



A Solid Foundation

Foundation Formulas Built to Last



Building a Solid Foundation (Formula)

Governor Eliot Spitzer has proposed dramatic increases in state aid allocated through an overhaul of aid formulas. The effort is particularly courageous as the state has been without a working operating aid formula since 2000-01 and no new formula can satisfy every stakeholder.

The centerpiece of the Governor's school aid proposal is a "Foundation" formula for general purpose operating aid. It follows earlier recommendations advanced by the Statewide (formerly Mid-State) School Finance Consortium, the Campaign for Fiscal Equity, and the Board of Regents. In many respects, it reflects principles previously endorsed by statewide education groups.

While past major reform blueprints differed in detail, all followed the same general pattern: consolidating many current formulas, calculating a cost of education (adjusted for student needs and regional costs) and subtracting an expected local contribution. The difference between the total cost of education and the amount to be raised locally would then be provided by the state in the form of aid.

In constructing the Executive Budget school aid proposal, the Governor and his staff made numerous detailed choices, all of which affect the distribution of school aid. The most basic choices involve how to account for pupil needs, how to calculate regional costs, and how to establish a fair local contribution. While there is considerable convergence around the first two, the last provokes more debate.

School aid is again proving to be a major stumbling block to resolving a state budget, especially for the State Senate. Much of the controversy derives from that question of how to determine a reasonable local contribution toward education costs.

Both the Governor and Senate consider property values *and* resident income in computing how much local taxpayers should contribute. But their treatment of the two factors differs. The choices are pivotal: first because patterns in property and income growth have diverged sharply in some regions over the past decade; and, second, because this year's choices are likely to set a pattern for aid distribution for years to come.

We offer a rationale for a series of recommendations for improving the proposed Foundation formula – which together will make it a better starting point for school aid distribution for the years to come.

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The Governor's Foundation

The foundation formula proposed in the Executive Budget is calculated as follows:

$$\left[\begin{array}{l} \text{Standard Cost of} \\ \text{Education} \\ \times \text{Pupil Needs Index} \\ \times \text{Regional Cost Index} \end{array} \right] - \begin{array}{l} \text{Expected} \\ \text{Local} \\ \text{Contribution} \end{array} = \begin{array}{l} \text{State} \\ \text{Aid} \end{array}$$

- The **standard cost of education** is based upon the cost of educating an “average” student in schools that are performing well as measured by state test results.
- The **pupil needs index** employs both free and reduced price lunch (FRPL) and Census poverty data, plus a sparsity factor and limited English proficient pupils.
- The **regional cost index** is based on a State Education Department analysis of median salaries by region for 59 occupations other than teaching which require education similar to teaching.

Seventeen existing formulas would be replaced by this new formula. Every district would be assured at least a 3 percent aid increase for 2007-08 and a 12.55 percent increase by 2010-11.

The New Save-Harmless

Senate Education Committee Chair Stephen Saland has been a leader in faulting the Governor's Foundation Aid formula for consigning nearly half of all districts (304 out of 677) to receiving only the minimum 3 percent “save-harmless” increase. Districts with the minimum increase aren't necessarily wealthy; in fact, the opposite is more often true.

More than half of the districts projected to only receive the minimum increase (171) are average or high need districts, including some making an extraordinary tax effort. The typical average need district would receive more than 18 percent of its Foundation Aid through guaranteed minimum provisions. By 2010-11, 178 districts would have more than half of their aid due to save-harmless.

Recognizing that the new formula may lock-in general aid patterns for years to come, many of those average and high need districts for whom the new formula would not generate significant new aid have raised understandable concerns. Amending the formula to address this effect is a central topic of ongoing negotiations.

Expected Local Contribution: Aid Ratios vs. Tax Rates

The Governor followed the Regents model of calculating the local share with an “assumed” property tax rate of \$16 per \$1,000 of full value, adjusted by resident income, so that low income communities would have their expected local contribution adjusted downward and higher income communities would have that figure rise. The income adjustment is capped at both low and high ends, however.

In contrast, for the last several decades, New York has relied chiefly on wealth ratios to calculate local cost shares. The ratio of a district's property wealth and/or income per pupil to state averages is used to compute its local contribution.

Both methods are imperfect means of measuring a community's ability to pay. THE COUNCIL urged both the Regents and CFE to use an aid ratio rather than an assumed tax rate. CFE concurred, the Regents did not. Aid ratios tend to be less volatile, to avoid creating false expectations for actual tax rates, and to cause fewer losers relative to current formulas since, at one point in time, they did use aid ratios. In practice, disparities in property wealth and income tend to amplify each other in the Governor's approach, and to moderate one another in an aid ratio model.

The Senate Majority Proposal

To reduce the number of districts on save-harmless from 304 to 82, the Senate would give districts a choice of the two methods to compute how much local taxpayers should contribute – whichever generates the lowest local share (and thus the most aid) for the district.

