



# NYSCOSS POLICY REPORT

New York State Council of School Superintendents

September 2003

## CAMPAIGN FOR FISCAL EQUITY V. NEW YORK: *CARPE DIEM!*

### I. INTRODUCTION

Progress in public policy, if it comes at all, usually comes in small, slow steps. In ordinary times, political inertia tends to inhibit the pace of change, either positive or negative. Occasionally, however, patterns of gradual policy evolution are broken by momentous events. The events themselves may not dictate a specific new policy direction but rather create the conditions that make dramatic change suddenly possible.

The Campaign for Fiscal Equity's recent win at the State Court of Appeals has created just such a turning point for education finance policy in New York State. The decision presents an opportunity to correct longstanding and widely recognized flaws in how New York State funds public education.

The Court's ruling upholds the state constitution's promise of "a system of free common schools, wherein all the children of this state may be educated."<sup>1</sup> It defines that promise in contemporary terms, requiring that all children be given the opportunity for a "meaningful high school education." It concludes that defects in the state's school finance system have negated the promise for New York City schoolchildren and it directs state government to enact remedies within the year.

Beyond these general thrusts, however, the full meaning of the decision is still to be determined. Some may view it with approval, others with trepidation. Either reaction is premature: the full scope of the decision's impact is still to be written, through the acts of state government and the citizens which it serves.

In short, this is a time neither for exultation nor despair. Nor is it a time to just sit back and observe. It is a time for action, by all who care about the future of our state and the one enterprise most central to shaping that future – the education of all New York's children.

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The decision’s directives are limited to improving opportunities for New York City schoolchildren. Fixing that defect is an imperative – it should not have required years of litigation to enforce. But it is not the only step needed to improve fairness and effectiveness in how the state funds its schools:

- ✓ Schools in other communities also labor with limited resources to educate children with great needs.
- ✓ Taxpayers in many poor rural school districts strain to provide just the most basic services, while low wealth suburbs in high cost regions struggle to remain competitive with better-off neighbors.
- ✓ Formulas have become excessive both in number and complexity.
- ✓ There is an over-reliance on narrow categorical programs.
- ✓ Most aid is now allocated without any consideration of changes in local wealth, student needs, or even the number of pupils being educated.

For years, state leaders have acknowledged that school finance demands an overhaul. In his 2001 State of the State address, Governor Pataki called the state aid formulas “incomprehensible” and “a dinosaur” – worthy of extinction.<sup>2</sup> Reacting to a lower court ruling in the CFE case, Assembly Speaker Sheldon Silver declared, “The disparity in funding high-needs districts remains glaring and incontrovertible.”<sup>3</sup>

Accordingly, state leaders must deliver justice for New York City’s schoolchildren. But they should not stop there. Moreover, the best resolution for New York City – and for the state as a whole – will be one that lasts. New Jersey has endured litigation over school finance for more than 30 years. The best hope for averting prolonged court involvement is a resolution that is reached through a fair process and that is balanced and comprehensive in its impact.

The Court of Appeals decision creates the opportunity to write new chapters of public policy, starting on a blank page. One of the collateral benefits of the entire CFE case is that it has brought about wider interest in school finance issues. A broader circle of groups and people have become engaged in debating the issues, and, at least intermittently, there have been bursts of media attention to school finance.

Sustaining wider interest is critical to achieving significant reform. Absent broader involvement, the new chapters of policy will be written through the same processes that created the inequities that led to CFE’s challenge and the Court’s conclusion.

This report is an attempt to promote broader understanding of school finance policy, and to make the case for reform that addresses the whole state and the whole range of shortcomings which have undermined adequacy, fairness, and effectiveness in school funding for too long.

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**II. STATEWIDE REFORM IS NEEDED**

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**OTHER COMMUNITIES STRUGGLE TO PROVIDE A SOUND BASIC EDUCATION TO HIGH NEED STUDENTS**

One factual statement from the decision sums up the Court’s conclusions on the fundamental unfairness of the state’s education finance structure:

“New York City schools have the *most* student need in the state and the *highest* local costs yet receive some of the *lowest* per-student funding and have some of the *worst* results [emphasis in original].”<sup>4</sup>

The Court declared that this configuration of circumstances dictated its conclusion that the state’s school finance system denies New York City schoolchildren their right to a sound basic education.

New York City’s schools are not alone, however, in struggling with only average or below average resources to educate children with above average need, as recent research from the New York State Education Department demonstrates.<sup>5</sup>

In 2003-04, 680 school districts are receiving aid through the state’s basic school aid formulas. The State Education Department has developed a framework which groups districts into one of six “need/resource capacity” (N/RC) categories. The categories relate a district’s pupil needs (measured through the percentage of kindergarten through grade 6 students eligible for the federal free and reduced price lunch program) to its ability to meet those needs from local resources (measured by a combination of property wealth per pupil and resident income per pupil). These categories are used throughout this report to illustrate how problems in school finance affect different types of districts.

Common sense suggests that children from more disadvantaged backgrounds would struggle more in school – they are more apt to suffer health problems, to live in unsafe communities, to be hungry, and to lack the help of two strong parents, all factors which can distract from learning. Voluminous research from New York State and elsewhere confirm this common sense understanding. Chart 1 provides one illustration.

Chart 1 relates student performance (measured by mean, or average, score on New York State’s 4<sup>th</sup> grade English Language Arts assessments) to district poverty level (measured by the percentage of students eligible for the federal free lunch program). The chart shows that in each of the four high need district categories, students are more likely to (1) be economically disadvantaged and (2) to have weaker test results than students in average and low need districts. Further, the higher the student poverty level of the district group, the lower the performance of its students. Other performance measures would yield similar results.

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*New York City’s schools are not alone in struggling ... to educate children with above average needs.*

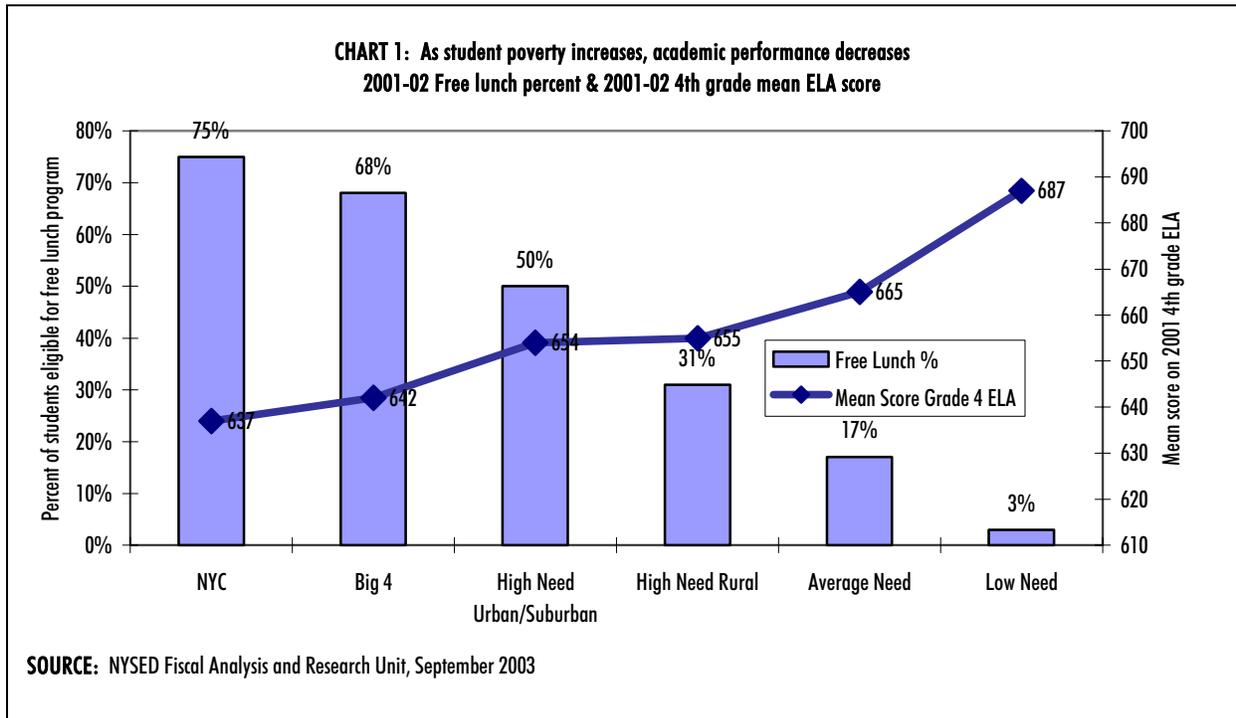
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*...across all district categories, the higher the student poverty level, the lower the performance of its students.*

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Ample research confirms this clear pattern – students from disadvantaged backgrounds require more help to succeed in school. Put simply, students who struggle to meet standards need more time to catch up. Schools strive to provide this extra instructional time by offering extra class sections, conducting summer school, and providing after school tutoring. Prekindergarten and full-day kindergarten give children more time at the start of their school careers. Smaller classes allow teachers to spend more time with individual students. “Time is money,” in the words of an old saying, and all these practices increase school district costs.

