REPORT on the Development and Adoption of the 2007 Foundation Aid Formula

Frank J. Mauro

In the Case of Maisto et al. v
State of New York

Prepared by

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PURPOSE OF THIS REPORT

In this Report, I will present my analysis, based on my direct experience, of whether the Foundation Aid Formula proposed by Governor Elliott Spitzer and enacted by the Legislature in Chapter 57 of the Laws of 2007 was developed and designed to address the requirements for funding a sound basic education in all school districts, as established by the CFE rulings.

In January 2007, Governor Eliot Spitzer proposed a comprehensive solution to the Court of Appeals' decision in Campaign for Fiscal Equity v. State of New York, 8 N.Y. 3d 14. The Court's order in that case had applied only to New York City's pubic schools, but Governor Spitzer, like his predecessor, Governor George Pataki, sought a solution that would apply equally to all the state's school districts and all the state's children. While Governor Pataki and the Legislature had not been able to reach an agreement on a solution to the CFE decision, Governor Spitzer's January 2007 proposal was overwhelmingly agreed to by the Legislature with only minor changes.

In proposing the 2007-2008 New York State Executive Budget along with the "Education, Labor And Family Assistance" Article VII bill (S.2107/A.4307) and the 2007-2008 "Education, Labor And Family Assistance Budget" appropriations bill (S.2103/A.4303), Governor Spitzer proposed a well-designed foundation formula approach to reforming the funding of elementary and secondary education in New York State. With only minor changes, the Article VII bill as proposed by Governor Spitzer was enacted into law as Chapter 57 of the Laws of 2007 and established the foundation formula approach that is now codified as N.Y. EDUC. LAW § 3602.

The Senate and Assembly both passed the same amended version of S.2107 on April 1, 2007, with overwhelming majorities in both houses in support of the legislation, and Governor Spitzer signed the bill into law on April 9, 2007.

In this report, I discuss my experience and work on public school funding in New York State from the 1980s through December 2013 including my work on foundation aid proposals from the late 1990s through 2006 and my participation in a technical working group that was convened as part of the 2006 gubernatorial transition process to assist the incoming Spitzer administration in the development of a foundation formula to fund a sound basic education. At that time I was the Executive Director of the Fiscal Policy Institute (FPI) and together with one of FPI's staff economists, Trudi Renwick, I represented the Campaign for Fiscal Equity (CFE) and the Alliance for Quality Education (AQE) at the meetings of this working group

Based on my experience and my participation in the Spitzer transition's technical working group, I conclude that the Foundation Aid Formula, enacted in 2007, was based on elements carefully developed to provide funding to all school districts for a sound basic education, including children in high need districts such as the Maisto et al. v State of New York plaintiffs' districts.

Specifically, under the Foundation Formula, each school district's resource requirements would be determined on the basis of (a) the basic education costs in the lower spending half of the state's successful school districts, (b) adjustments for geographic cost differences, and (c) adjustments for educational need factors including students at risk due to poverty, limited English proficiency, and special education needs. The enacted Foundation Formula also provided a reasonable and realistic plan for taking each district's "ability to pay" into consideration in determining how responsibility for providing those resources would be divided between the state and each local district.

REPORT

A. Background: 1980s through CFE Proceedings

1. Since September 1969, I have served in a number of positions in state and local government in New York state and in the non-profit sector that have given me the opportunity to observe and participate in the policy making process and to apply and develop my research and analysis skills. Most of my work has involved quantitative analysis of tax and budget issues.
2. My involvement in school finance issues was heaviest during the mid-1980s and since the mid-1990s. From November 1983 to January 1987, I was the Secretary (staff director) of the New York State Assembly Ways and Means Committee. In that capacity, I was in charge of analyzing the Governor's annual budget proposals including his school aid proposals for the Assembly Majority. During this time period, among other things, I also oversaw the analysis of numerous school finance issues and I was a lead negotiator for the Assembly on the state aid to education budget.
3. From February 1993, until December 2013, I was the Executive Director of the Fiscal Policy Institute, a nonprofit research and education organization that studies matters related to state and local finances. While at the Fiscal Policy Institute, I completed

numerous analyses of school finance issues for the Campaign for Fiscal Equity (CFE) , which brought the CFE lawsuit, and the Alliance for Quality Education (AQE), which advocates for school funding.

4. In the late 1990s, for example, I worked with colleagues at the Fiscal Policy Institute to develop a "foundation formula" school funding plan that could be used to implement the Campaign for Fiscal Equity's "Statewide Fair Funding Principles for a Sound Basic Education" in an economical, efficient and effective manner. This work resulted in a report entitled "An Agenda for a Better New York: Funding a Sound Basic Education for All New York's Children" http://fiscalpolicy.org/wp-content/uploads/2012/03/Newcfe.pdf that we presented at public events in January 1999 in Albany and Syracuse, at which school finance experts commented on our proposals. This report served as the basis of school finance reform plans that we developed in later years with the Campaign for Fiscal Equity (CFE).
5. This work accelerated in June 2003 when the Court of Appeals ruled in favor of CFE and ordered the state to reform its school funding system to ensure that all schools would have the resources necessary to provide all their students with the opportunity for a "sound basic education," which it defined as a "meaningful high school education." The Court of Appeals gave the state until July 30, 2004 to "ascertain the actual cost of providing a sound basic education," to design a plan for funding such a plan in New York City, and to implement a system of accountability that will ensure the reforms actually provide the opportunity for a sound basic education.
6. To complete such a "costing out" in a comprehensive manner, CFE and the NYS School Boards Association organized a New York State Council on Costing Out which

commissioned an independent panel of national experts to complete "a one-year, cutting-edge costing-out study that will determine the actual amount of funding needed in each school district to provide an adequate education to all students throughout the state."[1] This study was funded by grants from several major national foundations and was led by experts from the American Institutes for Research (AIR) and Management Analysis & Planning, Inc. (MAP). These two firms had served, respectively, as the experts for the plaintiffs and the experts for the defendants during the trial phase of the CFE litigation. The report produced by this project was referred to in subsequent documents in the CFE litigation as the AIR/MAP report. Simultaneously, the Pataki Administration created a commission chaired by Frank Zarb to advise it on the development of a remedy, and this commission contracted with Standard and Poor's to assist it in this process; and the "Regents Proposal on State Aid for 2004-05," which was released in January 2004, included a cost study, "Estimating the Additional Cost of Providing an Adequate Education," which was prepared by the New York State Education Department.

7. Together with Trudi Renwick, one of FPI's senior economists, I provided the AIR/MAP team with assistance in interpreting and processing the fiscal data that it received from the State Education Department from NYSED. During this same period, Trudi Renwick and I also worked with CFE's Sound Basic Education Task Force to refine CFE's foundation formula proposal. Following the completion of the AIR/MAP report ("The New York Adequacy Study: Determining the Cost of Providing All Children in New York an Adequate Education") in March 2004, we worked with the SBE Task Force to

[1] 8. New York State Council on Costing Out, Adequate Funding for New York's Schools: A Community Conversation on What Our Students Really Need to Succeed, Background Book, Spring 2003, available at http://finance.tc-library.org/Content.asp?abstract=true&uid=662.

finalize a foundation formula plan (the Adequate Foundation for All Plan) for implementing the findings of the New York Adequacy Study (See Sound Basic Education Task Force, Ensuring Educational Opportunity for All, Part I, Adequate Education for All: Reforming New York State's System for Providing Operating Aid to Local School Districts , May 11, 2004).

8. The Adequate Foundation for All Plan proposed replacing 39 of the state's then current school aid categories into a single foundation allocation. A Sound Basic Education foundation amount for each school district would be calculated by multiplying (a) a statewide average foundation amount per pupil by (b) a needs index reflecting each district's incidence of poverty, disability levels, and English language learners, and a small school size factor; and (c) a geographic cost of education index, with both of these indices derived from the results of the New York Adequacy Study. The responsibility for financing each district's Sound Basic Education foundation amount would then be divided between the local districts and the state government on the basis of each local district's relative "ability to pay" as measured by poverty-weighted property and income wealth ratios.

