



Financing Public Education In New York State *Restoring a Functional State Aid System*

Why is funding public education important in today's world?

The investment in our citizens to become productive members of society is the single most powerful tool to ensure a prosperous future for our state. Globalization makes this investment even more crucial. The notion of a "global village" has come to fruition in the digital age but many high school and college graduates are not prepared for many highly technical jobs that await them.

Our markets are connected globally and our students are competing globally for jobs. The ability to move jobs around the world only serves to reinforce the reality that we operate in a global economic market. It is imperative that our public education system prepare young people for the economy they will face when they graduate. New York State cannot afford to fail to prepare our students for success in college and careers.

But the capacity of our schools to deliver the education our students need has been undermined by a prolonged era of harsh financial challenges.

The major statewide educational organizations representing school boards, parents, superintendents, teachers, principals, business officials and other educators have joined together to issue this statement outlining the challenges districts have been managing, identifying principles for school finance reform, and making recommendations for education funding for the coming year and beyond.

2014-15 Aid Request

The Educational Conference Board requests a minimum of \$1.5 billion in additional formula state aid, to maintain current education programs for the 2014-15 school year. This figure reflects moderate assumptions about cost increases necessary to maintain current educational programs and limitations imposed by the tax cap on the ability to raise local revenue.

This \$1.5 billion would be largely used to reduce the Gap Elimination Adjustment and provide Foundation aid increases along with the expected increases in expense-based aid formulas (Building, BOCES, Special Education, and Transportation).

The Educational Conference Board also requests additional investments in two areas critical to preparing all students to be college and career ready: professional development to implement shifts required by the common core and the expansion of Universal Pre-k both of which should be funded in addition to the aid needed to maintain current education programs.

The Great Recession and State Support for Schools

The past five years have been an unprecedented period in state funding for schools and is noteworthy for the magnitude of state aid reductions, loss of educational programs and the creation of a tax cap. Total formula state aid to public school districts for 2013-14 is still below 2008-09 levels. This reduction was broad based and affected all school districts. Almost 75 percent of school districts are scheduled to receive less in state aid in 2013-14 than they received in 2008-09. Further, without the infusion of Federal "stimulus" funds, these reductions would have been much worse. While the state did provide aid increases in 2012-13 and 2013-14, these increases fall well short of offsetting the reductions for most districts.

Districts have also faced this reduction in state aid during a period of significant cost increases in employee benefits, especially pension payments. In 2008-09 districts paid 7.63 percent of employee salary to the Teachers' Retirement System (TRS); by 2013-14 that contribution rate had increased to 16.25 percent of salary. School districts have also encountered substantial new costs associated with the Regents Reform Agenda and the paucity of support through the federal Race To The Top program. Districts have significantly curtailed spending growth even though cost structures have risen during the "Great Recession."

The imposition of the tax cap has significantly impaired the ability of school districts to increase local revenues and this impact has been felt most acutely by low fiscal capacity districts. In the first two years of the tax cap, few districts attempted to override their local tax levy limit, and even fewer succeeded. In the 2013-14 school budget cycle only 28 districts statewide attempted an override of their cap out of 676 districts which held budget votes. This year only ten (seven on the first attempt and three on the second attempt) of those 28 districts obtained the needed 60 percent voter supermajority to increase the levy beyond their tax levy limit.

School Finance Principles

To guide the discussion of any new formula structure, the Educational Conference Board has adopted the following principles.

Adequacy – The state must assure that all school districts have the resources needed to provide their schoolchildren with the opportunity to succeed with the Common Core Learning Standards.

- The resources needed for a sound basic education should be based on helping all students satisfy the Common Core Learning Standards and graduation requirements.
- The Education Department and Board of Regents should conduct a cost study to determine the Foundation Amount and update it at regular intervals. In between studies, the state should increase basic funding by at least the increase in the cost of living.

Equity – The state's school finance system must offset variations in communities' ability to pay for education from local sources, so that all districts can give their schoolchildren the chance to obtain proficiency on the Common Core Learning Standards without overburdening local taxpayers.

- The ability of a community to pay for education from local revenues includes local fiscal capacity and regional costs.
- The state should adjust basic funding by student need including poverty, limited English proficiency, geographic sparsity and disability status so that school districts have the resources to give all students the extra time and help they need to meet the Common Core Learning Standards.