However, the Senate also applies a new twist to the old aid ratios that makes the calculation especially helpful to above-average wealth districts. Districts with wealth per pupil of two to three times the state average would receive 20 to 30 percent more aid than what current law ratios would deliver.

Looking at the bottom-line, *low* need districts would see their increases in Foundation Aid rise from an average of 3.1 percent under the Governor's plan, to over 15 percent – *more than high or average need districts would enjoy*. Using the current law ratio without change would drop the average aid increase for low need districts to the 6 percent neighborhood – a level still double the Governor's proposal.

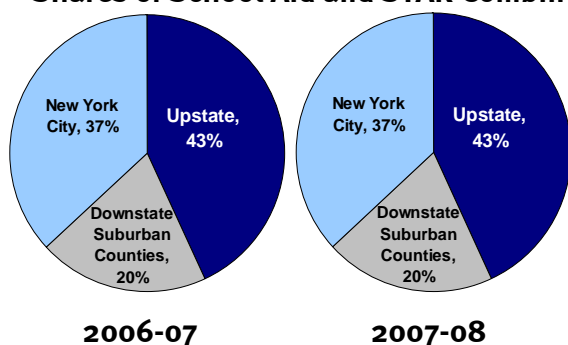
CATEGORY	PERCENT INCREASE IN FOUNDATION AID	
	GOVERNOR'S PROPOSAL	SENATE PROPOSAL
NEW YORK CITY	9.3%	9.3%
BIG 4	7.1%	7.5%
HIGH NEED SUBURBS/ SMALL CITY	10.1%	10.9%
HIGH NEED RURAL	8.2%	9.5%
ALL HIGH NEED	9.0%	9.4%
AVERAGE NEED	6.1%	8.6%
LOW NEED	3.2%	15.6%
STATE AVERAGE	7.9%	9.5%

Share Arguments

A second objection raised by some Senators is that the share of aid for Long Island districts would fall under the Governor's aid proposal, with Island districts receiving only 8 percent of the increase compared to 12.5 percent of the 2006-07 base. New York City, in contrast, would receive 46 percent of the Governor's proposed increase, expanding on its 38.6 percent share of the base. Under the Senate plan, Long Island would see its aid share rise, while the City's share would decline.

The Governor sought to forestall this debate by including STAR in the presentation of shares and noting that the regional shares of STAR and school aid taken together are unchanged under his proposal. The argument has merit - both STAR and school aid are state revenues which underwrite the cost of local education. However, STAR does not offset property taxes for businesses, a major source of the Island's property tax concerns.

Shares of School Aid and STAR Combined



Source: Governor's Budget Presentation, Jan. 31, 2007

Moreover, the distribution of STAR is far different from school aid. High need districts receive 66 percent of school aid and 43 percent of STAR. Low need districts receive 6 percent of school aid and 20 percent of STAR. School aid is a better means of driving assistance to high need schools.

Regional share battles put statewide organizations in a difficult position because of the dynamic they create – for one region to gain, others must lose. They are a blunt instrument, and as such, undermine examination of the legitimate needs of individual districts. They virtually assure that a simple test of equity is *not* met: are districts with similar characteristics treated similarly? A fixation on shares has resulted in *dis*-similar treatment of similar districts that happen to be located in different regions.

Economic Arguments – The Long Island Example

Long Island has an economic argument more compelling than shares. The common image of affluent suburban enclaves was never a complete picture and is less and less accurate now.