9. When the state did not meet the courts' July 30, 2014, deadline for ascertain the actual cost of providing a sound basic education, designing a plan for funding such a plan, and implementing a system of accountability that will ensure that the reforms actually provide the opportunity for a sound basic education., the trial court judge in the case appointed a panel of three referees to develop a remedy. During October and November 2004, I prepared two affidavits in response to questions from this panel regarding regional cost

indices, the state government's "cost effectiveness" filter and the weightings for poverty and other special needs that were implicit in the AIR/MAP costing out study.

10. Beginning in late 2004, I worked with CFE and its legislative drafting consultant to develop a bill that would effectively implement the findings of the AIR/MAP report and the recommendations of CFE's Sound Basic Education Task Force. The result of this effort was CFE's proposed Schools for New York's Future Act which was released in March 2005 http://216.92.199.229/press_releases/cfe_releases_schools_for_new_yorks_future_act.php and which was subsequently introduced in the State Assembly by the Chair of the Assembly Education Committee.

11. During 2005 and 2006, we assisted CFE and AQE with a variety of analyses of the impact of the Schools for New York's Future Act and related issues. For example, in May 2006, AQE completed a report, ***New York State's Dual Crisis: Low Graduation Rates and Rising School Taxes***, based on data, tables and charts prepared by FPI.[2]

B. Spitzer Transition Process

12. Following the November 2006 gubernatorial election, Governor-Elect Eliot Spitzer's transition convened a technical working group to assist in the development of a formula for funding a sound basic education for all New York students. Together with FPI senior economist Trudi Renwick, I represented CFE and AQE at the meetings of this group.

13. It was clear from the beginning of the technical working group's meetings that the incoming Spitzer Administration was committed to a significant reform of the school

[2] http://www.fiscalpolicy.org/PropertyTaxesandGraduationReport%20final.pdf

funding system based on a foundation formula approach that would give significant weight to pupil needs and districts' relative "ability to pay."

14. Underscoring this commitment to funding a sound basic education through a foundation formula approach was the collection of background materials that was given to each working group participant in a loose-leaf notebook, a copy of which is being submitted with this report. Particularly noteworthy were the "Memorandum of Law on behalf of Amicus Curiae, NYS Board of Regents," from the CFE case (which was included as Tab 3) and a paper on "Estimating the Additional Cost of Providing an Adequate Education" (which was included as Tab 7).

15. In addition to the fact that the background materials distributed to the working group members consisted primarily of materials from the Regents and the State Education Department that were supportive of a needs-sensitive foundation approach, all the meetings of the working group were held in conference rooms in the State Education Building; and all the meetings were attended by both school finance specialists and lawyers from the State Education Department.

16. The technical working group met frequently during November and December. The group's discussions focused on such matters as the student need weightings to be used for the calculation of each district's SBE foundation amount, and the approach to be used for dividing responsibility for funding that foundation amount between the state government and the local school districts. In other words, the discussions were about the details of designing a foundation formula plan that would be effective in providing all the state's children with the opportunity for a sound basic education; not about whether or not New

York State should fund a sound basic education or whether or not it should switch to a foundation formula for the distribution of state aid to education.

17. In January, the detailed work involved in finalizing the Spitzer Administration's proposal went on in and among the Division of the Budget, the State Education Department and the incoming Governor and his staff.

C. Enactment of Foundation Aid Formula

18. On January 31, 2007, in conjunction with the release of his 2007-2008 Executive Budget, Governor Spitzer officially presented the details of his "foundation formula" proposal in his proposed "Education, Labor And Family Assistance" Article VII bill (S.2107/A.4307). In the "bill memo" for this Article VII bill, a copy of which is being submitted with this report, Governor Spitzer Governor Spitzer indicated that "This bill enacts numerous changes to the State Education Law to ensure sound, basic pre-K through secondary educational preparation for college or employment" and that "It implements the Court of Appeals' Campaign for Fiscal Equity decision, and furthers compliance with the mandates of federal education law, including the 'No Child Left Behind Act.'" In this bill memo, Governor Spitzer also described the proposed foundation formula approach as follows: "This bill would amend Education Law to establish Foundation Aid which will replace 30 aid formulas. Education Law would be amended to specify the factors necessary to calculate Foundation Aid for school districts including the following:

    a. "Foundation Amount: This bill would specify a standard local education cost based upon actual costs in successful schools, adjusted for geographic cost

differences and educational need factors including students at risk due to poverty, limited English proficiency, and special education needs;

b. "Expected Local Contribution: This bill would establish an expected—but not mandated—local contribution, adjusted to reflect district income wealth;

c. "Phase-in Factor: This formula would be phased in over 4 years, starting in the 2007-08 school year with the incremental phase-in amount each year specified in the law;

d. "Student Count: This bill would define the student count used to allocate funds based upon enrollment, rather than attendance;

e. "Minimum Increase: This bill would ensure that all school districts receive a Foundation Aid increase of at least 3 percent;

f. "Foundation Aid conforming changes: This bill would address a large number of conforming changes to reflect the new Foundation Aid, and update section references related thereto."

19. The legislation as proposed by Governor Spitzer replaced over 30 separate aid formulas with a single foundation aid formula that would provide a clear predictable distribution of state school aid each year. Each district's "foundation amount" (i.e., the resources needed by that districts) would be determined on the basis of (a) a statistical analysis of the average costs of education in successful school districts, (b) adjustments for regional geographic cost differences and (c) adjustments for each district's specific educational needs including students at risk due to poverty, limited English proficiency, and special education needs. The amount of foundation aid that a district would receive from the state would be equal to the district's "foundation amount" (i.e., its revenue requirement

based on student needs and regional costs) **minus** an expected local contribution based on the application of a standard, statewide tax rate that would be ratcheted up or down based on the average income of the district's residents.

20. Governor Spitzer proposed to have the new foundation formula phased in over a 4-year period. In 2007-2008, each district would receive its 2006-2007 base amount[3] plus 20 percent of its projected increase under the new foundation formula when it was fully implemented. In 2008-2009, each district would receive its 2006-2007 base amount plus 42.5 percent of its projected increase. In 2009-2010, each district would receive its 2006-2007 base amount plus 70 percent of its projected increase. And, in 2010-2011, each district would receive its full allocation under the new program. The Executive Budget projected that the incremental cost of the new foundation aid program would be $982 million in 2007-2008, and $4.8 billion in 2010-2011 (compared to the 2006-2007 foundation aid base).

21. In enacting the foundation formula, the Legislature did not make any changes in the weightings used to calculate each district's "foundation amount" (i.e., each district's revenue requirement). It did, however, increase the amount of foundation aid to be provided by the state to some districts by adding an alternative method (i.e., a "state sharing ratio" method) for dividing responsibility between the state government and the local districts for the funding of the districts' foundation amounts. Thus, in the plan as enacted, each district's foundation aid is determined by whichever of the two methods provides it with more state aid. The increased state aid driven by the addition of the

[3] The foundation aid base amount is equal to the amount of aid that a district received during the 2006-2007 school year under the 30 different individual aid programs that were being replaced by the new foundation aid.

alternative "state sharing ratio" method went almost entirely to average need and low need districts.

CONCLUSIONS AND OPINION

The Foundation Formula legislation enacted in 2007 by Chapter 57 of the Laws of 2007 and codified as N.Y. EDUC. LAW § 3602, made it clear that the Governor and the Legislature both

(a) Intended to fund an opportunity for a sound basic education for all children in the state including children in high need districts such as the Maisto et al. v State of New York plaintiffs' districts; and
(b) Had enacted into law a plan that was capable of achieving that objective by determining the resources needed by each school district to achieve that objective; by dividing responsibility for providing those resources between the state government and the local school districts; and by putting into place an accountability system for ensuring the effective use of those resources..

Under the adopted plan, each school district's resource needs are to be determined on the basis of a statistical analysis of the costs of education in the lowest spending half of the successful school districts in the state together with adjustments for geographic cost differences and adjustments for educational need factors including the numbers of students at risk due to poverty, with limited English proficiency, and with special education needs.