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Some researchers have attempted to express the necessary level of extra help in dollar terms and have concluded that the cost of helping a student from a disadvantaged background attain a given level of performance is roughly double the cost for other students.<sup>6</sup> This conclusion has been mirrored in the actions of states which have recently enacted pupil weightings based on poverty – they have tended to weight economically disadvantaged children as around 1.0 additional pupils (effectively generating twice the aid of other students).<sup>7</sup>

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*How well does New York's school finance system help communities meet student needs? ... The pattern is clear: the greater the needs of students, the less their districts are able to spend.*

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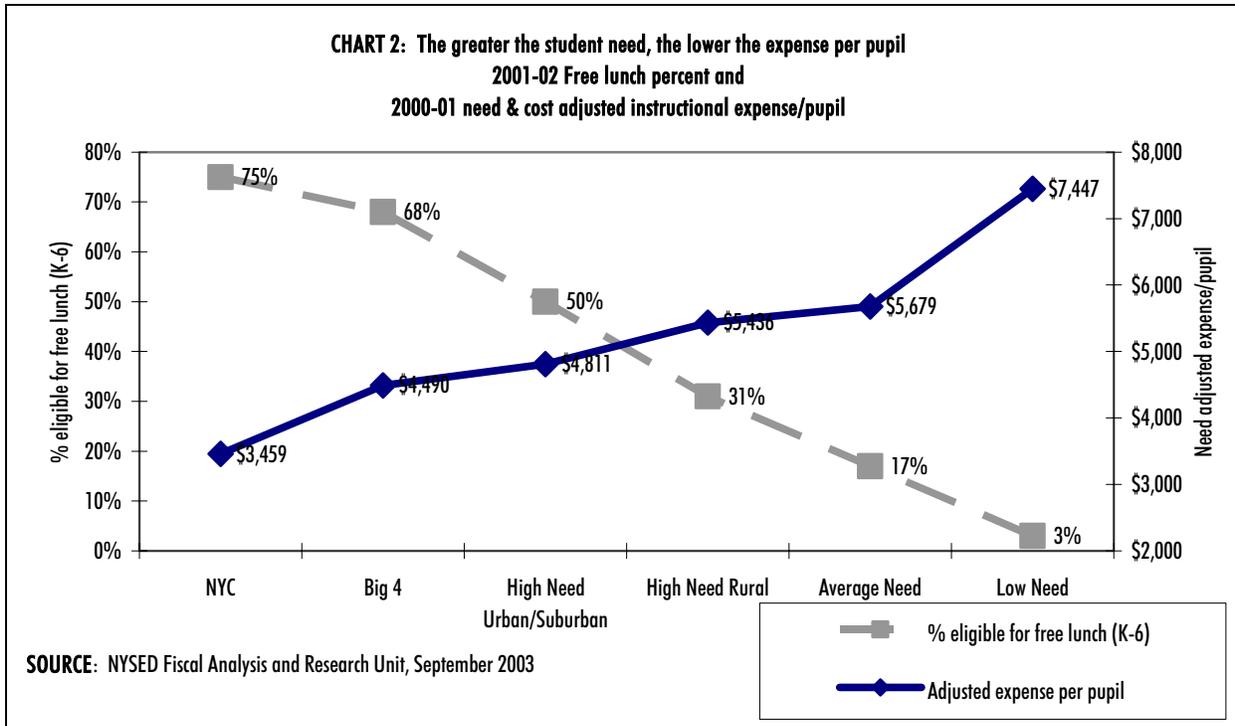
Usually, districts with high student needs also have limited local wealth – inadequate capacity to fund extra help for their students from local sources. There are exceptions – districts with average or even above average local fiscal capacity that is nonetheless dwarfed by the level of need among their students. New York City is the prime example; it has property wealth per pupil slightly below the state average but it serves an extraordinarily

needy student population. Westbury, in Nassau County, is an example of a district with above average local wealth *and* very high student needs.

How well does New York’s school finance system help communities meet student needs? Chart 2 provides one answer.

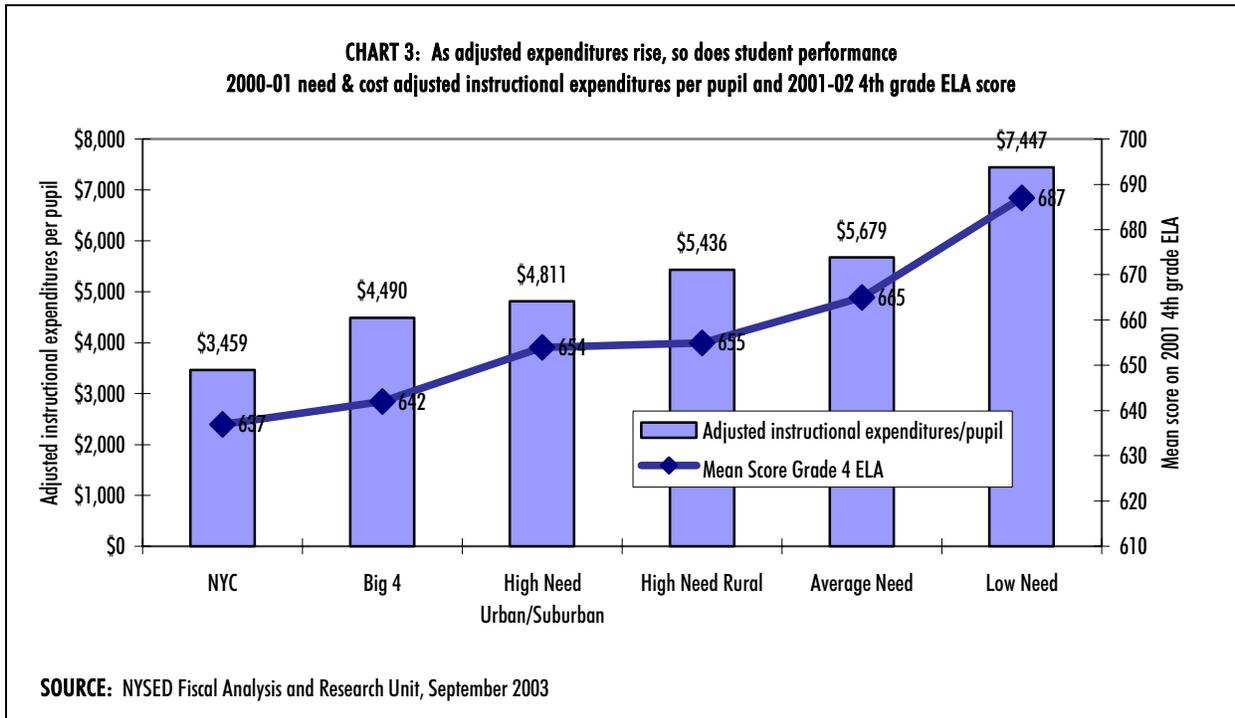
In Chart 2, average district expenditures on instruction by each group of districts are adjusted by (1) a regional cost factor which acknowledges the reality that local market conditions make it more expensive to operate schools in some parts of the state than in others; and (2) by a factor recognizing that disadvantaged students require more help to reach high standards (the factor assumes that the cost of supporting these students is double the cost for other students). The results are then compared to pupil needs, measured by the free lunch percent.

The pattern is clear: *the greater the needs of students, the less their districts are able to spend.*



*Chart 3 closes the loop, tying school spending to student performance. ... districts with high student poverty have low spending relative to need, and achieve weaker results.*

Chart 3 closes the loop, tying school spending to student performance. It demonstrates that districts with high student poverty have low spending relative to need, and achieve weaker results.



The tables in the Appendix translate these trends into more down-to-earth terms, presenting various measures of pupil needs, academic performance, and school resources. Again, the pattern is clear: students from the most disadvantaged backgrounds usually attend schools with the most limited resources. Not surprisingly, they typically achieve the weakest results.

Appendix table 1 indicates that each of the high need groups serves higher proportions of disadvantaged children and, on the whole, achieve weaker academic results than average and low need districts, as measured by graduates earning Regents diplomas, dropout rates, or performance on elementary level state tests. On some measures, New York City's performance actually surpasses that of the average for the other four large cities (Buffalo, Rochester, Syracuse, and Yonkers).

Appendix table 2 illustrates that typical high need districts in cities and suburbs offer their students more limited resources: more uncertified teachers, larger class sizes, fewer library books, and fewer or older computers.

Some argue that resources do not matter, that no exertion by schools can overcome the impediments thrown before students by their families' circumstances.<sup>8</sup> But there is a growing body of evidence attesting to what works in improving the chances for success among poor children.<sup>9</sup> Quality preschool and early grade experiences, superior teachers, small class sizes, systematic reading instruction, and well-designed professional

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development for teachers can all make a significant difference in the performance of schools serving disadvantaged children.