Stability – Schools need more stability and predictability in funding in order to plan more effectively.

- State aid should be distributed through consistent, uniformly applied formulas with built in annual adjustments for cost-based factors that are not subject to annual manipulation.

Flexibility – Reforms should assure that districts have sufficient general purpose aid to help fund the resources needed to deliver the opportunity to meet the Common Core Learning Standards.

- The state should focus its financial efforts in broad based formula allocations rather than in restricted competitive grants.
- The state should support a strong state-local partnership in education, avoiding substituting its judgment in setting funding priorities for that of local leaders and communities who best know the strengths and weaknesses of their district schools.

Simplicity – Making school finance simpler and easier to understand would enhance public support by allowing the public to hold state officials more accountable for the choices they make in funding schools.

- Factors applied in state aid calculations should be self-evident, so that they can be understood, evaluated, and debated by the general public.
- A simpler system would be easier for school and state officials to administer, reducing costs and averting the occurrence of unwelcome surprises to district and state budgets.

2014-15 State Aid

The Educational Conference Board estimates that school districts will need to increase spending by \$2.2 billion (3.7 percent) just to maintain current programs. This ECB estimate is based on an estimated total spending figure for the 2013-14 school year of \$60.7 billion. An approximate 3.7 percent increase in spending in 2014-15 is generated based on three major components.

- First, employee salaries are expected to increase by 2.6 percent for 2014 consistent with the estimated growth in education salaries based on the Sibson Annual Compensation Planning Analysis (the leading independent benefits, compensation and human resource consultancy) as published by the Society for Human Resource Management.
- Employee benefit costs are expected to rise by 8 percent consistent with the projected increase in the Teachers' Retirement System employer contribution rate.
- Third, the State Financial Plan forecasts a 1.8 percent growth in C.P.I. in the upcoming year and this increase is applied to all other school district costs.

This 3.7 percent increase would raise total spending to \$62.9 billion – an approximate \$2.2 billion increase.

The average allowable tax cap is expected to be significantly lower for 2014-15 for school districts due to lower inflation figures and the lack of an exemption from the cap for certain TRS costs. This will restrict most school districts' ability to maintain existing program levels without additional state aid. Due to the limitations imposed by the property tax cap the state must provide a state aid increase that ensures that school districts are able to maintain programs after five years of cuts and freezes. The ECB believes asking the state to pay for at least two-thirds of the \$2.2 billion increase in costs with a \$1.5 billion increase in formula school aid for the 2014-15 school year is a reasonable request. The ECB believes the state should also provide additional funding for expanded Universal Pre-k, and professional development activities beyond the \$1.5 billion formula school aid increase.

The Gap Elimination Adjustment (GEA) was enacted in the 2010-11 school year as the state faced significant deficits. There remains more than \$1.6 billion in GEA reductions which are deducted from total funding generated by state aid formulas and unpaid to school districts. The ECB recommends the state prioritize the use of aid to phase out the Gap Elimination Adjustment as rapidly as possible, while assuring adequate Foundation Aid increases for districts (especially Big 5 City districts) with lower remaining GEAs.

The state should fund the elimination of the GEA over the next two years with a priority on high need and low fiscal capacity districts. Consistent with the recommendation by the Board of Regents we encourage the state to use a system whereby a district which has had its GEA eliminated would automatically receive any additional state aid generated as a Foundation Aid increase.

Further, in recognition of school districts' efforts to stabilize their education program, the state should not offer any additional competitive funding programs until the GEA is completely eliminated. Schools districts need predictable, recurring operating funds to support their instructional program. Competitive grants do not provide long term ongoing financial support and recent competitive grant programs have been undersubscribed.

ECB recommends a portion of the \$1.5 billion requested increase be used to pay for "expense-based" formula growth in Building aid, Transportation aid, BOCES aid, and special education aids. These formulas reimburse districts for specific "approved" expenditures from the previous year. Current data indicates that \$280 million is needed to finance the growth in these expense-based formulas in 2014-15.