The adopted plan also provides a methodology for taking each district's "ability to pay" into consideration in dividing responsibility for providing those resources between the state and each local district. And, from an overall budget perspective, Governor Spitzer proposed a multi-year financial plan which allowed for the full implementation of this initiative over a four year period.

In the implementation of the reform plan that was adopted in 2007, the State Education Department has completed periodic updates of its successful schools study. The results of those successful schools studies, along with the regional cost indices, the pupil needs weightings, and the inflation adjustments specified in the Education Law, have been used annually to determine the level of resources (i.e., the overall "foundation amount") necessary to ensure that the public elementary and secondary school children in each public school district in the state, including the students in the Maisto et al. v State of New York plaintiffs' districts, have an opportunity for a sound basic education.

In addition, Educ. Law Section 3602.4 has continued to operate in a way that calculates the state share of each district's "foundation amount" through two methods, with each district being entitled to the level of state "foundation aid" determined by the method that produces the most favorable result for the particular district.

In the original 2007 enactments, the full funding of each district's state share (i.e., it state foundation aid entitlement) was to be phased in over a four year period with full implementation being achieved in the 2010-11 school year and annually thereafter. The first two years of the implementation schedule were accomplished with minor modifications in the second year but in 2009, 2010 and 2011, the Governor and the Legislature enacted legislation freezing the level of state foundation aid at its2008-09 levels for three consecutive school years (2009-10, 2010-11 and 2011-12), and in 2012, 2013 and 2014, the Governor and the Legislature enacted legislation providing only minimal increases in foundation aid for three additional school years (2012-13, 2013-14 and 2014-15). In addition, beginning in 2010-11, the Governor and the Legislature have enacted five consecutive years of budget cuts (called "Gap Elimination Adjustments" or GEAs) that come either entirely or primarily out of the resources that would otherwise be provided in the form of state foundation aid for the purpose of ensuring the opportunity for a sound basic education.

The overall result is that the state government has in place a statutory framework for complying with the constitutional requirements identified by the court decision in Campaign for Fiscal Equity v. State of New York, 8 N.Y. 3d 14, but it is not complying with those statutory provisions. Moreover, the state has not established a reasonable schedule for achieving compliance with those provisions; nor has it attempted to provide an alternative approach to achieving those constitutional requirements.

I hereby affirm that the foregoing report is true and accurate to the best of my knowledge.

Frank J. Mauro

Frank J. Mauro

Sworn to and subscribed before me on this
12th day of November 2014

Notary Public

CASSANDRA A. BRADY
Notary Public, State of New York
No. 01BR6259502
Qualified in Schenectady County
Commission Expires April 30, 2016

EXHIBIT A

The majority of the information in this book is also available at:

http://www.oms.nysed.gov/information.html

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REGENTS STATE AID PROPOSAL - MATERIALS

http://www.regents.nysed.gov/2006Meetings/July2006/0706brd1.htm

New York State Education Department (December 2003). *Recognizing High Cost Factors in the Financing of Public Education*: The Calculation of A Regional Cost Index..... Tab 9.

http://www.oms.nysed.gov/faru/new_york_state_education_departm.htm

New York State Education Department (June 2006). *Updating the Regents Regional Cost Index*. Materials to the Board of Regents on the Development of Regents 2007-08 State Aid Proposal..... Tab 10.

http://www.regents.nysed.gov/2006Meetings/June2006/0606sad1.htm

New York State Education Department. *Options for Special Education Funding*. Presented to the Regents Subcommittee on State Aid, May 2005..... Tab 11.

http://www.regents.nysed.gov/2005Meetings/May2005/0505sad1.htm

New York State Education Department. *Full-day Kindergarten Conceptual Legislative Proposal*. Presented to the Regents Subcommittee on State Aid, January 2006..... Tab 12.

http://www.regents.nysed.gov/2006Meetings/January2006/106saa1.htm

New York State Education Department. *Overview of Fiscal Structure for Statewide Pre-kindergarten*. Presented to the Regents Subcommittee on State Aid, June 2006..... Tab 13.

http://www.regents.nysed.gov/2006Meetings/June2006/0606sad1.htm

Regents State Aid Proposal:
Key Questions And Responsive Materials

1. **What is the Regents State Aid Proposal?**

   Materials

   Highlights of Regents State Aid Proposal ..... Tab 1.

   New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006..... Tab 2.

   New York State Education Department. *Memorandum of Law on Behalf of Amicus Curiae, New York State Board of Regents* ..... Tab 3.

2. **What is adequacy?**

   A: Adequacy refers to the per-pupil resource amount sufficient to achieve some specified performance objective such as state learning standards.

   Materials

   New York State Education Department (1999). *Introduction to the Concept of Adequacy.* Paper prepared for the Board of Regents ..... Tab 4.

   New York State Education Department (2003). *An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance*..... Tab 5.

3. **What is a Foundation Formula?**

   A: A Foundation Formula guarantees school districts a minimum level of education and is widely used by states to provide an amount determined adequate to meet state learning standards. Foundation Formulas identify the adequate amount needed to meet learning standards and assess the amount of revenue a district can raise at a tax rate that the state decides is fair. The difference between the Foundation Amount and the local share is state aid.

Materials

W. Duncombe and J. Yinger (1998) "School Finance Reform: Aid Formulas and Equity Objectives" *National Tax Journal*, June, pp. 239-262..... Tab 6.

4. How do you calculate the cost of an adequate education?

A: Three methods are commonly referred to in the research literature and are briefly described in:

New York State Education Department (2006). *Estimating the Additional Cost of Providing an Adequate Education.*..... Tab 7.

A: The Regents proposal calculates the cost of an adequate education using the successful school district study. The Regents methodology is described in:

New York State Education Department (July 2006). *The Regents Foundation Formula: Determining the Proposed Foundation Amount.* Materials to the Board of Regents on the Development of Regents 2007-08 State Aid Proposal. ..... Tab 8.

5. How do you measure spending for an adequate education versus spending for a state-of-the-art education?

A: The Regents assessed spending in successful school districts and determined that the higher spending districts (i.e., the top half) were spending more than that required to provide an adequate education. Estimates for what was needed for adequacy were therefore based on the spending of the lower half of the distribution of spending of successful school districts. This *adequacy filter* is described in the technical supplement of the Regents 2007-08 State Aid proposal (forthcoming).

Materials

New York State Education Department (2006). *Estimating the Additional Cost of Providing an Adequate Education.*..... Tab 7.

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006..... Tab 2.

6. **How do you adjust aid for regional cost differences?**

A: The Regents adjust aid for regional cost differences by multiplying the Foundation Amount by a Regional Cost Index. The Regents Regional Cost Index is based on actual salaries of 59 professions that, like teaching, typically require a bachelor's degree for employment at the entry level. Teachers are specifically excluded from the mix to ensure that the index measures labor market costs and not the tastes or control of school districts.

Materials

New York State Education Department (2006). *Estimating the Additional Cost of Providing an Adequate Education.* ..... Tab 7.

New York State Education Department (December 2003). *Recognizing High Cost Factors in the Financing of Public Education: The Calculation of A Regional Cost Index.* ..... Tab 9.

New York State Education Department (June 2006). *Updating the Regents Regional Cost Index.* Materials to the Board of Regents on the Development of Regents 2007-08 State Aid Proposal..... Tab 10.

7. **How do you determine how much of the foundation program should be paid by the State and how much by local school districts?**

A: The Regents proposal recommends the State assess an expected local contribution for each school district. The difference between the Foundation Amount (adjusted for regional cost differences and student need) and the expected local contribution is State Foundation Aid. The Regents recommend a level of local effort that is approximately 80 percent of the State average local effort for education. For 2007-08 this amount would be $13 per $1,000 of Actual Value. This standard tax rate would be adjusted for the income of the district, so that districts with less than the median income per pupil would be expected to contribute less and districts with more would be expected to contribute more. The Regents do not recommend mandating the local share because of the difficulty of enforcing such a mandate. If districts have poor student performance and exert a poor local effort, the State Education Department's accountability system would intervene with increasing levels of State oversight.