In any event, the state constitution is not circumscribed in its promise. It pledges a system wherein *all* children may be educated, not merely those of average aptitude or better. The Court concluded, "...we cannot accept the premise that children come to the New York City schools ineducable, unfit to learn."<sup>10</sup> The same must be said for children in other high needs districts.

**RURAL SCHOOL DISTRICTS: AT THE MERCY OF STATE AID**

*Heavy reliance on state aid places rural districts at great risk when the economy sours and the state's capacity to sustain generous aid increases is crippled.*

Poor rural communities often face different but no less challenging obstacles. Rural districts tend to have limited local wealth and to be heavily dependent on state aid. In 2000-01, for example, high need rural districts derived 68 percent of their revenues from state sources, a higher proportion than any other group.<sup>11</sup> Some desperately poor districts derived more than 80 percent of their revenues from state aid. These included Salmon River (the state's poorest district, located in Franklin County), Edwards-Knox (Saint Lawrence County), Bolivar-Richburg (Allegany County), Hannibal (Oswego County), and Campbell-Savona (Steuben County), for example.

Heavy reliance on state aid places rural districts at great risk when the economy sours, and the state's capacity to sustain generous aid increases is crippled -- as it has been since 2001. Table 1 gives an illustration, showing average state aid dependency for the various categories of districts and comparing the tax rates they apply with the amount of local tax revenue those rates generate.

	<b>2000-01 Share of Total Revenues from State Sources</b>	<b>2001-02 Local Tax Rate (per \$1,000 of Full Value)</b>	<b>2001-02 Local Tax Levy per Pupil</b>
<b>HIGH NEED</b>			
New York City	47.8%	\$15.74	\$3,928
Big 4	64.8%	\$16.61	\$2,332
Urban/Suburban	57.2%	\$23.81	\$4,130
<b>Rural</b>	<b>68.1%</b>	<b>\$18.38</b>	<b>\$2,747</b>
<b>AVERAGE NEED</b>	47.0%	\$21.78	\$5,826
<b>LOW NEED</b>	<b>23.7%</b>	<b>\$18.14</b>	<b>\$10,808</b>
<b>ALL DISTRICTS</b>	46.7%	\$18.63	\$5,288

Source:: NYSCOSS analysis of 2003-04 NYSED state aid data and 2000-01 NYSED School District Fiscal Profiles

High need rural districts have tax rates averaging more than those found in low need districts but they raise only one-quarter as much revenue per pupil as their better-off counterparts. If faced with a freeze on state aid, districts that are 80 percent state aid-dependent would need to increase local taxes by 20 percent in order to fund just a 2.5 percent increase in total spending.

Analysis of School District Property Tax Report Cards from the past two years provides concrete evidence of the impact of lean state aid years upon high need, state aid dependent districts.

Chart 4 summarizes projected changes from 2001-02 to 2003-04 in per pupil spending and tax levy for the four categories of districts that are required to submit Property Tax Report Cards to the State Education Department (school district budgets for New York City and the Big 4 cities are not subject to voter approval; those districts are not required to file Property Tax Report Cards). The state budget years covered are 2002-03 ,when Governor Pataki proposed a freeze on most school aid, and the state budget was enacted too late for most districts to budget additional state aid provided by the Legislature; and 2003-04, when school aid was reduced by an average of 1.3 percent.

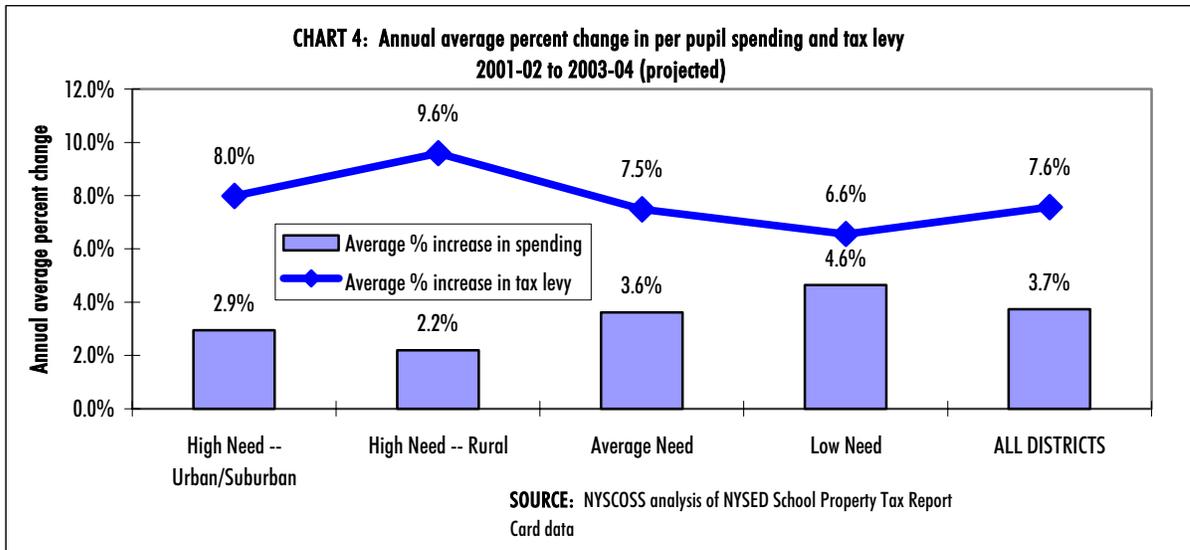
Chart 4 shows that high need rural districts projected the largest increases in local school taxes of any category, even though they planned the smallest increases in per pupil spending. Patterns in 2002-03 were especially striking: high need rural districts planned for a 9.7 percent increase in tax levy per pupil to fund only a 1.0 percent increase in per pupil spending (all other districts planned a 7.5 percent tax increase to fund a 3.6 percent spending increase).

High need rural districts already had below average per pupil spending, so gaps will widen, despite their increased tax effort.

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**HIGH NEED URBAN AND SUBURBAN DISTRICTS – HIGHER TAX RATES TO MEET HIGH STUDENT NEEDS AND HIGH COSTS**

Table 1 also spotlights a special hardship confronting high need small city and suburban districts. The average tax rate for this group is the highest of all groups -- \$23.81 per \$1,000 – 28 percent above the statewide average.

The group includes small cities such as Albany, Binghamton, Mount Vernon, Newburgh, Niagara Falls, and Utica, which contend with low wealth, high student needs, or both. Like their counterparts in the “Big 5” cities, these districts would benefit from an increased emphasis on pupil needs in the distribution of aid.

The group also includes suburban districts such as Hempstead, Westbury, Freeport and Roosevelt of Nassau County; East Ramapo in Rockland County; and Central Islip, Wyandanch, Brentwood, Amityville, and William Floyd of Suffolk County. These are lower wealth districts operating in high cost regions. To pay inescapable costs such as utilities and fuel, offer salaries that are competitive with more affluent neighbors, and provide the extra help their students need, most of these districts levy tax rates that are among the highest in the state. Only the Building Aid formula now includes an explicit regional cost adjustment. Previously, Operating Aid and various tax effort-based formulas provided some indirect recognition of regional cost differences. But, as described below, most aid is now distributed without consideration of even the most fundamental changes in district circumstances.

Table 2 provides one illustration of regional cost differences as estimated through a New York State Education Department model based on compensation for professional workers. A cost index developed for the National Center for Education Statistics yields similar regional patterns but with somewhat less dramatic differences across regions.<sup>12</sup> Actual prices for fuel, electricity, consumer goods, and other items also demonstrate that schools are more expensive to operate in some regions than others.<sup>13</sup>

<b>TABLE 2: REGIONAL COST DIFFERENCES – How much will \$1,000 buy? Professional Cost Index for New York State by Labor Force Region</b>		
<b>Labor Force Region</b>	<b>Index Value</b>	<b>Purchasing Power of \$1,000 by Region</b>
North Country	1.000	\$1,000
Mohawk Valley	1.084	\$923
Southern Tier	1.152	\$866
Western New York	1.155	\$868
Central New York	1.218	\$821
Finger Lakes	1.244	\$804
Capital District	1.250	\$800
Hudson Valley	1.475	\$678
Long Island/New York City	1.515	\$660

SOURCE: NYSED (2001) Regents State Aid Proposal, 2002-03

**GENERAL OBSERVATIONS ABOUT THE EFFICACY OF STATE AID IN ASSURING ADEQUACY AND EQUITY**

What should be the overarching purpose of state aid to education? Here is one attempt at a definition:

*State aid to education ought to assure that all school districts have the ability to meet the educational needs of their students, irrespective of local ability to pay, and taking into account other pertinent considerations.*

This definition suggests the need to accurately measure and then appropriately recognize variations in student needs and local ability to fund education. It also requires agreeing upon and accounting for other pertinent factors, such as regional cost variations, local tax effort, and geographic sparsity, to cite a few possibilities. Resolving these points is a subjective undertaking and, to some degree, fairness is in the eye of the beholder. But as the foregoing discussion indicates, New York’s present system of education finance would fail in the eye of any beholder: the system inadequately compensates for disparities in local ability to fund education and is even less effective at directing aid to districts that serve high concentrations of disadvantaged children.

