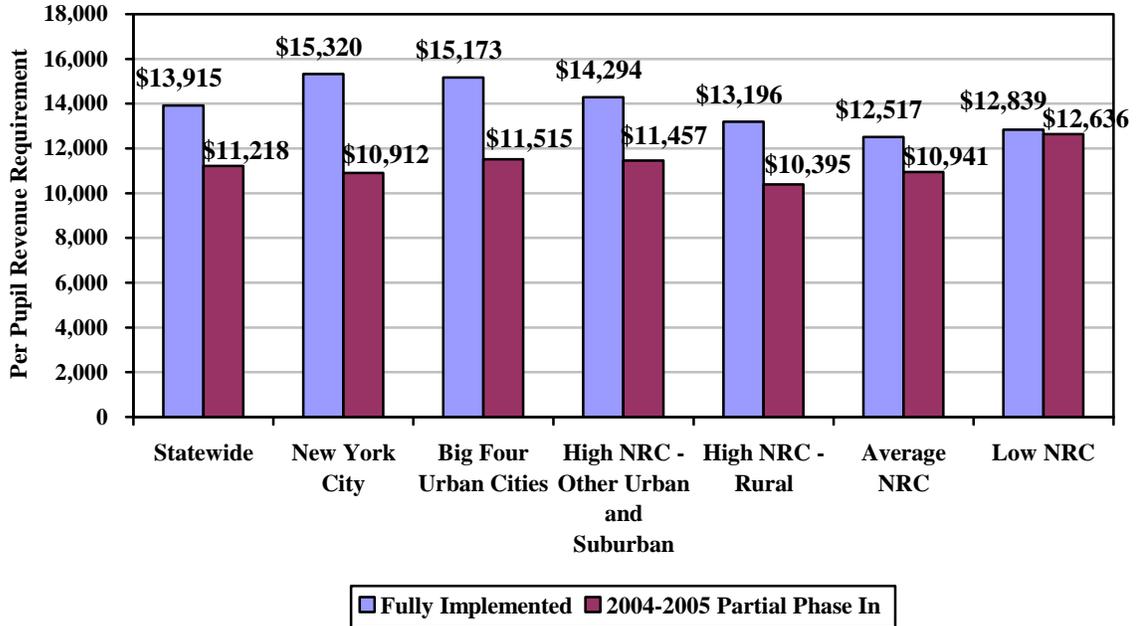
The Educational Need/Scale index follows in **Figure 1.3**:

Figure 1.3 Educational Need/Scale Index, Weighted Averages by Needs to Resource Capacity of the Districts



Applying the need/scale index and the geographic cost index to the foundation amounts determined by the *New York Adequacy Study* results in the following per pupil need requirements by needs to resource categories for the first year (2004-2005) and the final year of an assumed four-year implementation period:

Figure 4. Per Pupil SBE Revenue Requirement by Needs to Resource Category*



* Not including transportation, capital facilities, construction costs, debt service, high cost public and private special education placements, and BOCES aid. The figures are based on the *New York Adequacy Study's* targeted pre-k and early childhood development program enrollment figures.

Mandatory Local Share

Each local school district should contribute a percentage of its sound basic education (SBE) funding requirement, determined on the basis of the district's relative "ability to pay" as measured by its poverty-adjusted property and income wealth ratios. For a district with a property and income wealth ratio equal to 1, the state would cover 48 percent of the portion of the SBE funding requirement that is not covered by federal aid. For a district with the median poverty-weighted property and income wealth ratio (.81), the state share would be 59.4 percent. No district would receive less state aid than it received during 2003-2004.¹⁹

¹⁹ The State Education Department (SED) currently uses the Combined Wealth Ratio, an average of two ratios: (a) the ratio of the district's property wealth per pupil to the statewide average property wealth per pupil and (b) the ratio of the district's income per pupil to the statewide average income per pupil. The proposed poverty-adjusted ratio would adjust each of the per pupil amounts used in the Combined Wealth Ratio to reflect the incidence of

In contrast with the Regents’ proposal, which identifies “an expected” local share for all districts, and statutory schemes used in some other states, which withhold varying amounts of state aid if the identified local share is not contributed, the local contribution identified here would be a mandate for all districts whose students are not making satisfactory progress toward meeting the Regents Learning Standards according to SED’s System of Accountability for Student Success. Without a mandatory local match, the constitutional requirement to provide children in every district and every school with the full amount of resources they need for the opportunity for a sound basic education would not be met.