Materials

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by

the Regents October 2006. Published December 2006..... Tab 2.

New York State Education Department (2004). *Estimating the Additional Cost of Providing an Adequate Education*..... Tab 7.

8. How much should the State weight pupil need in a Foundation Formula?

A: The Regents recommend that the State weight pupil need from 1.0 to 2.0 based on the contribution of needy pupils in the district. Needy pupils are considered those pupils from poverty backgrounds and from geographically sparse areas of the State included in the existing Extraordinary Needs percent. Limited English proficient students are excluded because they are funded separately from the Foundation Formula.

Materials

New York State Education Department (2003). *An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance*..... Tab 5.

New York State Education Department (2004). *Estimating the Additional Cost of Providing an Adequate Education*..... Tab 7.

9. What aid programs should be consolidated in the Foundation Formula and what should not be?

A: The Regents recommend that 31 aids that provide support for general education instruction be consolidated into a new Foundation Formula. The following aid programs should be maintained separately:

- Special Education
- Building and Building Incentive
- Transportation
- BOCES/Special Services
- Universal Pre-kindergarten
- Instructional Materials
- Limited English Proficiency Aid/ Bilingual Education Grants
- Full-Day Kindergarten Conversion Aid

- Other miscellaneous aids and grants not serving as general purpose aid to all school districts

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006..... Tab 2.

10. How should special education be funded?

a. Funding for pupils with disabilities should be continued as a separate aid.

b. Reimbursement for these extraordinary costs should be articulated with the foundation grant calculations, and should reflect the additional cost to district of providing special services to these pupils.

Materials

New York State Education Department. *Options for Special Education Funding.* Presented to the Regents Subcommittee on State Aid, May 2005. ..... Tab 11.

11. How should early childhood education be strengthened?

a. Funding should support the Regents policy of support for mandatory full-day kindergarten programs.

Materials

New York State Education Department. *Full-day Kindergarten Conceptual Legislative Proposal.* Presented to the Regents Subcommittee on State Aid, January 2006. ..... Tab 12.

b. Funding should support universal access to prekindergarten programs.

Materials

New York State Education Department. *Overview of Fiscal Structure for Statewide Pre-kindergarten.* Presented to the Regents Subcommittee on State Aid, June 2006. ..... Tab 13.

NEW YORK STATE EDUCATION DEPARTMENT

STATE AID

Key State Aid Questions And Responsive Materials

BURT PORTER, DIRECTOR OF EDUCATION FINANCE
CHARLES SZUBERLA, COORDINATOR FOR SCHOOL OPERATIONS AND MANAGEMENT SERVICES
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NOVEMBER 1, 2006

Regents State Aid Proposal:
Key Questions And Responsive Materials

1. What is the Regents State Aid Proposal?

Materials

Summary of Regents State Aid Proposal.....Attachment 1.

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New York State Education Department. *Memorandum of Law on Behalf of Amicus Curiae, New York State Board of Regents* .....Attachment 3.

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New York State Education Department (2003). *An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance*.....Attachment 5.

3. What is a Foundation Formula?

A: A Foundation Formula guarantees school districts a minimum level of education and is widely used by states to provide an amount determined adequate to meet state learning standards. Foundation Formulas identify the adequate amount needed to meet learning standards and assess the amount of revenue a district can raise at a tax rate that the state decides is fair. The difference between the Foundation Amount and the local share is state aid.

Materials

W. Duncombe and J. Yinger (1998) "School Finance Reform: Aid Formulas and Equity

Objectives" *National Tax Journal*, June, pp. 239-262.....Attachment 6.

4. How do you calculate the cost of an adequate education?

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A: The Regents assessed spending in successful school districts and determined that the higher spending districts (i.e., the top half) were spending more than that required to provide an adequate education. Estimates for what was needed for adequacy were therefore based on the spending of the lower half of the distribution of spending of successful school districts. This *adequacy filter* is described in the technical supplement of the Regents 2007-08 State Aid proposal (forthcoming).

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New York State Education Department (2006). *Estimating the Additional Cost of Providing an Adequate Education.*.....Attachment 7.

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006.....Attachment 9.

6. How do you adjust aid for regional cost differences?

A: The Regents adjust aid for regional cost differences by multiplying the Foundation Amount by a Regional Cost Index. The Regents Regional Cost Index

is based on actual salaries of 59 professions that, like teaching, typically require a bachelor's degree for employment at the entry level. Teachers are specifically excluded from the mix to ensure that the index measures labor market costs and not the tastes or control of school districts.

Materials

New York State Education Department (2006). *Estimating the Additional Cost of Providing an Adequate Education.* ..... Attachment 7.

New York State Education Department (December 2003). *Recognizing High Cost Factors in the Financing of Public Education: The Calculation of A Regional Cost Index.* ..... Attachment 10.

New York State Education Department (June 2006). *Updating the Regents Regional Cost Index.* Materials to the Board of Regents on the Development of Regents 2007-08 State Aid Proposal..... Attachment 11.

7. **How do you determine how much of the foundation program should be paid by the State and how much by local school districts?**

A: The Regents proposal recommends the State assess an expected local contribution for each school district. The difference between the Foundation Amount (adjusted for regional cost differences and student need) and the expected local contribution is State Foundation Aid. The Regents recommend a level of local effort that is approximately 80 percent of the State average local effort for education. For 2007-08 this amount would be $13 per $1,000 of Actual Value. This standard tax rate would be adjusted for the income of the district, so that districts with less than the median income per pupil would be expected to contribute less and districts with more would be expected to contribute more. The Regents do not recommend mandating the local share because of the difficulty of enforcing such a mandate. If districts have poor student performance and exert a poor local effort, the State Education Department's accountability system would intervene with increasing levels of State oversight.

Materials

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006..... Attachment 2.

New York State Education Department (2004). *Estimating the Additional Cost of Providing an Adequate Education*.....Attachment 7.

8. How much should the State weight pupil need in a Foundation Formula?

A: The Regents recommend that the State weight pupil need from 1.0 to 2.0 based on the contribution of needy pupils in the district. Needy pupils are considered those pupils from poverty backgrounds and from geographically sparse areas of the State included in the existing Extraordinary Needs percent. Limited English proficient students are excluded because they are funded separately from the Foundation Formula.

Materials

New York State Education Department (2003). *An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance*.....Attachment 5.

New York State Education Department (2004). *Estimating the Additional Cost of Providing an Adequate Education*.....Attachment 7.

9. What aid programs should be consolidated in the Foundation Formula and what should not be?

A: The Regents recommend that 31 aids that provide support for general education instruction be consolidated into a new Foundation Formula. The following aid programs should be maintained separately:

- Special Education
- Building and Building Incentive
- Transportation
- BOCES/Special Services
- Universal Pre-kindergarten
- Instructional Materials
- Limited English Proficiency Aid/ Bilingual Education Grants
- Full-Day Kindergarten Conversion Aid
- Other miscellaneous aids and grants not serving as general purpose aid to all school districts

New York State Education Department. *Assessing an Adequate Education. Regents Proposal on State Aid to School Districts for 2007-08.* Approved by the Regents October 2006. Published December 2006.....Attachment 2.

10. How should special education be funded?

a. Funding for pupils with disabilities should be continued as a separate aid.

b. Reimbursement for these extraordinary costs should be articulated with the foundation grant calculations, and should reflect the additional cost to district of providing special services to these pupils.

Materials

New York State Education Department. *Options for Special Education Funding.* Presented to the Regents Subcommittee on State Aid, May 2005. .....Attachment 12.

11. How should early childhood education be strengthened?

a. Funding should support the Regents policy of support for mandatory full-day kindergarten programs.

Materials

New York State Education Department. *Full-day Kindergarten Conceptual Legislative Proposal.* Presented to the Regents Subcommittee on State Aid, January 2006. .....Attachment 13.

b. Funding should support universal access to prekindergarten programs.

