New York's Students Need a Foundation for Success and Opportunity

A $2.0 billion state aid increase for 2017-18, renewed focus on Foundation Aid are needed

As global competition increased and our economy changed over the last decade, New York State and its schools have made improving education a priority. Progress has been real, even when not as rapid as desired. Statewide academic proficiency levels and graduation rates are on the rise. Greater gains are sought, but are also challenged by the lack of a functioning state operating aid formula that fosters stability and long-term planning. A restrictive tax cap that fluctuates with inflation also threatens school programs. Yet, as the economy recovered from the fiscal crisis, New York State deserves credit for making education a priority in recent budgets. As the 2017-18 state budget process approaches, the focus remains on improving education and adequate state funding is required for schools to meet student needs and keep making progress.

The New York State Educational Conference Board (ECB) – comprised of six leading educational organizations representing parents, classroom teachers, school-related professionals, building administrators, superintendents and school boards – is issuing this set of recommendations designed to ensure that schools are able to better meet student needs in 2017-18 and into the future. The recommendations would enable schools to continue current programs next year and address a series of targeted priorities. ECB also calls for a concerted effort to finally realize the promise of the stalled Foundation Aid formula, so that all students can receive the education promised to them by the state Constitution. This paper's recommendations would also provide a degree of stability that is currently missing from the state's tax cap formula.

Educational Conference Board School Finance Recommendations

1. **Provide a $2.0 billion state aid increase for 2017-18**
   - $1.5 billion to continue current school services, driven in part by a tax cap growth factor projected to be approximately 1.1 percent that will limit local revenue
   - $500 million to address priorities such as supporting struggling schools and college and career pathways
2. **Renew the commitment to a Foundation Aid formula, based on adequacy, equity, predictability, flexibility, and transparency**
   - Conduct a new cost study to determine the amount needed to prepare students for future success based on all current factors
   - Revisit the formula weightings for poverty, disability, enrollment growth, English language learners, geographic sparsity and other factors
   - Fully phase-in Foundation Aid – providing the $3.8 billion currently owed to schools – within three years
3. **Address issues with the property tax cap**
   - Provide for a stable 2 percent "allowable levy growth factor" rather than the volatility of CPI
   - Implement the BOCES capital cost exclusion and include properties under PILOT agreements in the tax base growth factor

Preserve Current Services for 2017-18

The state aid increases of recent years have enabled many districts to maintain programs and address critical needs and priority areas, including social and emotional support for students and instruction for English language learners. Given that school programs have not yet returned to pre-recession levels for all districts, it is critical that schools at least have the funding to continue current programs and services next year. Based on industry-specific estimates and broader economic trend data, ECB estimates that total school spending will need to increase by $1.7 billion, or 2.6 percent, to maintain all current services. This is based on the following:

- A 2.75 percent increase in employee salaries, which reflects a national forecast for 2017 from the Society for Human Resources

Management and a projection for private sector wage increases in 2017 from the Congressional Budget Office, adjusted for turnover savings that are driven by staff retirements each year;

- A 6.7 percent increase in health insurance costs, in line with projections for the state workforce from the Division of Budget's most recent State Financial Plan Update;
- A decrease in pension contributions, based on the recent announcement that the contribution rate for the Teachers Retirement System (TRS) would be in the range of 9.5 percent to 10.5 percent, down from the current rate of 11.72 percent;
- An across-the-board 2.2 percent inflationary measure applied to all other school costs, based on the Consumer Price Index (CPI) projected for the coming year by the Division of Budget.

While funding education remains a state-local partnership, the tax cap has changed this dynamic. Often referred to as a "2 percent cap," the law imposes a multi-part calculation to determine a tax levy limit for each district. A pivotal step in the formula is the application of an "allowable levy growth factor," which is equal to the change in the Consumer Price Index or 2 percent, whichever is less. Based on CPI data for the first ten months of 2016, the allowable levy growth factor is projected to be 1.14 percent next year. This will significantly limit the amount that school districts can raise to continue programs.

ECB again calls on the state to make up the difference, as was recommended for the current year when the allowable levy growth factor was near zero at 0.12 percent. If current tax levies were to grow by 1.1 percent, school districts would be able to raise an additional $200 million statewide next year. Thus, a $1.5 billion state aid increase is needed solely to allow schools to continue current services. Further, all districts must receive state aid that helps them cover increased operating costs. Assumed in the $1.5 billion is full state funding for expense-based aids, such as transportation and BOCES, estimated at $331 million.

ECB also calls for the Executive Budget Proposal to be accompanied by proposed formulas and complete "state aid runs" so that school districts have the information needed to make thoughtful decisions as they begin their own budget planning processes.