The required local contribution could be met by property taxes alone or by a combination of revenue sources.²⁰ This mandatory local share obviates the need for complex maintenance of effort provisions for New York City or other districts.

poverty in each district. In this proposal we use the percentage of K-6 students eligible for free or reduced price school lunch as a measure of poverty and increase the pupil count by 60% for each poor student. As indicated in footnote 26, free and reduced price lunch percentages were not available for 24 districts in the AIR/MAP study, and for an additional 8 districts free and reduced price lunch percentages were not included in the database accompanying the governor’s 2004-2005 School Aid Proposal. (Including free and reduced price lunch percentages or equivalent factors for those districts would increase slightly the amount of state aid required by this proposal.) The pupil count is based on student enrollment. The following is a comparison of the poverty-weighted combined wealth ratios used in this proposal, with that used in the current formulas:

	<i>SED Average CWR</i>	<i>CFE Average Poverty Weighted CWR (60%)</i>
Statewide	1.163	1.378
Median	.708	0.814
New York City	1.004	0.846
Big Four Urban Cities	0.547	0.468
High NRC – Other Urban and Suburban	0.608	0.585
High NRC – Rural	0.498	0.518
Average NRC	0.867	1.002
Low NRC	2.855	3.621

²⁰ Local school districts would be free to use current revenues from property taxes, sales taxes (to the extent that schools receive a share of local sales taxes), consumer utility taxes and other revenues such as interest earnings as well as the contributions from fund balances to fund their share of educational expenses.

The required local contribution has two basic variables:

REQUIRED LOCAL CONTRIBUTION =

48% of the district's SBE revenue requirement (not covered by base year federal aid or tuition received from other districts) prorated up or down based on the district's relative property and income wealth.

The formula proposed here does not impose an upper limit on spending. The *New York Adequacy Study* found that 163 school districts were already spending at or above their SBE revenue requirement levels, while 517 were below and would need to spend more to reach the adequacy level. In addition, many districts (including 30 of the 163 districts that are already spending at or above the SBE level) would receive additional state aid that could be used to reduce local property taxes or spend at a higher level. The operating aid proposal set forth in this report is designed to establish a fair method for allocating funding responsibility between the state and its local school districts in addition to ensuring that all districts have sufficient resources to provide all pupils with the opportunity for a sound basic education.

The amount that local school districts would need to contribute to the state foundation amount under this proposal is summarized in **Table 1.3**:

Table 1.3 REQUIRED LOCAL CONTRIBUTION PER PUPIL BY NEEDS TO RESOURCE CATEGORIES			
	Estimated Local Contribution per Pupil 2001-2002	Required Local Contribution per Pupil 2004-2005	Required Local Contribution per Pupil, Fully Implemented
Statewide Average	\$5,333	\$5,481	\$6,056
New York City	\$4,362	\$4,832	\$6,240
Big Four Urban Cities	\$2,808	\$2,754	\$2,610
High NRC - Other Urban and Suburban	\$4,151	\$4,025	\$3,648
High NRC - Rural	\$2,918	\$2,893	\$2,831
Average NRC	\$5,633	\$5,771	\$6,060
Low NRC	\$9,967	\$9,572	\$9,595

The Mandatory State Share

The Court of Appeals has made clear that “the state remains responsible...[for securing] its citizens their constitutionally-mandated rights.”²¹ Once the local districts have contributed their appropriate local share of the district’s foundation requirement, and applicable federal funding has been taken into account,²² the state must contribute the remainder of the requisite foundation funding in order to ensure that all students are receiving the resources necessary to provide them the opportunity for a sound basic education.

Currently, the state government provides 47.3 percent of all K-12 educational expenditures in the state (including payments for the School Tax Relief Program, or STAR), the federal government 5.8 percent, and local districts provide 46.9 percent.²³ Such an extensive reliance on local resources—which primarily means reliance on local property taxes—is generally considered undesirable. Local property taxes, as currently administered, are highly regressive and inequitable, due to the great differences that exist among school districts in their per pupil property tax bases and the many arbitrary and irrational practices involved in local assessment practices. For this reason, in most other jurisdictions, the state government bears a higher proportion of overall state funding than currently is the case in New York.²⁴

Accordingly, we believe that the state should fund most of the increase in funding required to bring all districts in the state to the adequacy levels called for by the *New York Adequacy Study*. An additional state contribution is also required to compensate for the shortfalls in state funding over the past three years, which have resulted in higher local taxes in some districts, or in some cases a reduction in the level of services in effect in 2001-2002, the base year used in the *New York Adequacy Study*. Combining these increases with the simple,

²¹ *CFE v. State*, 100 N.Y. 2d at 922.