Materials

New York State Education Department. *Overview of Fiscal Structure for Statewide Pre-kindergarten.* Presented to the Regents Subcommittee on State Aid, June 2006. .....Attachment 14.

TAB 1

Highlights of the Regents 2007-08 State Aid Proposal

The Regents Proposal

- Requests the resources and funding system needed to provide adequate resources through a State and local partnership so that all students have the opportunity to achieve State learning standards.
- Focuses increases in aid to those districts with the lowest fiscal capacity and the greatest concentration of pupils in need of extra help.

Foundation Aid

- Provides a more transparent approach to apportioning unrestricted State Aid among school districts.
- Consolidates approximately 30 existing formulas and grant programs.
- Is based on the cost of providing general education services in successful school districts throughout New York State.
- Reflects differences in school district pupil needs and regional costs.
- Provides predictability for all districts through a 2% due minimum.

District Foundation Aid per Pupil = [Foundation Cost X Pupil Need Index X Regional Cost Index] – Expected Local Contribution.

- *The Foundation Cost* is the cost of providing general education services, measured by determining instructional costs of districts that are performing well. Updated for the 2007-08 proposal.
- *The Pupil Needs Index* recognizes the added costs of providing extra time and extra help for students to succeed.
- *The Regional Cost Index* recognizes regional variations in purchasing power around the State, based on wages of non-school professionals. Updated for the 2007-08 proposal.
- *The Expected Local Contribution* is an amount districts are expected to spend as their fair share of the total cost of general education. Updated for the 2007-08 proposal.

Keep Funding for Specific Purposes Separate from Foundation Aid

- Limited English Proficiency Aid/ Bilingual Education Grants
- Universal Pre-kindergarten
- Special Education
- BOCES/Special Services
- Instructional Materials
- Building and Building Incentive
- Transportation
- Other miscellaneous aids and grants not serving as general purpose aid to all school districts

Strengthen Early Childhood Education

- Consolidate funding for pre-k and phase in universal access to pre-k for all four year olds over four years. Provide an increase of $108 million in 2007-08.
- Provide planning grants of $2.8 million in 2007-08 to phase in full-day kindergarten programs in all school districts over three years beginning in 2008-09.

Improve Support for Pupils with Disabilities

- Provide *Public Excess Cost Aid* on based on the foundation cost and costs in successful schools to make it more responsive to actual costs and to articulate it with Foundation Aid.
- Provide *Public Excess Cost Aid* save-harmless on a per pupil basis
- Level up aid for high cost students with disabilities to better correspond with *Private Excess Cost Aid.*

Other Proposals

- Give the Large Four city school districts authority to contract with BOCES for services including career education and technology services and enrich aid to the New York City school district for similar services.
- Consolidate *Textbook Aid* and *Software Aid* into a new Instructional Materials Aid and include as an allowable expense kits and other hands on manipulatives useful in instruction in mathematics and science and kindergarten.
- Increase *Library Materials Aid* from $6 to $10 per pupil to enable school libraries in high-need communities to provide a comparable level of collections to their students as those in successful school districts.
- Simplify the calculation of the cost allowance for *Building Aid* for school construction.

TAB 2

Attachment A

Regents Proposal on State Aid to School Districts
For School Year 2007-08

CONCEPTUAL PROPOSAL

The Regents State Aid proposal for 2007-08 will request the resources and funding system needed to provide adequate resources through a State and local partnership so that all students have the opportunity to achieve State learning standards. This is the fourth year the Regents have refined and advanced a multi-year proposal recommending transition to a foundation program based on the costs of successful educational programs.

Statement of Need

This proposal pursues two Regents goals: to close the gap between actual and desired student achievement; and to ensure that public education resources are adequate and used by school districts effectively and efficiently.

The Regents Annual Report to the Legislature and Governor on the Educational Status of the State's Schools (Chapter 655 Report) cites numerous examples of improvement in student achievement since 1996 when the Regents began to raise standards for all grade levels and imposed graduation requirements aligned with the new standards. For example, the report notes [1]:

- More eighth-graders are demonstrating that they have achieved the standards in mathematics.
- The percentage of Black and Hispanic fourth-graders demonstrating proficiency increased by about 20 percentage points in both mathematics and English.
- The percentage of graduates earning Regents diplomas increased from 42 to 57 percent.
- Even in large urban districts that serve the largest percentages of poor and minority students, more students are earning Regents diplomas.
- Between 1996–97 and 2003–04, the number of students scoring 55 or higher on the Regents English exam increased from 113,000 to 171,000.

While there have been many positive changes in the last 17 years since the Regents have reported on the educational progress of the State's schools, one disturbing aspect of the report has remained the same. The report continues to document a pattern of high student need, limited resources, and poor performance in many districts. Generally, these districts can be described as having high student needs relative to their capacity to raise revenues. These high-need districts include the Big 5, 46 smaller districts with many of the characteristics of the Big 5, and 157 rural districts. Large gaps in performance exist between these high-need districts and low-need districts, those which both serve children from more affluent families and have generous local resources to draw on.

The results of the 2004 middle-level mathematics assessment illustrate these performance gaps between high- and low-need districts. There were significant improvements in total public school results and in results for each Need/Resource Capacity Category of school districts and for each racial/ethnic group. Nevertheless, the performance gap between low- and high-need districts, such as New York City, remains.

- While the percentage of New York City students who are proficient in middle-level mathematics increased to 42 percent, almost twice as many students in low-need districts were proficient.

We can relate this contrast to the resources available to schools in each group:

- Let's look first at the proportion of middle-level mathematics teachers who are not appropriately certified: 18 percent in New York City compared with 3 percent in the high-performing low-need districts.

- In addition to having fewer qualified teachers than students in low-need districts, students in New York City attended school fewer days on average during the year: 161 compared with 172 days.

But the differences between New York City and the low-need districts do not stop there. The average expenditure per pupil in New York City was over $2,000 less than that in low-need districts.

- $12,896 per pupil in New York City compared with $15,076 on average in low-need districts in 2002-03.

- The median teacher salary in New York City was $54,476 compared with $66,638 in low-need districts.

Similar relationships among performance, resources, and student need can be seen in comparisons between the performance of White students and that of Black and Hispanic students. White students were about twice as likely as Black or Hispanic students to be proficient in middle-level mathematics.

- 71 percent of White students met the middle-level mathematics standards.

- 33 percent of Black students and 37 percent of Hispanic students met those standards.

The majority of Black and Hispanic students attend high-minority schools; the majority of White students attend low-minority schools. One reason that students in low-minority schools are more successful is that they spend more time in school.

In addition, high-minority schools had a:

- Higher teacher turnover rate (26 vs. 15 percent); and

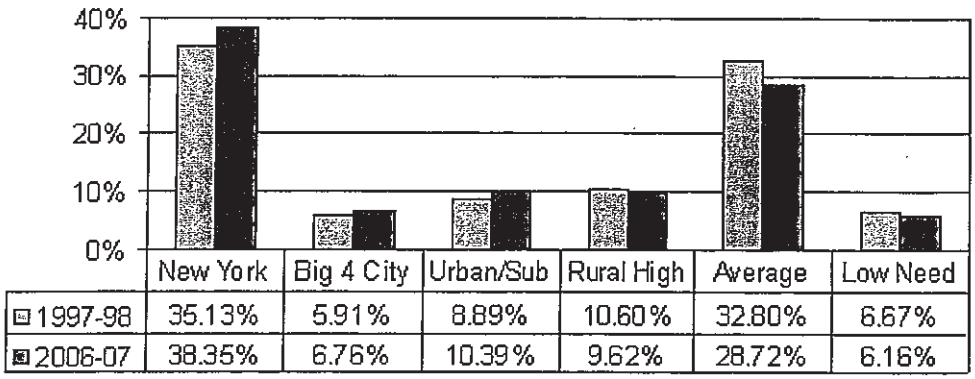
- Less experienced teachers (10 years vs. 12 years).

The significance of these gaps in performance and resources between high- and low-minority schools is heightened by the fact that, while overall public school enrollment decreased by nearly 3,000 students between Fall 1998 and Fall 2003, enrollment in high-minority schools increased by 47,000 students.