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**III. REFORM MUST BE COMPREHENSIVE**

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The state’s first obligation must be to assure that all school districts can deliver the state constitution’s promise of the opportunity for a “meaningful high school education” for all children. If New York’s school finance system met that objective, other imperfections might be overlooked. But the system fails that most important test *and* it suffers from complexities that make it hard for both state and school officials to administer and impossible for the public to understand.

**STATE AID HAS BECOME TOO COMPLEX**

New York’s state aid system has become unmanageably complex. There are two reasons: (1) there are simply too many aid formulas and grant programs; and (2) many of the formulas and associated program requirements are extraordinarily complicated.

Some level of complexity is unavoidable. New York is a complicated state – it is both large and diverse. Some aspects of the aid structure were born from attempts to address narrow but legitimate problems. Examples include mechanisms to recognize disparities between a district’s property wealth and the incomes of its residents (high on the former, low on the latter), to help districts reduce reliance on special education, to accelerate or preserve state aid to help offset local economic calamities, and to discount changes in local wealth so that districts could assure local taxpayers that the state would bear a consistent share of a construction project’s costs, for example.

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*The complexity of school aid has at least two negative consequences. First it leads to costly errors by school officials ... Second, it erodes the accountability of state officials.*

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Table 3 illustrates one dimension of the system’s complexity, by simply listing all the various formulas and grant programs which comprise “school aid.” Altogether, there were more than 50 categories of aid in 2003-04. But even this understates matters: some categories use multiple formulas to distribute aid. Further, there are other channels of state funding for education which are not considered part of “school aid” and therefore not listed in Table 3 (aid for summer special education is one example).

Another measure of the system’s complexity is the number of pages of law required to detail how the formulas are to be calculated and how schools are to use the aid. The primary section of law establishing *most* state aid formulas occupies over 90 pages of small, single-spaced print. Explaining payment schedules for most of the aid takes up another ten or so pages.

Building Aid has become especially complex. More than 20 pages of law are required to describe the reports that districts are required to submit, the expenditures that can be aided, the wealth adjustments to be applied, and the timing of when various types of expenses will be reimbursed.

There are other indicators of the system’s complexity. New York’s school aid formulas use multiple measures of wealth, pupils, pupil needs, and expenditures:

- at least four basic measures of district local wealth;
- five different methods for counting pupils just for general purposes and seemingly countless means for recognizing specific pupil needs; and
- districts are required to track and report more than 30 different categories of expenditures.

There are also seemingly redundant aid categories:

- three formulas for aiding instructional materials (Textbook, Computer Software, and Library Materials);
- three categories which aid computer hardware purchases (Computer Hardware Aid, BOCES Aid, and Learning Technology Grants);
- two programs supporting prekindergarten (the Universal Prekindergarten Program and the older New York State Prekindergarten Program); and
- two vehicles for promoting smaller class sizes (the Class Size Reduction Grant Program and the Early Grade Intervention Set-Aside).

Excessive commitments of time and money are required to manage this system and even still, school board members and administrators cannot fully comprehend it. What chance do interested citizens have?

The complexity of school aid has at least two negative consequences.

**TABLE 3: SUMMARY OF AIDS COMPRISING "SCHOOL AID" , 2002-03 & 2003-04 SCHOOL YEARS**

	2002-03 School Year	2003-04 Enacted Budget	Enacted Change from Base	Percent Change
Operating Aid	6,874,725,964	7,126,131,131	251,405,167	3.7%
Tax Effort Aid	0	0	0	--
Tax Equalization Aid	0	0	0	--
Tax Limitation Aid	24,999,940	29,958,002	4,958,062	19.8%
Operating Standards Aid	212,333,156	0	(212,333,156)	-100.0%
Gifted and Talented Aid	14,152,011	0	(14,152,011)	-100.0%
Minor Maintenance and Repair Aid	49,972,363	49,973,692	1,329	0.0%
Improving Pupil Performance Grants	66,350,000	66,350,000	0	0.0%
Academic Support Aid	24,920,000	0	(24,920,000)	-100.0%
Transition Adjustment	0	(285,351,687)	(285,351,687)	--
*Subtotal -- Comprehensive Operating Aid	7,267,453,434	6,987,061,138	(280,392,296)	-3.9%
Extraordinary Needs Aid	686,278,239	704,910,580	18,632,341	2.7%
Summer School Aid	41,161,664	35,816,036	(5,345,628)	-13.0%
Limited English Proficiency Aid	65,830,194	86,487,097	20,656,903	31.4%
Universal Prekindergarten Aid	201,036,002	201,036,002	0	0.0%
Early Grade Class Size Reduction	136,400,293	136,400,293	0	0.0%
Educationally Related Support Svcs.	70,371,638	72,482,397	2,110,759	3.0%
Public Excess Cost Aid	2,116,650,040	2,152,455,494	35,805,454	1.7%
Private Excess Cost Aid	173,338,422	180,479,028	7,140,606	4.1%
Operating Growth Aid	22,869,326	29,570,094	6,700,768	29.3%
Transportation Aid	995,004,526	1,088,370,722	93,366,196	9.4%
Summer Transportation Aid	4,993,894	4,999,853	5,959	0.1%
Building Aid	1,169,817,661	1,154,811,789	(15,005,872)	-1.3%
Building Reorganization Incentive Aid	14,054,482	13,879,254	(175,228)	-1.2%
Operating Reorganization Incentive Aid	19,222,914	17,525,337	(1,697,577)	-8.8%
BOCES Aid	494,573,868	522,017,944	27,444,076	5.5%
Special Services - Computer Admin.	39,480,926	38,000,135	(1,480,791)	-3.8%
Special Services - Career Education	87,511,927	84,159,990	(3,351,937)	-3.8%
Textbook Aid	190,540,632	189,712,482	(828,150)	-0.4%
Computer Software Aid	45,572,352	46,041,647	469,295	1.0%
Library Materials Aid	19,342,784	19,361,324	18,540	0.1%
Computer Hardware Aid	27,681,943	28,382,457	700,514	2.5%
Full Day Kindergarten Conversion Aid	17,196,934	5,635,508	(11,561,426)	-67.2%
Small City Aid	81,875,992	81,875,992	0	0.0%
Teacher Support Aid	67,480,000	67,480,000	0	0.0%
<b>Computerized Aids Subtotal</b>	<b>14,055,740,087</b>	<b>13,948,952,593</b>	<b>(106,787,494)</b>	<b>-0.8%</b>
Bilingual Education Grants	11,200,000	11,200,000	0	0.0%
Boces Spec Act, <8, Contract Aid	675,000	675,000	0	0.0%
Bus Driver Safety Training Grants	400,000	400,000	0	0.0%
Categorical Reading Programs	63,950,000	63,950,000	0	0.0%
Chargebacks	(18,000,000)	(18,000,000)	0	0.0%
Comptroller Audits	250,000	250,000	0	0.0%
CVEEB	923,758	923,758	0	0.0%
DFY Transportation	225,000	225,000	0	0.0%
Ed Of OMH/OMR	22,000,000	22,000,000	0	0.0%
Education of Homeless Youth	3,775,000	3,775,000	0	0.0%
Employment Preparation Education Aid	96,180,000	84,000,000	(12,180,000)	-12.7%
Fort Drum Aid	2,625,000	2,625,000	0	0.0%
Incarcerated Youth	13,000,000	13,000,000	0	0.0%
Learning Technology Grants	3,285,000	3,285,000	0	0.0%
Magnet Schools Aid	135,650,000	135,790,000	140,000	0.1%
Native American Building Aid	2,000,000	2,000,000	0	0.0%
Roosevelt	0	6,000,000	6,000,000	--
Shared Services Savings Incentive Aid	200,000	200,000	0	0.0%
Special Districts Aid	2,200,000	2,200,000	0	0.0%
Teacher Centers	30,000,000	30,000,000	0	0.0%
Teacher-Mentor Intern	5,000,000	4,000,000	(1,000,000)	-20.0%
Teachers of Tomorrow	25,000,000	20,000,000	(5,000,000)	-20.0%
Tuition Adjustment Aid	1,175,000	1,175,000	0	0.0%
Urban-Suburban Transfer Aid	1,130,000	1,130,000	0	0.0%
Prior Year Adjustments	57,000,000	90,000,000	33,000,000	57.9%
<b>Other Aids Subtotal</b>	<b>459,843,758</b>	<b>480,803,758</b>	<b>20,960,000</b>	<b>4.6%</b>
Capital Outlay Dorm. Authority Grants	100,016,761	0	(100,016,761)	-100.0%
<b>Grand Total</b>	<b>14,615,600,606</b>	<b>14,429,756,351</b>	<b>(185,844,255)</b>	<b>-1.3%</b>

**SOURCE:** New York State Education Department, September 2003

First, it leads to costly errors on the part of school officials, sometimes requiring districts to repay large sums of aid and then inflict either sharp cuts to programs or unplanned tax increases on homeowners and

businesses. Also, complexity has grown as the capacity to handle it has diminished. Locally, school districts have targeted administrative positions for reductions to spare teaching jobs. At the state level, the Education Department has absorbed sharp staffing cuts going back more than a decade; it no longer has much capacity to catch mistakes that districts make in struggling to fulfill the system's paperwork demands.