²² The present proposal assumes that all federal funds currently received by local school districts in New York State will be applied to the foundation amount, except funds received from the Medicaid, WIA, JTPA, School Lunch and Adult Education programs. Any future increases in federal aid would not be applied to the foundation amount. Federal IMPACT aid and Federal Payments in Lieu of Taxes will be credited to the local mandatory contribution.

²³ New York State Education Department, *Analysis of School Finances in NYS School Districts* (December 2003), Table 3.

²⁴ Statistics available from the National Center for Education Statistics at <http://www.nces.ed.gov>.

fair system for local contributions described above will result in a small measure of local tax relief to taxpayers in a number of heavily taxed local districts and small increases in a limited number of other districts, consistent with their fair share responsibilities under the formula.

Overall, under this proposal the state would increase its aid to education by the end of the four-year period by \$8.5 billion per year. The proposal includes a hold harmless provision that will prevent any district from receiving less in state operating aid and STAR payments than it now receives. The amount of additional state aid needed to provide hold harmless protection is relatively small. The total cost of providing hold harmless aid is about \$750 million for 2004-2005, which represents approximately a 3.5 percent increase in the amount of basic operating aid under this proposal. About 28 percent of all school districts (189 out of 680 school districts) would be eligible for hold harmless aid if the proposal were fully implemented in 2004-2005 (in 2004-2005 dollars and terms).

Four-Year Phase In

The increased funding proposed in the Adequate Foundation for All Plan should be phased in through equal installments over a four-year period, assuming that an additional 25 percent of the total increase will be provided to each district each year for the next four years. The total amount of additional state aid needed to implement the levels of service recommended by the AIR/MAP team and to reform New York's school funding system in the ways recommended in this report would total approximately \$8.5 billion if fully implemented in 2004-2005. Using the four-year phase-in approach described above would require an estimated \$2.132 billion increase in the first year (2004-2005). These numbers are based on the level three recommendations of the *New York Adequacy Study* (\$7.2 billion), trended forward to 2004-2005 (\$7.7 billion) using the New York State Budget Division's Composite CPI for New York.²⁵ The additional \$800 million in costs is needed to rectify the shortfall in state aid to education did between 2001-2002 and 2003-2004 and to implement the equitable state/local

²⁵ See New York State, *2004-2005 Executive Budget*, Appendix II, page 198.

sharing formula proposed in this report.²⁶

A summary of the results of the proposed changes in state and local shares, for the 2004-2005 school year (the first year of the four-year phase-in period), assuming a state aid increase of \$2.132 billion is as follows in **Table 1.4**.

Table 1.4 STATE AID AND LOCAL CONTRIBUTION BY NEED RESOURCE CATEGORY 2004-2005 SCHOOL YEAR (IN MILLIONS)						
	Total SBE State Aid: 2003-2004	Total Proposed SBE State Aid: 2004-2005	\$\$ Change	% Change	Total Required Local SBE Contribution: 2004-2005	State Share of State/Local
Statewide	\$13,490.3	\$15,622.0	\$2,132	15.8%	\$16,521.1	48.6%
New York City	\$4,896.5	\$6,019.9	\$1,123	22.9%	\$5,429.0	52.6%
Big Four Cities	\$928.1	\$1,109.8	\$182	19.6%	\$395.2	73.7%
High NRC - Other Urban/ Suburban	\$1,351.0	\$1,606.7	\$256	18.9%	\$960.4	62.6%
High NRC - Rural	\$1,124.9	\$1,303.4	\$179	15.9%	\$541.2	70.7%
Average NRC	\$4,000.8	\$4,390.3	\$390	9.7%	\$5,244.0	45.6%
Low NRC	\$1,189.0	\$1,191.9	\$3	0.2%	\$3,951.3	23.2%

Four years is an appropriate phase-in period. It fairly balances the urgent need to ensure all children their constitutional right to the opportunity for a sound basic education with the practical need for time for planning and implementation to ensure that the additional funds are spent efficiently and effectively. A new costing-out study should be undertaken during the 2006-2007 school year so that new foundation amounts, needs index factors, and cost index factors can be put into place during the 2007-2008 school year for use in setting state and local budgets for the ensuing four years. Similar studies should be undertaken during the third year of every four-year budget cycle. These periodic studies would review the implementation of

²⁶ This total figure also accounts for 68,000 students enrolled in charter schools who are not included in the AIR/MAP pupil count.

the new system and reconsider funding needs in light of future educational needs and conditions.