Figure 1 shows that the State Aid increase school districts have experienced has had a relatively small

mpact on the share of total State Aid that each district category receives. Despite increases to many high need school districts, the relative share of education revenues received by groups of high-need city schoo icts has increased by approximately one to three percentage points over the past nine years. The tive share declined for high-need rural school districts (almost one percentage point), average need school districts (approximately four percentage points), and for low-need school districts (about half a percentage point).

Figure 1. Share of Computerized Aids as Enacted



	New York	Big 4 City	Urban/Sub	Rural High	Average	Low Need
1997-98	35.13%	5.91%	8.89%	10.60%	32.80%	6.67%
2006-07	38.35%	6.76%	10.39%	9.62%	28.72%	6.16%

Four principles guide this Regents proposal.

Adequacy—Effective distribution across all districts will ensure adequate resources for acceptable studen achievement.

Equity— The funding system must be fair for students and taxpayers. State resources should be allocated on the basis of fiscal capacity, cost and student needs. The emphasis is placed on providing a set of inputs to educate students.

Accountability—The education system will measure outcomes and use those measures to ensure tha financial resources are used effectively. As part of the Regents goal that education resources will be used or maintained in the public interest, the Regents employ a two-prong strategy. The Department will give greater flexibility to districts with acceptable student achievement and will work closely with districts not ye meeting State standards to ensure the most efficient and effective use of resources.

Balance—The State should balance stability in funding and targeting aid to close student achievemen gaps. It should drive aid based on current needs, and use hold-harmless provisions that provide stability.

Enact a Foundation Program

The proposed *Foundation Aid* would consolidate approximately 30 existing aid programs and adjust the

consolidated aid for regional cost differences and pupil needs. It would identify an expected local contribution for each school district, based on ability to pay. The foundation level is based on the cost of educating students in successful school districts. An expected local contribution is calculated based on each district's actual value per pupil, adjusted by income per pupil. State Aid is calculated as the foundation cost less the expected local contribution. The proposal would hold school districts harmless against loss for the group of aids combined into *Foundation Aid* and would be phased in over five years.

The foundation formula approach has several advantages. It sets aid independent of any decisions by districts on how much to spend. It also provides certainty to districts regarding how much funding they will receive. And, most significantly, it explicitly links school funding to the cost of educating children and drives dollars where they are most needed.

The foundation formula has four components:

- A foundation amount which assessed the cost of an adequate education;
- A regional cost index that measures relative purchasing power of regions around the State;
- A pupil needs index to assess the amount of pupil need in each district; and
- An expected local contribution to represent a fair local share from each district.

Two components of the foundation equation have been updated with more recent data.

The Regional Cost Index

In order to adjust for geographic variations in the cost of educational resources, the Regional Cost Index was generated following a methodology similar to one developed by Rothstein and Smith [2] for the state of Oregon. This involved the use of a statewide index based on median salaries in professional occupations that require similar credentials to that of positions in the education field. In particular, these titles represented categories for which employment at the entry level typically requires a bachelor's degree. The previous Regional Cost Index was based on 63 occupational titles. Fifty-nine titles were used for this edition of the Regional Cost Index. Education-related titles were excluded in order to ensure that this index be entirely a measure of labor market costs, and not be subject to the tastes or control of districts. Therefore, we sought to measure genuine labor market costs, not the results of districts' decisions to hire especially high quality teachers, or to influence the index value in later years by choosing to pay more for staff. By basing the index on the wages earned in the labor market by professionals with similar skills, we have created a measure of costs in the sector of the labor market in which districts compete for teachers and staff, in each region of the State. Since personnel salaries and benefits make up the vast majority of costs faced by school districts, the Regional Cost Index allows for an individual to compare the buying power of the educational dollar in different labor force regions of the State.

The Foundation Amount

The Regents propose a *Foundation Aid* program, with a foundation amount based on the average per pupil cost of general education instruction in successful school districts. Empirical estimates of the cost of an adequate education typically begin by investigating districts that are already achieving a desired state of academic performance; 465 districts were identified in the update of the successful districts study. These districts had, on average, 80 percent or more of their students passing seven State examinations, two at the elementary level and five at the high school level, for three years in a row.

Special Education Funding

The Regents explored options for improving the funding of special education in a series of meetings around the State with educators and the public. Participants considered how funding can best support program goals of improved student achievement and education of students with disabilities in the least restrictive environment. Three options were discussed that provide special education funding separate from the foundation program and respond to policy concerns voiced at public forums on special education funding.

Current laws provide school districts State Aid to help meet the excess costs of educating students with disabilities--that is, districts receive *Operating Aid* for each student including those with disabilities, and, in addition, *Excess Cost Aid* for those costs that are above and beyond the costs of a non-disabled student. In addition, the laws provide:

- That *Excess Cost Aid* varies with differences in school district wealth and requires a substantial local contribution;
- That *Excess Cost Aid* is based on the average spending on all students in the district but provide more aid for higher levels of service to students with disabilities;
- A substantial minimum aid, regardless of wealth;
- Extra aid for high-cost students and students integrated with their nondisabled peers; and
- Aid for students with disabilities placed in approved nonpublic special education schools.

The proposed approach maintains a separate special education funding stream based on a count of students with disabilities. It aligns that funding with the Regents proposal for foundation aid for general education instruction.

The general direction of the proposal is this: Calculate the foundation amount for general education students (e.g., General Education Foundation Cost x Pupil Needs Index x Regional Cost Index). This would be divided into an expected local contribution and State Aid to provide support for general education instruction, as it was proposed in the 2004-05, 2005-06 and 2006-07 Regents State Aid proposals.

For *Public Excess Cost Aid*, that same foundation amount would be multiplied by a single weighting for all classified students with disabilities to determine an expense upon which to base excess cost aid per pupil. Thus, each student with a disability would generate operating aid based on a portion of the general education foundation amount and, separately, excess cost aid based on a portion of the special education weighted general education foundation amount. The *Excess Cost Aid* would be tied to the cost of education

n successful districts by basing it on the foundation amount from our updated successful school district study. *High-cost Aid* and *Private Excess Cost Aid* would be continued separately. The Regents recommend current-year aid for new high-cost students with disabilities.

The following is an example of this proposal in a hypothetical school district. The amounts used are made up and are intended to illustrate how the formula might work and not its specific details.

Foundation Aid. Calculate the foundation amount for general education students (e.g., $1,000 x Pupil Needs Index x Regional Cost Index or by example a district with moderate pupil needs and moderate costs, $1,000 x 1.5 x 1.2 = $1,800/pupil). Divide this into State Aid and an expected local contribution to provide State support for general education instruction. For this hypothetical school district, assume the expected local contribution was $1,000 per pupil and State Aid was $800 per pupil.

Excess Cost Aid. Take the same foundation amount ($1,800/pupil) multiplied by a single weighting for all classified students with disabilities to determine excess cost expense per pupil. (For example, $1,800 x 1.1 = $1,980 of excess cost expense per special education pupil.) A State and local share of this expense can then be calculated. Thus, each student with a disability would generate *Foundation Aid* and *Excess Cost Aid.*

Regional Services for the Big Five City School Districts

This proposal recommends that the existing practice of excluding large city school districts from accessing BOCES services be discontinued. It recommends that the large four city school districts (Yonkers, Rochester, Syracuse and Buffalo) be given the authority to contract with neighboring BOCES for services in critical service areas that are strong in BOCES and weak in the city district.

A program should be established authorizing the Big Four city school districts to participate in BOCES and purchase services from BOCES. A corresponding increase in aid should be provided to the New York City school district to allow it to fund similar programs within the city district without BOCES. Such regional services can include:

- Arts and cultural programs for students;
- Career and technical programs for students;
- Alternative education for students, including those who are in secure and non-secure detention centers within the city boundaries;
- Staff development as part of a district required professional development plan and annual professional performance review;
- Technology services provided through BOCES;
- Regional teacher certification; and
- For the 2007-08 school year, planning and development activities necessary to implement the programs in the following school year.