Second, complexity erodes the accountability of state officials. Very few people can understand how state aid is calculated, let alone evaluate the workings of formulas, debate the assumptions behind variables, or propose alternatives.

**STATE AID RELIES TOO MUCH ON NARROW CATEGORICAL PROGRAMS**

A facet of school aid's complexity is its over-reliance on relatively narrow categorical programs.

More than one-half the programs comprising school aid distribute less than \$80 million. Spread over 680 districts, this amounts to an average of less than \$120,000 - less than the sum required to employ two typical teachers (salary and benefits). Some of the programs *are* targeted to a handful of districts, and therefore do provide more significant aid levels to each. But the basic point remains: there are too many programs which do not provide a meaningful level of aid, given the objectives they are designed to achieve, and the administrative burdens they impose.

Categorical programs have a place. Sometimes they are appropriate to introduce new programs and strategies (e.g., expansion of prekindergarten opportunities). Sometimes they are needed to push schools to address neglected priorities (e.g., reducing reliance on special education). Categorical programs have also been used to assure that school aid is spent on schools, especially in the Big 5, fiscally dependent, city school districts, where Mayors and City Councils have sometimes used increases in general school aid to offset local funding.

But New York State has gone overboard, creating a jumble of small, sometimes redundant programs, each with its own programmatic, recordkeeping, and reporting requirements.

But more important than the administrative headaches is the impact on local school priorities. Rather than pursue what local boards, administrators, teachers and parents know would work best for their students, districts are too often compelled by funding streams to pursue directions set at the state level. Too often, decisions on services are made based on what is "aidable", sometimes leading financially desperate districts to make bad decisions.

Further, seldom do these programs support the full cost of the required activities, so districts must divert other revenues, as well as staff time, to satisfy categorical requirements. The experience of the 2000-01 state budget is an unusually compelling example.

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*"Categorical programs have a place ... But New York has gone overboard, creating a jumble of small, sometimes redundant programs..."*

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That year, the state enacted an estimated \$1.1 billion increase in school aid – in dollar terms, the largest increase ever. Of that amount, \$435 million was absorbed by increases in reimbursement aids (e.g., Building Aid, Transportation Aid, BOCES Aid, and Excess Cost Aid for special education – all programs which reimburse schools for costs already incurred). Another \$301 million consisted of increases in categorical programs (e.g., Universal Prekindergarten, Class Size Reduction, Textbook Aid, Computer Hardware Aid, etc.).

Most of the increase in reimbursement aids was driven by a 10 percentage point enhancement to the state share in Building Aid (discussed below). Categorical programs increased by a total of 45 percent.

How much of the record \$1.1 billion increase went to districts in the form of general purpose, unrestricted aid? Not much. The answer is reached in two steps.

Unrestricted aids increased by \$344 million, or 4.87 percent – a healthy rate but in fact just on par with the combined impact of inflation and enrollment growth that year. Accordingly, out of a \$1.1 billion overall increase, districts received little real help from the state in accommodating many of the costs necessitated by the state’s drive to raise academic standards – funding after-school tutoring, adding remedial course sections, and expanding summer school, for example.

But that still is not the whole story.

As noted, few state aid programs cover the full cost of the services they require. NYSCOSS estimated that increases in local contributions required to match the increases in the reimbursement and categorical programs that year totaled \$275 million.<sup>14</sup> In effect, these increased local costs constitute a charge against the \$344 million increase in unrestricted aids. So, out of the record \$1.1 billion overall aid increase, districts were left with only \$69 million in new, unrestricted aid which could be used to pay for inflationary increases or standards initiatives, or to reduce local tax burdens. Table 4 depicts this outcome.

<b>TABLE 4: HOW A \$1.1 BILLION OVERALL INCREASE YIELDS ONLY \$69 MILLION IN UNRESTRICTED AID</b>	
<b>2000-01 Distribution of aid by type of aid</b>	
<b><u>\$1.1 billion</u></b>	<b><u>Overall Increase</u></b>
\$435 million	Reimbursement Aid Increases
\$301 million	Categorical Aid Increases
<b><u>\$344 million</u></b>	<b><u>Unrestricted Aid Increases</u></b>
<b><u>-\$275 million</u></b>	<b><u>Less local match required for categorical and reimbursement increases</u></b>
<b><u>\$69 million</u></b>	<b><u>Total aid available to be directed to other (non-categorical or reimbursement) programs or local tax relief</u></b>
<b>SOURCE:</b> NYSCOSS analysis of 2000-01 school aid data	

Once again, the point is not that there should be no categorical aid programs. Rather, the state should discontinue some, transferring funds into general aid, consolidate others, and exercise much more care in launching new ones. An alternative is to rely more on effort checks and set-asides – require districts falling below thresholds on targeted indicators to set-aside some of their general aid for priority purposes.

**MOST STATE AID NO LONGER ACCOUNTS FOR IMPORTANT CHANGES IN DISTRICT CIRCUMSTANCES**

Historically, the bottom-line impact of New York’s school aid formulas was relatively progressive, at least in offsetting disparities in local ability to pay for education – lower wealth districts received significantly more state aid per pupil than their more affluent counterparts.

New York receives low grades in interstate comparisons of school finance equity largely because the state aid system does not do enough to offset the huge disparities in local wealth found among districts. Though the aid formulas have been progressive, more funds would have to be channeled through them to more powerfully offset variations in local wealth.<sup>15</sup> Regrettably, however, as a result of recent changes, most state aid no longer takes into account changes in such fundamental attributes as local wealth, student needs, or even number of pupils.

Operating aid<sup>16</sup> comprises just under one-half of total aid. Once it was the engine driving equalization, helping to offset variations in local fiscal capacity by pumping higher levels of state support into lower wealth school districts. But since 2001-02, operating aid has been based predominantly upon what districts received the year before. In 2002-03, districts received the same operating aid as the year before, except that below average wealth districts all received an additional 1 percent. The starting point for operating aid this year was again the prior year’s sum, adjusted this time by a reduction factor. That factor is designed to inflict smaller cuts on low wealth, high need districts. But the fact remains, the base to which the reduction is applied (\$7.1 billion) is no longer calculated using measures of local wealth, student needs or even number of pupils, nor does it adjust as district circumstances improve or decline.

Even before 2001-02, the equalizing impact of the core operating aid formula was circumscribed by “floors and ceilings.” These were caps which limited the amount of aid any district could gain or lose in a single year. In 2000-01, the year of the record \$1.1 billion school aid increase, only 54 districts had their operating aid calculated based on the actual formula, without caps.

**IV. THE 1990s: A MISSED OPPORTUNITY – THE SAME PROCESSES WILL YIELD THE SAME PROBLEMS**

It has been said that, “If you always do what you always did, you’ll always get what you always got.” To achieve a different outcome in school finance, the state should pursue different processes. A look at the experience of the late 1990s shows why.

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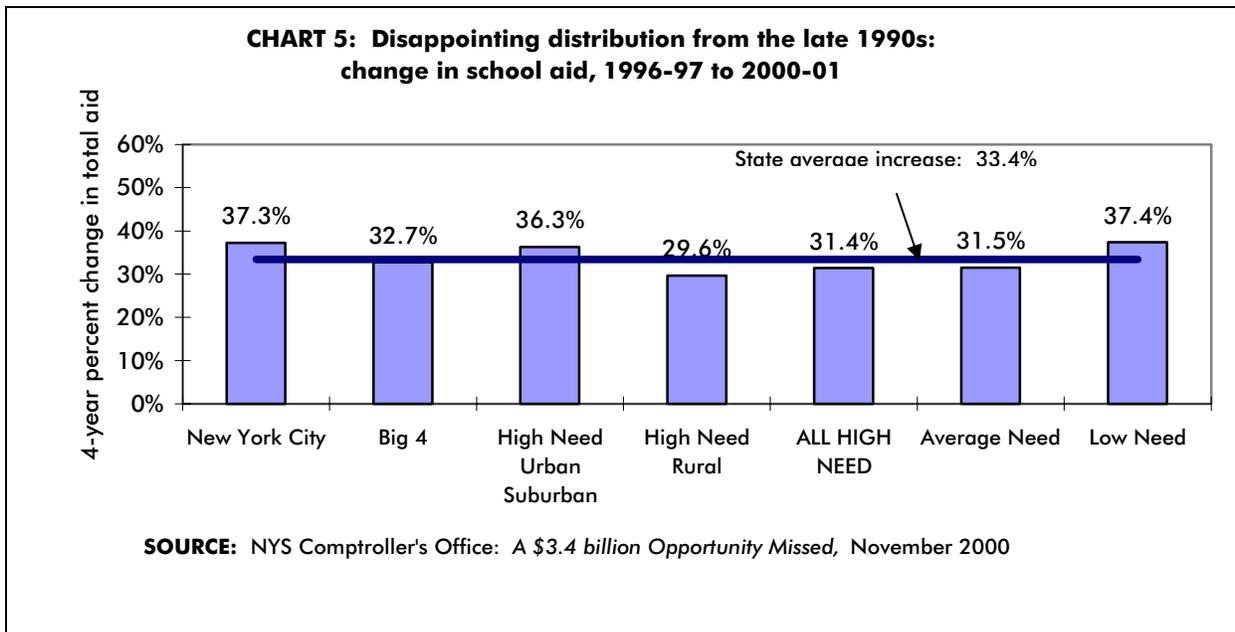
*“New York receives low grades in interstate comparisons of school finance equity largely because the state aid system does not do enough to offset the huge disparities in local wealth found among districts.”*