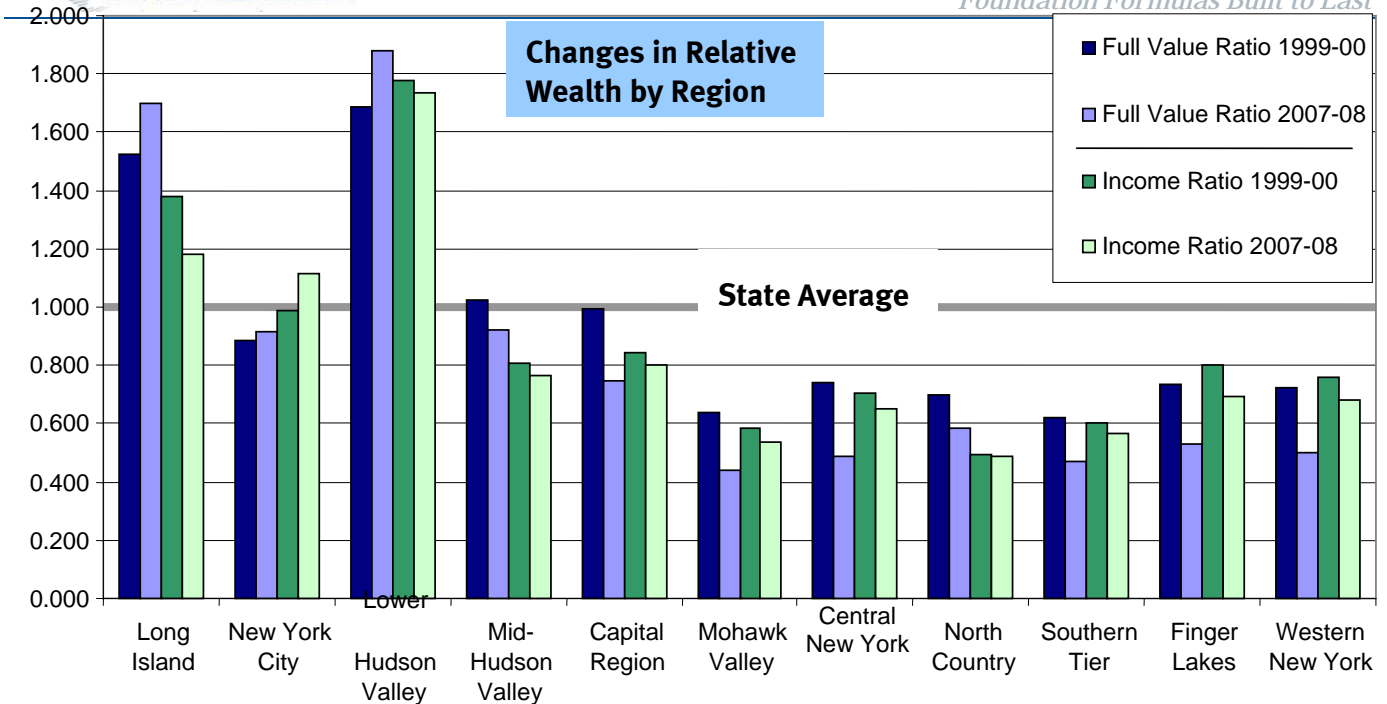
Property values and resident incomes on Long Island have diverged sharply over the past decade. Long Island's growth in full value property wealth as measured by the state led all regions between 1996 and 2004. In stark contrast, resident incomes lost ground relative to the statewide average. Now, no other region has nearly so wide a disparity between its relative property wealth and its resident incomes.

By 2004, Long Island's adjusted gross income per pupil had dropped to 18 percent above the state average (compared to 13 percent for New York City and 73 percent for the northern suburban counties). Factoring in the Island's high cost of living, the purchasing power of its residents probably now falls below the state average (see chart below).

Moreover, this discussion of averages hides another trend – increasing wealth disparities between districts on Long Island. For example, more than half the students in Suffolk County are now educated in districts with Combined Wealth Ratios (income *and* property) *below* the state average. (*Innovate Long Island: Report of the Subcommittee on K-12 Costs and Outcomes*, Aug. 2006.)

Because the economic argument is a better diagnosis, it could lead to better interventions.

The shares argument leads to efforts (such as the Senate's) which would inflate Long Island's share by directing aid to low need districts. An economic argument could drive aid to Long Island by focusing on districts where local ability to pay has most eroded over the last decade while school aid was on autopilot.



Source: Council analysis of NYS Education Department school aid data

Building a Better Foundation

More than \$1 billion is required to move the 304 districts from what the pure Foundation Aid formula would generate up to 2006-07 levels plus 3 percent. The promise of 3 percent increases for four years might exceed previous expectations of some wealthy districts – it is more generous than what was proposed by either the Regents or CFE. But more than 60 percent of the save-harmless funds would go to average or high need districts.

This is troubling. For these districts, even dramatic pupil growth or wealth declines would not generate new aid – it would only make them less dependent on save-harmless funding.

It is not in the state's interest to have such reliance on save-harmless – particularly for average and high need districts. It is not correlated well with need, and it increases the temptation to enact one-year fixes for districts with unusual circumstances.

Improving the Foundation Formula

1. Remove the low end cap on the income adjustment in the Governor's expected tax rate calculation. This would help the very poorest districts in the state.

2. Provide an aid ratio as a choice for calculating local fiscal capacity. However, we would disagree with the Senate's adjustment which favors districts with two to three times the state average wealth.
3. Pull Small Cities Aid out from the consolidated formula. The consolidation of this aid has essentially eroded the value of any increase many of these cities would receive.
4. Provide supplemental aid for districts that would see significant losses due to the Governor's proposed consolidation of special education aids into the Foundation formula.

Conclusion – Built to Last

There is a compelling argument for acting now to address the needs of high and average need districts where the Governor's proposed Foundation formula does not generate new aid. By fixing the formula now, lawmakers eliminate one motivation for either fundamentally restructuring the model or for subjecting it to perennial tinkering. This would ensure a fairer distribution of resources for schoolchildren and make the State a more reliable partner for local taxpayers and leaders in funding education for years to come.