Funding Early Childhood Education

The Benefits of Quality Early Childhood Education

The use of pre-kindergarten as a cornerstone program to building strong statewide early childhood program s a high priority for the Board of Regents and school districts. It is a well-researched and effectiv educational strategy for closing the achievement gap. Research has shown that children who participate i quality pre-kindergarten programs have less need for special education and remediation throughou schooling and earn more and are incarcerated less in adulthood. The investment in pre-kindergarten is cost-effective strategy that pays dividends to society and to the children who participate. The New Yor State Governor and Legislature made the decision to move toward the provision of universal pre kindergarten education in 1997.

While much of the focus on strengthening early childhood has concerned the education of three- and fou year olds, the provision of full-day programs to kindergarten pupils is also a statewide policy concern Estimates are that approximately 20,000 students are in half-day programs and 14,000 pupils are nc enrolled in full-day kindergarten. If quality early childhood education is to be successful, its provision mus continue beyond pre-kindergarten, into full-day kindergarten and successfully transition students into qualit elementary school programs.

The Regents Goal

The Regents recommend that all young children have access to quality early childhood programs from ag e on and that the Governor and Legislature continue to phase in State support for such programs.

Regents Policy

In January 2006, the Regents adopted a policy on early childhood education. It recommends:

- -- Statutory authorization for voluntary, statewide universal pre-kindergarten for three- and fou year olds.
- -- Local education agencies continued collaboration with community-based programs as require by current law.
- -- Combined funding streams for universal pre-kindergarten, targeted pre-kindergarten an supplemental pre-kindergarten programs.
- -- A consistent funding stream for universal pre-kindergarten through a foundation State Ai approach similar to the Regents proposal for funding kindergarten through grade 12.

Funding Issues

The Governor and Legislature must ensure that the program is available to all districts and four-year-olds. r pre-kindergarten to become an integral part of a pre-kindergarten through grade 12 public schoc em, action regarding the funding mechanism is as important as the level of funding. The Regents hav grappled with two important issues.

First, there is a need to streamline and focus funding to make the most of public resources. The program has been implemented as an experimental grant program for decades. In 1997, the Governor and Legislature added a second grant program known as Universal Pre-kindergarten. In 2006, the Governor and Legislature added a third grant program in addition to the first two. Now with three separate grant programs, each with their own funding components and distribution, the Regents recognize that the grant process, although it has been a successful way to phase in the program, may not be the most effective way to sustain the program for the future.

Second, how should the Governor and Legislature phase in quality early childhood education from age three on? Specifically, the Regents considered whether to phase in this program as a program targeted to at-risk children or to all children. Programs designed to serve all children ensure access. Research shows that targeted programs do not close the achievement gap as at-risk children cross many socio-economic groups (Garcia, 2005). Programs targeted for at-risk students are also more likely to be frozen, cut or eliminated. Another disadvantage is that programs targeted for at-risk children often lack the participation of other children that may be crucial to the educational process.

The advantage of phasing in quality early childhood education for all students regardless of risk status is that the program will have the support and participation of all. The disadvantage is that programs for all are more costly. Further, Regents discussion of these and other policy issues is planned to occur in the near future.

Regents Recommendations for 2007-08

The Regents goal is to make funding available to allow school districts to adopt programs to make pre-kindergarten programs universally available. The Regents recommend that funding for early childhood education be streamlined into one funding stream and that the distribution of funding be equalized on the basis of school district fiscal capacity and the level of student need. Funding for early childhood education should be separate from but aligned with funding for kindergarten through grade 12. Funding for pre-kindergarten through grade 12 should provide school districts with the resources needed to give all students the opportunity to meet State learning standards.

Pending further discussion of outstanding policy issues by the Regents, funding should be phased in over time to provide *Early Childhood Foundation Aid* for all three- and four-year olds. In addition, the Regents recommend that aid for instructional materials be revised to allow aid for those that promote early learning, as provided for in the following section.

To address the need for full-day kindergarten programs, the Regents recommend planning grants for the additional classrooms needed. Beginning in 2008-09, the Regents will advance recommendations to phase in the funding for all kindergarteners to participate in full-day programs over a three-year period.

Provide Flexibility in Aid for Instructional Materials

Although the Governor and Legislature have provided support for instructional materials in the form of *Textbook Aid* and *Software Aid*, changes in education suggest the need for commensurate changes in State Aid.

First, instructional materials are increasingly available electronically so *Textbook Aid* was recently amended to allow textbooks in electronic format to be eligible for aid. This change blurs the distinction between

Textbook Aid and *Software Aid*.

And, schools throughout the State are designing science and mathematics curricula to provide an inquiry-centered instructional approach that involves the use of relevant equipment, professional materials, supplies and science kits or mathematics manipulatives, rather than textbooks. Such experiential learning has helped students master State standards and has supported State and national efforts to strengthen student preparation in mathematics and science.

Textbooks may not be the most appropriate instructional materials for kindergarteners. Instead of textbooks early childhood educators use developmentally appropriate educational games and hands-on manipulatives that promote early literacy, numeracy, scientific inquiry, and social learning.

The Regents recommend that the Governor and Legislature consolidate *Textbook Aid* and *Software Aid* into a new *Instructional Materials Aid*. The definition of eligible instructional materials should include equipment materials, supplies, kits and other manipulatives used in the instruction of K-12 mathematics and science and for kindergarten only, educationally-based materials such as developmentally appropriate games and hands-on manipulatives that promote early learning.

Increase Library Materials Aid to Close the Gap in Student Achievement

The Benefits of Strong School Library Collections

The impact of school libraries with strong print collections on raising student performance levels is well researched. Studies of more than 3,300 schools across the country demonstrate that, while there are many characteristics that define a strong school library, the number of books per student is one very significant factor. [3]

Additional research has found that access to educational resources outside of school varies considerably by socio-economic background and contributes to lasting achievement differences of children. [4] Some of these studies focused on the access of children to library books and found "dramatic disparities in three communities, ranging from high to low income." [5] The high income community had significantly more library books for children to interact with.

High performing schools have school libraries with significantly more resources per student than low performing schools. The investment in school library materials is a cost-effective strategy for addressing the persistent pattern of high student need, limited resources, and poor performance in many districts.

New York State School Library Funding Issues

School library collections are funded in part by State school *Library Materials Aid* which has been $6.00 per pupil since 1998, despite a 30 percent increase in the cost of the average library book since 1999 to $21.60. [6] Currently, school districts in New York State spend on average approximately $13 per pupil on school library materials. However individual district expenditures vary greatly, with high-need districts spending the

east. Successful school districts, identified for the development of the Regents State Aid Foundation Proposal, which have an average of 80 percent of their students passing seven State tests over three years, spend on average $17 per pupil for school library materials. Large gaps in performance between high-need and low-need districts are well documented [7]. The result is that students who would most benefit from a strong school library with adequate collections are the least likely to have access to such resources.

The recent Court of Appeals decision in the Campaign for Fiscal Equity case regarding State funding of public schools determined adequate school libraries to be part of a "sound, basic education." The Court urged the Governor and Legislature to provide funding for up-to-date school libraries as one important means of achieving equitable access to a basic education for students in low-income communities.

The Regents have made closing the gap in achievement a priority. The Governor and Legislature must ensure that youngsters in high-need districts, which are most dependent upon State school *Library Materials Aid*, have access to school libraries with adequate collections.

Funding Recommendation

The Regents recommend that school *Library Materials Aid* be increased to enable school libraries in high-need communities to provide a comparable level of collections to their students as those in successful school districts.

Enact a Simplified Cost Allowance for State *Building Aid*

The Regents recommend that the Governor and Legislature simplify the maximum cost allowance formula for State *Building Aid.* The law sets a reasonable cost ceiling for all capital projects. However, the current system is an overly complex and inefficient process that, in some cases, forces a district to compromise the desired educational goal in order to achieve maximum reimbursement. The Regents propose that the State calculate a cost allowance based on a certain allotment of space and cost per enrolled pupil, according to the following formula:

Cost Allowance = Projected Pupil Enrollment x Allowed Square Feet

Per Pupil x Allowed Cost per Square Foot x Regional Cost Factor

The current New York State Labor Department Cost Index would be used to update allowable costs on a monthly basis. Unlike the Regents Regional Cost Index proposed for *Foundation Aid*, which is fundamentally a professional wage index, the New York State Labor Department cost index is based solely on the wages of three major occupational titles critical to the building industry. A simplified formula would offer greater educational flexibility, ease of understanding and transparency.