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Between 1997 and 2000, state leaders had perhaps the best opportunity ever to reform New York's education finance system. The state and national economies were booming and tax receipts soared. The state did dramatically increase education funding, enacting four successive record increases in school aid and raising the total state share of school costs borne by the state from 39.6 percent to 46.0 percent. (These totals include both "STAR" tax relief and traditional school aid).<sup>17</sup>

Still, the bottom line results were disappointing, as a November 2000 report from then State Comptroller Carl McCall revealed. The McCall report examined average increases in aid between 1996-97 and 2000-01. It found that while aid to New York City did increase at a steeper rate than the state as a whole, the typical *low* need district actually received a bigger increase than the typical *high* need district: 37.4 percent compared to 31.4 percent.<sup>18</sup>

*Between 1997 and 2000, state leaders had perhaps the best opportunity ever [for reform]... the bottom line results were disappointing ... the typical low need district actually received a bigger increase than the typical high need district: 37.4 percent compared to 31.4 percent.*



Ambitious initiatives were launched in that period, including Governor Pataki's STAR (School Tax Relief) program, and the Assembly's "LADDER" package (featuring Universal Prekindergarten), both enacted in 1997.

But neither has had as much impact as it might have in promoting adequacy or equity. The STAR program directs the largest state reimbursement sums (per pupil) to the *lowest* need school districts. On the other hand, when measured as a percentage of resident income, STAR payments provide proportionately more help to higher need communities. The point? A different design would have produced a greater benefit for the most hard-pressed school taxpayers.

High quality preschool experiences are often cited as the best education investment that can be made. The Universal Prekindergarten Program has dramatically increased the number of children participating in state-funded preschool opportunities. But its growth faltered, largely

because of perennial uncertainty over funding, exacerbated by very late enactment of the state budget.

School Building Aid warrants specific attention.

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*The state's experience with school Building Aid since 1997 has been a spectacular misadventure in public policy.*

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The state's experience with Building Aid since 1997 has been a spectacular misadventure in public policy. That year, the state initiated a 10 percentage point "bonus" on top of the existing wealth adjusted reimbursement rate for all districts. In effect, the state agreed to pick up an extra 10 percent of the costs of school construction and rehabilitation projects for nearly all districts.<sup>\*</sup> It was intended to help address a presumed statewide school facilities crisis, though the most pressing needs were generally acknowledged to be in New York City and urban districts.

The incentive did set off a school building boom, but not necessarily in the right places.<sup>19</sup>

Since 1996-97, the cost of Building Aid has doubled, going from \$627 million to a peak of \$1.4 billion in 2001-02 and amounting to \$1.2 billion in 2003-04.

How did the various types of districts respond to the incentive?

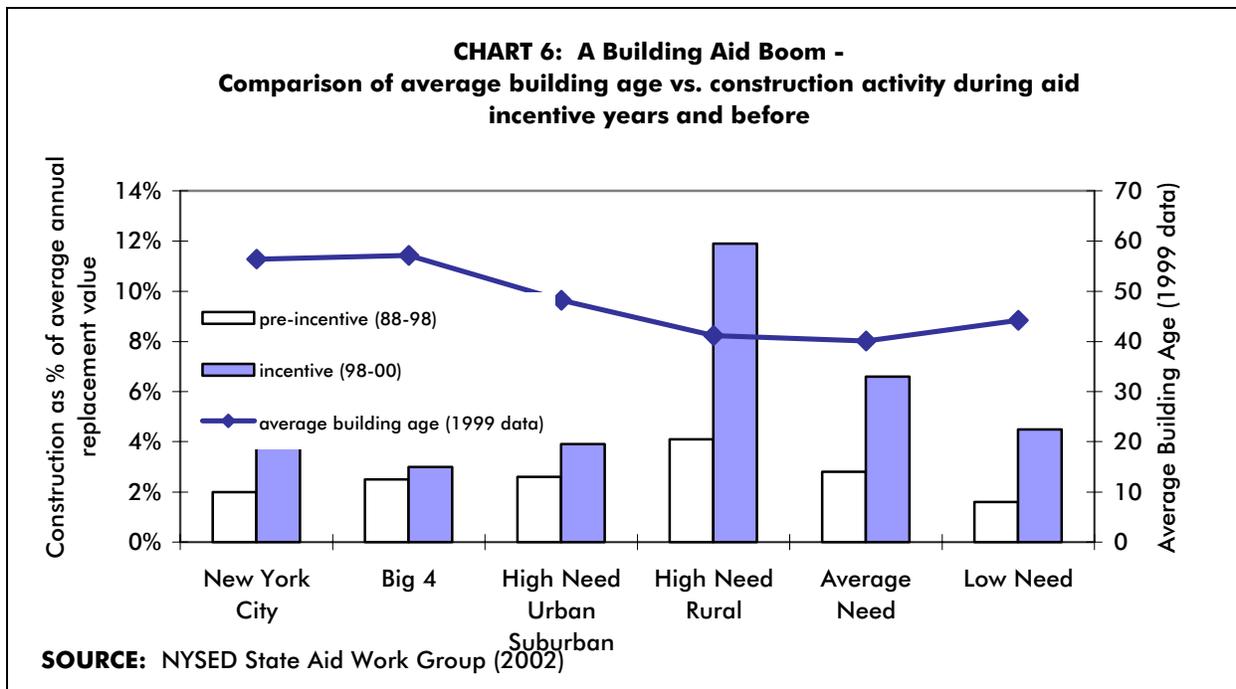
Chart 7 compares the average age of school buildings (as a proxy for construction needs) with the volume of construction activity before and during the years the bonus had its widest impact. Construction activity is measured as a percentage of the replacement value of school buildings; the State Education Department suggests as a standard that activity amount to approximately 3 percent of replacement value per year).

The chart shows that high need rural districts and average and low need districts had the biggest response to the incentive. On the other hand, construction activity in high need cities (large and small) and suburbs – with older buildings – failed to raise their capital spending to the need levels suggested by building age. Many of these districts would have required other policy changes to utilize the added aid – relief from debt limits and access to other financing mechanisms, for example.

The incentive created unsustainable cost increases that were absorbing too large a share of dollars available for school aid: Building Aid was projected to increase by over 24 percent in 2000-01 alone. To rein in the cost, the Governor and Legislature enacted a series of "reforms" which have made Building Aid unfathomably complex, slowing the processing of claims, and creating widespread confusion among school officials. The changes include steps which push districts to finance projects over longer periods (increasing interest costs) and disburse aid as though districts have borrowed to fund a project, even when they pay cash.

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<sup>\*</sup> There was an overall cap limiting the state reimbursement share in any district to 95 percent; accordingly a district with a regular Building Aid ratio of 87 percent (for example) would realize only an 8 percentage point bonus.



Summarizing, the state actions led to a doubling of the cost of Building Aid, necessitating the enactment of cost containment measures that made the system more confounding for everyone and punished districts that prudently used pay-as-you-go construction financing. And with all that, the districts with the greatest facility – and student -- needs realized the smallest benefit.

The experience of Building Aid is only a more glaring and sad illustration of how the opportunity for reform was fumbled in the late 1990s. The state must not miss another chance.

**V. PRINCIPLES FOR REFORM**

In this report, the Council of School Superintendents does not offer a detailed prescription for reform. True reform will need to be the product of compromise, with input from many parties. Here, we focus on recommending principles to guide reform and the processes to attain it.

**WHAT REFORM SHOULD NOT BE**

First, we recommend routes to be avoided by the state.