Schools are Owed
$3.8 Billion in Foundation Aid

74% to High-Need Districts

* New York City, Big 4 Cities, High Need Small Cities and Suburbs, and High Need Rural Districts

Source: 2015-16 Enacted State Budget School Aid Database

Foundation Aid: A Decade Later, an Opportunity to Get Back on Track

The Foundation Aid formula enacted in 2007 was designed to ensure that every student in New York has access to an education that prepares them for the future, based on the promise of a sound basic education in the state Constitution. The formula resulted from a study of the cost per pupil in successful schools and adjusted for both student needs and local fiscal capacity, among other factors. Schools were to see their Foundation Aid amount phased in over a four-year period. The promise of having sustained, adequate funding tied to local fiscal capacity and student needs was welcome news for the state's schools and their efforts to raise student achievement. However, two years after the phase-in began, the Great Recession occurred. The formula was frozen and school aid was further reduced by the Gap Elimination Adjustment (GEA).

As the state pulled out of the recession, paying down the GEA became a priority in school funding increases. As a result, Foundation Aid remains significantly underfunded today, a decade after it was first enacted. Schools are owed about $3.8 billion in Foundation Aid based on the formula that is part of state law. Now that the GEA has been eliminated, the state should return its attention to a functioning school operating aid formula that delivers on the promise of the 2007 reforms. To guide the conversation about the future of Foundation Aid, ECB members have developed a series of "School Finance Principles" (outlined on the next page) and some specific recommendations to get the effort back on track.

Foundation Aid Recommendations for 2017

The 2007 Foundation Aid Formula was based on a study of costs at that time, an analysis of student needs and measurements of many factors impacting school budgets. The premise of the formula is solid, yet much has changed in the last decade, including: learning standards; research into the impact of poverty on learning; services for English language learners, including new requirements; and the economy that students must compete in when they leave school. ECB recommends the following actions to help refocus on having a functioning school Foundation Aid formula:

- Conduct a new study to determine the actual cost of providing each student with an opportunity for success and preparation for the future based on all current conditions and regulations;
- Revisit the weightings in the formula that are assigned to poverty, disabilities, English language learners, enrollment growth and geographic sparsity in particular; and
- Commit to a concrete timeline for the full phase-in of Foundation Aid. At a minimum, the $3.8 billion that is currently owed should be phased in over the next three years.

Fund Improvement Initiatives and Needs

Beyond the operating aid increase, additional targeted state funding totaling $500 million is recommended to address immediate needs in New York's schools and further educational initiatives. Although the state's approach to each of these areas warrants continued debate, ECB fully supports efforts to make these areas a priority. Additional funding is recommended for the following:

(1) Sufficient support for "struggling" schools: Schools designated by the state as "struggling" are among those with the greatest student needs and inadequate resources to meet those needs. Providing them with an injection of funding to expand educational, student health and family services should remain a top priority. However, this should not be a punitive process. Schools should not face the threat of receivership under stringent deadlines and the potential loss of funding when turnaround efforts do yield success. They need reasonable timelines and all promised funding so improvement efforts can take hold and be sustained. Any schools designated as struggling in the future should also benefit from additional funding in this manner.

(2) Meeting the needs of English language learners: New York's schools serve more than 210,000 students for whom English is not their first language, and some districts continue to have an influx of unaccompanied minors. The success of these students is critical to their communities and the state. Investing in the necessary services today is the best way to help them achieve proficiency and limit the cost of interventions later. A fully-funded Foundation Aid formula that accounts for the cost of educating English language learners is critical to accomplishing this. However, the number of students and the magnitude of needs can be difficult to anticipate. Additional funding is needed to ensure schools can provide essential services in this area.

(3) Expanding access to college and career pathways to help students, business and industry: For many students, new pathways to graduation, college and careers – namely through career and technical education – represent the most promising avenues to success in school and life. The outdated caps on BOCES salaries and Special Services aids are an impediment to the success of young people and businesses that need more skilled workers to survive and grow in our state.

(4) Expanding prekindergarten access: A series of disparate streams of funding support prekindergarten education for three- and four-year olds in New York. ECB members believe that as part of expanding access, the state should consolidate these into a single funding approach. Consideration should also be given to providing aid for prekindergarten transportation.

ECB School Finance Principles

Educational Conference Board members reaffirm their support for a school operating aid formula that functions as intended each year based on the following principles:

Adequacy: The state must assure that all school districts have the resources needed to provide students with the opportunity to be successful – in an era when success is defined by rigorous learning standards and becoming college- and career- ready.

Equity: The state's school finance system must assure fairness for all schools and students by appropriately accounting for differences in pertinent characteristics, including local fiscal capacity, regional cost differences, geographic sparsity and pupil needs related to poverty, disability, and language status. All students must have access to an education that prepares them for the future, regardless of where they live.

Predictability: In order to plan and effectively implement improvement efforts, schools need to be able to count on a recurring and stable source of operating aid. Formulas should be applied uniformly, each year, so that schools can develop budgets with the confidence that they can be sustained.