A summary of the results of the proposed changes in state and local shares, when the plan is fully implemented is set forth in **Table 1.5** (in 2004-2005 dollars).²⁷

<p align="center">Table 1.5 STATE AID AND LOCAL CONTRIBUTION BY NEED RESOURCE CATEGORY FULLY IMPLEMENTED, IN 2004-2005 TERMS AND DOLLARS (IN MILLIONS)</p>						
	Total SBE State Aid: 2003-2004	Total Proposed SBE State Aid: Fully Implemented	\$\$ Change	% Change	Total Required Local SBE Contribution: Fully Implemented	State Share of State/Local
Statewide	\$13,490.3	\$22,017.4	\$8,527	63.2%	\$18,254	54.7%
New York City	\$4,896.5	\$9,390.0	\$4,494	91.8%	\$7,012	57.2%
Big Four Cities	\$928.1	\$1,655.1	\$727	78.3%	\$374	81.6%
High NRC - Other Urban/ Suburban	\$1,351.0	\$2,373.8	\$1,023	75.7%	\$870	73.2%
High NRC - Rural	\$1,124.9	\$1,839.0	\$714	63.5%	\$530	77.6%
Average NRC	\$4,000.8	\$5,558.9	\$1,558	38.9%	\$5,507	50.2%
Low NRC	\$1,189.0	\$1,200.6	\$12	1.0%	\$3,961	23.3%

To promote stability and long-term planning by school districts, the state should formally adopt a four-year funding plan setting forth in advance the amount each school district will receive for each year of the four-year period, subject only to annual inflationary increases on adjustments for extraordinary unforeseen events. The foundation amount and educational need and cost indices should be reviewed and reconsidered at least every four years, on the basis of a new costing-out study. This amount should be included in the local real

²⁷ An appropriate adjustment should be made each year after 2004-2005 to incorporate average salary, fringe benefit, and inflationary costs in other areas to ensure that the full level of services recommended by the *New York Adequacy Study* is fully maintained.

property tax report cards that school districts are required to publish in conjunction with their annual budget processes.

APPENDIX A. MEMBERS OF THE SBE TASK FORCE*

OPERATING AID TASK FORCE MEMBERS

Stephen Allinger	Executive Director, Office of Intergovernmental Affairs, New York City Department of Education
John Beam	Executive Director, National Center for Schools and Communities
Marian Adams Bott	Education Chair, League of Women Voters of the City of New York
David Caplan	Board Member, Public Education Needs Civic Involvement in Learning (PENCIL)
Joshua Chang	Director, New York City Partnership & Chamber of Commerce, Inc.
Bob Cohen	Research and Policy Director, Alliance for Quality Education/ Director, Education Project, Citizen Action of New York
Joan L. Colvin	Assistant Superintendent, Jericho School District
Drew Cullen	Research Specialist, National Education Association of New York
Deborah Cunningham	Associate-in-Charge, New York State Education Department
Charles Dawson	Deputy Director of Governmental Relations, New York State School Boards Association
Regina Eaton	Executive Director, Alliance for Quality Education
Bruce Feig	Chief Financial Officer, New York City Department of Education
Barry Ford	Vice President for External Relations, After-School Corporation
Carol Gerstl	Associate Director, United Federation of Teachers
Brandon Gordon	Director, Midstate School Finance Consortium
Bob Hanna	District Superintendent and Executive Officer, Orange-Ulster BOCES
Howard Koenig	Executive Director, Reform Educational Financing Equities Today (R.E.F.I.T.)
Mark Lewis	Albany Representative, New York Immigration Coalition
David Little	Director of Governmental Relations, New York State School Boards Association
Richard Longhurst	Chair of Education Finance Committee, New York State Association of School Business Officials
Robert Lowry	Associate Executive Director, New York State Council of School Superintendents
Daniel Porter	Deputy Executive Director, Rural Schools Association
Thomas Rogers	Executive Director, New York State Council of School Superintendents
Joan Scheuer	Consultant, Educational Priorities Panel (EPP)
Russell Sykes	Vice-President, Schuyler Center for Analysis and Advocacy (SCAA)

* The individuals listed as members of the task force served in an advisory capacity. Their participation does not imply individual or organizational endorsement of this proposal.

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