A “Robin Hood” reallocation scheme would be a dead-end. Other states which have enacted systems which significantly reallocate resources among districts have seen their reforms revisited and reversed. We believe the best hope for lasting reform will be one that avoids the divisive approach of diminishing some districts to advance others. All districts are being called upon to do more as a result of state and federal strategies to raise standards and achievement. Ideally, all districts should get more help

*A “Robin Hood” reallocation scheme would be a dead-end...the best hope for lasting reform will be one that avoids diminishing some districts to advance others.”*

from the state, and those whose students who face the greatest challenge in meeting standards should receive the most help.

Second, a proliferation of new categorical programs, or a dramatic expansion in current ones, would drive districts off course. Schools and districts must be allowed to focus their energies and funds on the overarching goal of helping all students reach higher standards. Reforms should entrust those closest to the students to make most of the decisions on how to get them there. Over-emphasis on categorical programs haphazardly interjects the judgment of state officials and scatters the efforts of school leaders and staff.

There is another reason why the state should not “over-do” categorical programs.

In evaluating all the “inputs” of schooling, the Court of Appeals concluded that, “The first and surely most important input is teaching.”<sup>20</sup> It cited research confirming this claim and declared “...that quality of teaching correlates with student performance; and ... New York City schools provide deficient teaching because of their inability to attract and retain qualified teachers.”<sup>21</sup> Ultimately, this is one reason why school finance equity matters: poor children – who need the best teachers – get less than their fair share of teachers who are even minimally qualified.<sup>22</sup> Low wealth/high need districts must have more general aid in order to pay more competitive teacher salaries.

Third, reform must not be hijacked by those who are threatened by the decision.

By giving education a first claim on dollars in the state budget, the Court of Appeals decision threatens other aspects of the budget, including taxes, state employee compensation and health care. There will be attempts to dilute its impact, perhaps through schemes to redefine miscellaneous expenditures as “education” spending that can satisfy the requirements of the decision. Health care advocates experienced this tactic when the state first received a windfall from the national tobacco settlement. Environmentalists saw the impact of state bond acts watered down by proposals to fund routine maintenance projects, including some whose relevance to conservation were hard to fathom.

Fourth, the goals of reform cannot be reached entirely by demanding new accountability or by forcing increases in local spending.

School districts are already held more accountable than any other institution – no other enterprise publishes so much data on its performance or affords the public so many avenues for input. The accountability of schools has been elevated further in recent years, with the enactment of mayoral control for New York City, the imposition of the No Child Left Behind Act by Washington, and the pursuit of new standards set by the State Board of Regents. The Court is right to require new accountability mechanisms to assure that funding reforms deliver a sound basic education, but some districts simply lack adequate resources and no sharpened efficiency on their part can triumph over that fact.

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*...the state's effort falls short. New York City receives only an average amount of state aid per pupil, despite its status as an average wealth district educating children with needs that are way above average.*

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New York City *might* be called to direct more of its own resources to its schools – although no one can plausibly contend that City residents are under-taxed in the aggregate. But whatever the appropriateness of the City’s own effort, the state’s falls short. New York City receives only an average amount of state aid per pupil, despite its status as an average wealth district educating children with needs that are way above average.

**PRINCIPLES FOR WHAT REFORM SHOULD BE**

To improve school finance, state policymakers should strive to advance six principles: adequacy, equity, accountability, simplicity, flexibility, and predictability.

*Adequacy.* As the Court directed, the state’s first duty is to assure that all districts have adequate resources to give all children the chance for a sound basic education. This requires placing greater emphasis on pupil needs in the distribution of aid, while also renewing the state’s historical commitment to offsetting disparities in the capacity of districts to fund education from local sources. A first step must be to ascertain the cost of a sound basic education.

*Equity.* New York State has a strong tradition of local control in education which should be preserved. But where a student resides should not determine whether or not he or she can receive an adequate education. Once the cost of a sound basic education is determined, a fair sharing of costs between the state and the districts can be determined. Another aspect of equity is that districts with similar characteristics should receive similar treatment in aid formulas. Put another way, when formulas are added or amended to address a specific problem, the goal should be to solve that problem for *all* afflicted districts.

*Accountability.* Measured by either the dollars or the hopes that citizens invest in education, it comprises the most important of all public enterprises. Accordingly, school officials expect to be held accountable – and they are, through school report cards, student testing, budget votes, board elections, and other state and federal mandates. The Court of Appeals directed that “...the new scheme should ensure a system of accountability to measure whether the reforms actually provide the opportunity for a sound basic education.”<sup>23</sup> Part of that system must assure that districts sustain reasonable local effort. We strongly concur with the Court’s advice that any new system should build on existing structures.

*Simplicity:* Making school finance simpler and more transparent – easier to understand – would allow the public to hold state officials more accountable for the choices they make in funding schools. Accordingly, transparency is essential to sustaining successful reform. Among other steps, this means making the assumptions behind funding mechanisms more self-evident, so that they can be debated by more people. It also means that if aid is targeted to address a particular problem, the factors used in distributing the aid should have some discernible relation to that problem.

Related to transparency is simplicity – a simpler system will be more transparent. Beyond promoting accountability for state policymakers, a

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**Six Principles for Reform:**

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- *Adequacy*
  - *Equity*
  - *Accountability*
  - *Simplicity*
  - *Flexibility*
  - *Predictability*
-

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*Making school finance simpler and more transparent – easier to understand – would allow the public to hold state officials more accountable for the choices they make in funding schools ... transparency is essential to sustaining successful reform.*

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simpler system will be easier for school and state officials to administer, reducing costs and averting the occurrence of unwelcome surprises to district and state budgets.

*Flexibility:* A simpler, more transparent aid system would also promote more flexible use of state funds at the local level. But flexibility is an end in itself – a larger share of aid should be provided as unrestricted aid and requirements on some categorical programs should be lessened. The state should be cautious in substituting its judgment for duly chosen local leaders, particularly given the more exacting accountability to which they are now subject.

*Predictability:* Last, a new system needs to provide more stability and predictability. As it stands now, districts do not know even just months in advance how much state aid they will receive. Part of the problem derives from complexity – school officials cannot be confident in their understanding of how formulas will operate or whether the mountains of data they must submit is 100 percent accurate. Also, the complexity of the formulas serves the purpose of making them pliable for annual political manipulation. That practice, in turn, compounds the system’s unpredictability. The state’s revenue base (chiefly income and sales tax) is volatile, making some unpredictability unavoidable. But a simpler aid system would make inevitable shifts more tolerable.

**THE COST OF REFORM**

The paper does not attempt to put a price tag on the overall cost of reform. The Court specifically directs the state to ascertain the cost of providing a sound basic education for New York City schoolchildren. If statewide reform is pursued, as we urge, then a statewide costing-out exercise is required. This is a necessary precedent to establishing overall cost. That task is beyond the scope of this report.

A variety of standard “costing out” approaches have been developed and used in other states. One is an inferential or “successful schools” model, which identifies districts that can be judged to be providing a sound basic education based on student performance. Their actual spending level then becomes the starting point for establishing the cost of a sound basic education, with district specific adjustments applied to reflect student needs, regional costs, and other pertinent factors. A second model is more complex, involving sophisticated econometric calculations which correlate school characteristics with student performance levels. A third model, is the so-called “building block” or professional judgment approach, which engages educators, parents and others in identifying the configurations of resources needed to deliver a sound basic education. These include appropriate class sizes, support staff ratios, extra help, technology and instructional materials, for example.

The professional judgment approach is the model being applied in a costing-out exercise sponsored by CFE and the New York State School Boards Association. Arguably, it is the approach most consistent with an emphasis on transparency. It is not necessarily more precise than other models, but the reasons for any imprecision are more transparent:

policymakers and citizens can more readily understand and debate the assumptions it uses to derive costs.<sup>24</sup>

Whatever, its specific outcomes, the CFE-NYSSBA project is following a model process, employing some of the nation’s most respected scholars in education finance and engaging the opinions of superintendents, board members, teachers, parents and others. Its recommendations will deserve to be received as the first step toward defining the overall cost of assuring a sound basic education for all children.

**VI. CONCLUSION**

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**A DIFFERENT ROUTE – TO REACH A DIFFERENT RESULT**

Is the pursuit of effective school finance reform a quixotic mission, destined to fail? We cannot accept that proposition. In any event, one thing is certain: not trying guarantees failure.

Our six principles – adequacy, equity, accountability, simplicity, flexibility, and predictability – can be viewed as a set of standards for judging whether an attempt at reform has a chance to succeed. To achieve successful school finance reform, we believe a more thorough, open debate is required than usually occurs in Albany.

More thorough debate has a better chance to produce policies that local school leaders will be able to use to produce better results for students and taxpayers. A more open process is in the long term interest in of the state as well. In the words of Michael Rebell, CFE’s Counsel and Executive Director, “The significant potential for successful civic dialogue on the difficult issues involved in fiscal equity and adequacy reform is indicated by the fact that judicial orders have encountered the least political opposition and the most thorough change in states where broad-based citizen involvement preceded or dominated legislative action.”<sup>25</sup>

A temporary commission could play a constructive role – in part by providing a focus for public attention. But the reform commission as comprised by Governor Pataki – thus far – will be handicapped in fulfilling that purpose.