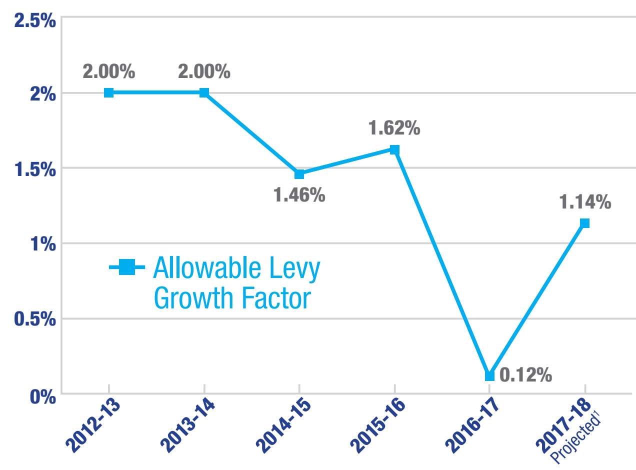
Flexibility: Districts should have sufficient general purpose operating aid so that they can make decisions about where to make educational investments. The state should be cautious in substituting its judgment for that of local leaders and community members who best know the strengths and needs of their schools. Funding should be allocated through universally-applied formulas rather than competitive grants that benefit only students in specific districts or mechanisms like the community schools set-aside, which restrict resources that could potentially be used for more productive purposes

Transparency: A system that simplifies school finance would allow local school districts to engage their communities in a logical and thoughtful dialogue about school funding priorities. A system that is more widely understood and debated would allow citizens to hold school leaders and state leaders accountable. A more transparent system would be more efficient to administer.

(5) Teacher support and training: As learning standards are again revised, leaders should be commended for their desire to take a thoughtful, inclusive approach. Dedicated funding is essential to providing educators with the time, training and resources to successfully incorporate revised standards into their classrooms.

(6) Assist districts with growing enrollments: More than a third of the state's districts have experienced some level of enrollment growth in the last three years, but the stalled Foundation Aid formula has not adjusted aid for increased enrollment since 2008-09. Some of this growth has occurred in districts with already high levels of student need, further stretching limited resources. Until there is a functioning Foundation Aid formula, targeted funding should be provided to help districts experiencing enrollment increases meet the needs of all of the children they serve.

Using CPI in the Tax Cap Formula is Too Volatile



[1] Change in Consumer Price Index, Monthly average for Jan.-Oct. 2015 vs. Jan.-Oct. 2016

Source: Office of the New York State Comptroller, U.S. Department of Labor, Bureau of Labor Statistics

Make Payments for Prior Year Aid Claims

The state owes public school districts a total of $321 million for prior year aid claims that have already been approved by the State Education Department. The majority of these funds are due to districts with low wealth and high student needs, and some of the claims date back several years. The state should address this backlog and provide schools with the money they are owed using funds from financial settlements, just as it provided $250 million for non-public schools in 2015.

Necessary Tax Cap Reforms

The fact that the allowable levy growth factor in the tax cap formula is likely to again be well below 2 percent reinforces the problem with using CPI in the formula. School districts have little ability to tailor costs to an inflationary factor that measures economic activity of the past. They must make solid plans for the year ahead based on students and their needs. ECB calls on state leaders to amend the tax cap formula by replacing the volatility of CPI with a stable allowable levy growth factor of 2 percent.

ECB also calls on lawmakers to take action to ensure the implementation of two tax cap changes the Legislature approved almost a year and a half ago, but have not yet been actualized in regulation. These are excluding local capital expenses for BOCES instructional improvements from the tax cap and including properties covered by payments-in-lieu-of-taxes (PILOTs) in the formula's tax base growth factor. Discretion to implement the changes was left to the Department of Taxation and Finance, which has not acted. These are reasonable changes. Failure to act is hampering investment in BOCES instructional spaces, which unfairly affects a segment of New York's students. The lack of action on the PILOT change is preventing districts from recognizing revenue from new construction, which may create new costs for schools.

Along with the three changes referenced above, ECB renews its call for a series of tax cap reforms that it outlined in February 2016. These included addressing instances of negative tax caps, which affected a record high 86 districts last year, and doing away with the zero percent contingent budget cap that only applies to schools. The full list of tax cap recommendations can be found at http://tinyurl.com/ECBtaxcap2015.

Conclusion

Schools continue to face significant challenges – and opportunities. State funding in recent years has helped districts restore critical services that were lost to the recession and begin to realign their budgets with the areas of greatest need and highest priority. Yet, more must be done. From higher learning standards to new pathways to early interventions, the priorities are clear – and they are the right ones. Achieving them requires a stable school funding system that recognizes real student needs. The recommendations in this paper represent the path forward in the effort to ensure that school is a place where all students can build a foundation for success and opportunity – for them and our state.

The New York State Educational Conference Board is comprised of the Conference of Big 5 School Districts; New York State Council of School Superintendents; New York State PTA; New York State School Boards Association; New York State United Teachers; and the School Administrators Association of New York State.