In 2011, the state enacted a cap on school aid growth in relation to the annual percentage change in total personal income of state taxpayers. This cap is an artificial impediment, obstructing the state in fulfilling its constitutional

obligation to assure every child has the opportunity for a sound basic education. Further, the method by which the change in state personal income is calculated is volatile and uses estimated rather than actual changes in personal income. We applaud the state for providing an increase in state aid for 2013-14 in excess of \$930 million which exceeded the calculated "allowable" increase in aid. Investment in education will do more to stimulate our economy for the near and long-term future than will tax relief or other investments.

The individual ECB members each have specific "mandate relief" proposals for 2014-15. We all reaffirm that school districts need to operate in an efficient and streamlined fashion. It should be noted that districts have shed more than 30,000 staff members since 2009 in response to reduced funding.

Longer Term Finance Issues

While short term challenges are significant, there are significant longer term issues which also need to be addressed. In the wake of the Campaign for Fiscal Equity lawsuit the Foundation Aid formula was enacted in 2007 as the primary financing mechanism in state aid for schools. More than 75 percent of all formula state aid is paid to school districts with this one formula.

The Foundation Aid formula represented a valuable policy accomplishment but the implementation of fully phasing-in the formula stalled beginning in 2009. Originally this formula was designed to be phased-in over four years and a new costing out study would then be performed to update the level of funding. However, five years after this initial freeze in funding the state is no closer to fully funding the Foundation aid formula than it was in 2007 when it was enacted.

While schools would prefer a multi-year scheduled increase in funding, school districts have not had *even one scheduled increase in operating aids since 2009* when the enacted State Budget "froze" the Foundation Aid level for all school districts. New York is unusual in not having had a functioning operating aid formula for schools for many years.

For almost all of the past twenty years New York State has not had an operating aid formula without artificial limits on allowable increases, or reductions in aid such as the GEA. These artificial caps have taken many forms over the years -- be it the "Transition Adjustment" of the 1990's, "Flex Aid" from ten years ago, or the Gap Elimination Adjustment of recent years. New York State has essentially not had an unencumbered operating aid formula since the early 1990s. This has led to a series of State aid "patches" included in most State Budgets that provide modest operating aid increases in a happenstance manner without a focus on larger structural education finance issues and the need for school districts to pursue long-term programmatic changes, such as preparing all students to be college and career ready.

The Educational Conference Board calls for the creation of a new Foundation aid formula which builds on the strengths of the 2007 Foundation Aid formula while being mindful of some its shortcomings.

Eclipsed by the economic hardships of recent years, the Foundation Aid formula enacted in 2007 is an underappreciated achievement in public policy. It generally targeted the greatest aid increases to the neediest districts, while also promising all districts predictable increases in state funding. It also increased the state's accountability for school funding decisions, by prescribing in law a detailed phase-in schedule and by using factors which could be understood and debated. The Foundation aid formula made the important public policy connection between school finance and student learning by calculating an aid amount per student which estimated the dollars needed to provide the opportunity for a sound basic education in each school district. To achieve that goal, Foundation aid directly accounted for the needs of pupils, as well as school district fiscal capacity and the various regional costs districts face in educating their students.

In determining the state and local share of the Foundation Aid per pupil the use of a selected state sharing ratio has resulted in a more stable structure than the originally proposed "expected local contribution". The "expected local contribution" was based on absolute property value of a community rather than traditional wealth measurements which use a relative measure of school district wealth compared to state averages. In a strong real estate market the Foundation aid per child substantially declined for many districts due to the use of the absolute property wealth measurement system in the "expected local contribution" calculation even though true ability-to-pay of a community had not changed. Any new operating aid formula should use stable measures of wealth and student needs which do not subject districts to significant swings in state aid based upon modest changes in underlying wealth and pupil need data.

The 2007 Foundation Formula helped school districts with an accurate depiction of pupil need. English language learners, students from poverty and geographic sparsity, and students with disabilities were all represented in the formula to reflect the added costs of educating these students. ECB recommends that the state continue to include pupil weightings in school district operating aid, at least at the level of the 2007 weightings.

In conclusion, as the State emerges from the Great Recession and the economy strengthens, New York State should restore its education system with finance that is adequate, equitable, stable, flexible and simple enough to be debated by the general public. Schools are eager to provide good education so that all students graduate college and career ready and able to meet the demands of the global economy. Enacting the Education Conference Board's recommendations will be a positive first step in restoring proper financial support for New York's public education system.