The commission’s charge is expansive, taking on more than the Court of Appeals required, including, for example, alternative diploma standards. Its March 1, 2004 deadline is both late and tight -- too late to be accommodated within the Governor’s budget proposal, but also very short, given the scope of its charge and the backgrounds of the members appointed thus far. Also, in neglecting – so far – to appoint more commission members with an ongoing professional stake in public education, the Governor foregoes the opportunity to build consensus among parties who would be most affected by the commission’s recommendations and who will continue to be engaged in policy debates long after the commission disbands.

We hope that the Governor will appoint more commission members with current professional involvement in public education, and that the

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*In neglecting – so far – to appoint more commission members with an ongoing stake in public education, the Governor also foregoes the opportunity to build consensus among parties that would be most affected by the commission’s recommendations.*

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commission will vigorously engage the education community and the public at large throughout its work.

Whatever course the Governor and his commission pursue, other efforts will be needed. The significant public engagement built into CFE and NYSSBA 's costing out project is exemplary. The State Assembly has taken a constructive step by convening public hearings on school finance reform.

Far-ranging debate is essential to achieving reform that is effective, that endures, and that can avoid subsequent, protracted court challenges.

### **FINAL WORDS**

Through politics and public policy, communities express their values and attempt to shape a future that reflects those values. There is no more powerful instrument for shaping the future than public schools. There are few, if any, clearer expressions of a community's values than the opportunities its education system affords, especially to its most disadvantaged members. Reforming how those opportunities are funded should command the widest possible attention, to assure that it is done wisely and well.

This report is an effort to provoke that thoughtful consideration.

*Carpe diem* -- seize the day!

APPENDIX 1

**TABLE 1: STUDENT NEEDS AND ACHIEVEMENT**

Group	% K-6 Pupils Eligible for Free/Reduced Price Lunches Fall 2001	% of Pupils Limited English Proficient Fall 2001	% Graduates Earning Regents Diplomas 2001-02	Annual Dropout Rate 2001-02	% of Students Meeting State Standards on Grade 4 Assessments ELA/Math 2002
<b>HIGH NEED</b>					
New York City	74.7%	13.7%	30.5%	11.2%	46%/52%
Large Cities	69.0%	8.0%	26.5%	5.3%	42%/47%
Urban/Suburban	51.9%	6.9%	44.9%	5.0%	57%/63%
Rural	32.4%	0.7%	54.1%	3.2%	60%/70%
<b>AVERAGE NEED</b>	16.1%	1.9%	63.3%	2.0%	72%/79%
<b>LOW NEED</b>	2.9%	2.3%	73.3%	1.1%	86%/91%
<b>TOTAL PUBLIC</b>	43.1%	6.8%	53.1%	5.7%	61%/68%

Source: New York State Education Department, *Report to the Governor and the Legislature on the Educational Status of the State's Schools*, July 2003

**TABLE 2: SCHOOL DISTRICT RESOURCES**

Group	% of Teachers Teaching out of Certification 2001-02	Teacher Turnover Fall 2000 to Fall 2001	Average Class Size 10 <sup>th</sup> Grade English 2000-01	Library Books Per Pupil 2001	Microcomputers Per 100 Students (Percent "New Generation") Fall 2001
<b>HIGH NEED</b>					
New York City	29.1%	22%	29	9.1	15.3 (83.4%) <sup>1</sup>
Large Cities	14.4% <sup>2</sup>	13%	24	13.7	20.8 (78.2%)
Urban/Suburban	6.1%	11%	21	17.0	23.9 (85.4%)
Rural	5.6%	11%	19	22.5	31.9 (88.7%)
<b>AVERAGE NEED</b>	3.9%	11%	21	19.1	25.3 (88.7%)
<b>LOW NEED</b>	3.5%	11%	21	21.9	25.9 (91.2%)
<b>TOTAL PUBLIC</b>	12.9%	15%	23	15.6	21.9 (87.0%)

Source: New York State Education Department, *Report to the Governor and the Legislature on the Educational Status of the State's Schools*, July 2003 and other NYSED data.

<sup>1</sup> Fall 2001 data unavailable for New York City, fall 2000 data used instead

<sup>2</sup> excludes data for Buffalo

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**NOTES**

<sup>1</sup> New York State Constitution, Article XI, section 1.

<sup>2</sup> Governor George E. Pataki (January 3, 2001). *Annual Message to the New York State Legislature*. Albany, NY.

<sup>3</sup> Speaker of the Assembly Sheldon Silver (June 25, 2002). *Statement By Speaker Sheldon Silver Regarding Appellate Court Decision On Campaign For Fiscal Equity Lawsuit*. Albany, NY.

<sup>4</sup> New York State Court of Appeals. *Campaign for Fiscal Equity, Inc. v. the State of New York State* (Slip Op. 15615 June 26, 2003), p. 54 (hereafter, CFE decision).

<sup>5</sup> The discussion in this section draws heavily from a paper prepared for the New York State Board of Regents: *An Exploratory Study of the Relationships Among Student Need, Expenditures, and Academic Performance*. September 2003. New York State Education Department Fiscal Analysis and Research Unit and State Aid Work Group. Albany, NY.

<sup>6</sup> William H. Clune (June 1993). *The Shift from Equity to Adequacy in School Finance*. Also published in *Educational Policy*, Volume 8, Number 376, 1994. Also, William Duncombe (February 2002). Center for Policy Research Working Paper Series, No. 44. *Estimating the Cost of an Adequate Education in New York*. Syracuse, NY.

<sup>7</sup> See New York State Board of Regents (September 2003): *An Exploratory Study of the Relationships Among Student Need, Expenditures, and Academic Performance*, *ibid.*

<sup>8</sup> James Traub. (January 2000) *New York Times Magazine*, "What No School Can Do."

<sup>9</sup> Helen F. Ladd and Janet S. Hansen, editors (2003). *Making Money Matter: Financing America's Schools*. National Research Council, Committee on Education Finance. Washington, DC.

<sup>10</sup> CFE decision, p. 34.

<sup>11</sup> NYSCOSS analysis of New York State Education Department *School District Fiscal Profiles, 2000-01*.

<sup>12</sup> The "Chambers Index" is an index of school costs developed for the National Center for Educational Statistics (NCES) by Jay G. Chambers, Senior Research Fellow at the American Institutes for Research. The index is described in a report for NCES entitled *Geographic Variations in Public Schools' Costs*, October, 1997.

<sup>13</sup> For example, see New York State Energy Research and Development Authority *Weekly Heating Fuel Price Report*, available at <http://www.nysesda.org/prices.html>

<sup>14</sup> See *A Huge Increase, But a Problematic Formula: Analysis of the Enacted 2000-01 State Budget*. New York State Council of School Superintendents: Albany, NY

<sup>15</sup> *Education Week* (January 2003). "Special Report: Quality Counts 2003: If I Can't Learn from You."

<sup>16</sup> In this discussion, "operating aid" is used to encompass both the traditional Operating Aid formula plus the various combinations of aids made in recent years to comprise "Consolidated Operating Aid," "Comprehensive Operating Aid" and so forth.

<sup>17</sup> New York State Education Department (December 2002). *Analysis of School Finances in New York State School Districts 2000-01*. Albany, NY

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<sup>18</sup> Office of the State Comptroller (November 2000). *A \$3.4 Billion Opportunity Missed: Despite Four Years of Large Increases, School Aid Formulas Still Don't Provide Equitable, Predictable or Efficient Funding*. Albany, NY. See page 21. Percent change for each NR/C category is the unweighted average change in aid for districts in that category.

<sup>19</sup> This discussion draws upon a paper developed by the New York State Education Department's State Aid Work Group, *Research Monograph: School District Responses to Building Aid Incentives* (April 2002). Albany, NY.

<sup>20</sup> CFE decision, p. 13

<sup>21</sup> CFE decision, p. 17

<sup>22</sup> Donald Boyd, et al. (March 2003). *Understanding Teacher Labor Markets: Implications for Equity*. Condition Report for the New York State Education Finance Research consortium. Albany, NY. Boyd and company stress that other school attributes also affect teacher labor markets.

<sup>23</sup> CFE decision, p. 51.

<sup>24</sup> James W. Guthrie and Richard Rothstein (1999). "Enabling 'Adequacy' to Achieve reality: Translating Adequacy Into State School Finance Distribution Arrangements", pp. 231, 232, in Helen F. Ladd, et al (editors), *Equity and Adequacy in Education Finance*. National Academy Press: Washington, DC.

<sup>25</sup> Michael A. Rebell (1998). "Fiscal Equity Litigation and the Democratic Imperative" in *Journal of Education Finance* 24 (Summer 1998), pp. 46, 47.