Strengthen Accountability for the Use of Funds

Since 1996 when the learning standards were implemented, the number of high school graduates has increased by more than 16,000 students. During that time, school expenditures have increased by more

:han 60 percent. How do we know if resources are well spent? How can we accelerate the progress that is occurring?

New York State Education Department has developed a school accountability system which is a nationally recognized model for student performance accountability. Approximately 70 percent of New York State schools are making adequate yearly progress. The other 30 percent of schools need varying levels of support and assistance to close the gaps. These low performing schools are the focus of intensive State efforts.

As schools have improved or closed, the system has resulted in fewer schools identified for improvement. The progress that has occurred can be accelerated and improved with more State oversight, support for school-by-school reform and tools that process data and aid and help school districts monitor their financial condition. Attachment B describes the current accountability system and the details for making a good system an excellent one. Funds to implement the proposals that are described are requested as part of the Department's budget request.

Accountability for Student Success

The Current System

New York State's public reporting and accountability system establishes a framework that recognizes the dual responsibility of local districts and the State to ensure that public dollars are spent effectively to provide all students the opportunity for a sound basic education. New York's public reporting and accountability system is comprehensive, rigorous and successful. The system has resulted, for example, in improvements in English language arts and mathematics achievement since 1999 and in a decline of the number of extremely low-performing schools in the State. In 2005-06, 84 percent of New York State schools were in good standing under the accountability system. The system responsible for this progress identifies low-performing schools and districts and imposes a series of graduated actions at the local level and interventions at the State level to improve student achievement. Where results do not improve, consequences follow.

The Commissioner determines annually whether every public school and district is making Adequate Yearly Progress (AYP) in English language arts, mathematics, elementary-middle level science and graduation rates. When a school fails to make AYP for two consecutive years on the same accountability measure, the school is identified as a School Requiring Academic Progress ("SRAP") and, if the school receives Title I, Part A funds, as a School in Need of Improvement ("SINI"). Among other things, these schools must develop a two-year school improvement plan that is annually updated. In addition, all schools in improvement status under Title 1 are required to offer parents the option to transfer their children to other public schools within the district. If a school is not identified as requiring academic progress or as in need of improvement but fails to achieve the State standards in English language arts or mathematics, the district must develop a Local Assistance Plan for the school.

Once the Commissioner identifies schools as needing improvement, a series of increasingly rigorous sanctions is triggered. In each subsequent year that the school does not make AYP on the accountability measure for which it was identified, it advances to the next accountability level. Schools in need of improvement that subsequently fail to make AYP in their area(s) of identification must offer eligible students supplemental educational services. School districts are required to initiate one of several corrective actions for schools that fail for two years subsequent to identification to make AYP in their area(s) of identification. The Commissioner requires the district to restructure or close schools that have failed to make AYP for four years following identification.

The Commissioner also identifies for registration review schools that are farthest from State standards and most in need of improvement. Once identified for registration review, the Commissioner assigns the school performance targets that it is expected to achieve within a specified time or risk having its registration revoked. After being placed under registration review, the school is visited by an external team that audits planning, resources and programs. The school uses the report of the external team to develop a comprehensive education plan, and the district uses this report to develop a corrective action plan.

Local school districts, regional school support centers, distinguished educators, and SED staff provide schools that are identified for improvement with additional assistance and support. In general, the State Education Department itself focuses its efforts on Schools Under Registration Review ("SURR schools"). Regional school support centers and distinguished educators provide critical support to schools designated SURR and SINI.

In addition to individual school accountability, the State Education Department is also responsible for

determining whether each school district achieves AYP. As in the case of schools, school districts that fail to make AYP for two consecutive years are designated as Districts In Need of Improvement ("DINI") and must develop district-wide improvement plans. Pursuant to the NCLB, the Commissioner must take corrective action against a district that receives Title I funds if it fails to make AYP for two years after being designated as needing improvement.

As part of the Department's process of determining the performance status of schools and school districts, the Commissioner began, after the 2003-04 school year, to designate schools and districts that meet specific criteria as high-performing. Starting with the 2004-05 school year, certain schools and districts were designated as rapidly improving.

Strengthening Accountability

The Regents have advanced a budget request to strengthen accountability. Its goals are to accelerate progress in increasing high school completions, eliminate the student achievement gap and ensure that resources are well spent. The State should:

- Engage schools in efforts to increase graduation rates;
- Hold schools accountable through monitoring, oversight and audits
- Improve tools for school oversight; and
- Prevent fraud, waste and abuse of school resources;

Increase Graduation Rates

Increase student performance growth with academic intervention teams and distinguished educators ($13 million, first year; $39 million full implementation).

The Commissioner will assign an academic intervention team to each school and district in the State that is identified for corrective action. The purpose of the intervention teams is to build capacity of local educational agencies to successfully undertake corrective actions that result in improved student achievement consistent with State standards. Teams made up of administrators and content experts will provide targeted technical assistance in at-risk schools.

Hold Schools Accountable

Provide program staff to meet monitoring requirements for federal and State funding and to drive improvement ($3.1 million).

In May 2006, Education Secretary Spellings issued a policy letter expressing concern that state education agencies are not sufficiently monitoring schools to ensure compliance with Supplemental Education Services (SES) and School Choice requirements of the No Child Left Behind Act. This policy letter followed federal audit exceptions concerning Title I funds. The federal government expects states to significantly increase their monitoring of schools to ensure both fiscal and program compliance. In order to meet new federal program monitoring expectations and ensure the flow of federal education funds, the SED will need to increase staff to conduct on-site program and fiscal monitoring of schools each year. This in turn will leverage State funding in support of school improvement.

Improving Tools for School Oversight

Develop an Early Warning System to prevent fiscal stress ($300,000 first year; $2.7 million full implementation).

An *Early Warning System* will help the public to know their school's financial status, will help school boards engage in long-range financial planning and will allow State Education Department staff to anticipate and help prevent school district fiscal stress.

Develop a State Aid Management System to streamline school funding ($5 million, first year; $15 million full implementation).

The development of a unified State Aid Management System will address shortcomings of the current system by providing: a single point of access to State Aid data; the means for enabling the Department to collect information from school districts across the State more effectively; the capability to analyze districts' fiscal needs; a streamlined method for distributing funds to school districts; and modeling capability during the annual State budget process to inform and assist the Executive and the State Legislature as they address State education funding.

Prevent Fraud, Waste and Abuse

Assist school district officials with implementing internal controls to prevent fraud, waste and abuse of district resources ($1.0 million).

Additional staff are requested to provide expert support and monitoring for fiscally stressed school districts. They will help the State ensure that fiscally stressed school districts implement a plan to restore themselves to sound financial condition, that districts maximize revenues they are entitled and that they use resources in a manner to maximize student achievement gains. Staff will also ensure that school districts have in place procedures that comply with laws concerning the fiscal oversight of school districts.

Provide audit staff to help ensure resources are used effectively and that data are accurate and reliable ($2.6 million).

The Department will use a risk-based system to focus additional audits on districts with indicators of poor student performance and fiscal stress, or those where concerns have been expressed. Such audits will complement audits conducted by the Office of the State Comptroller of school districts, BOCES and charter schools. In addition, some of the audit resources will be devoted to conducting random audits of school districts that have no known problems or issues. Audits will assess the adequacy of the school district's management and focus on seven key areas: governance and planning, accounting and reporting, revenue and cash management, purchasing and expenditures, facilities and equipment, student services, and student-related data.

Resources requested to strengthen school accountability will be presented in the State Education Department's budget request, rather than in the Regents State Aid proposal. Requested resources are $25 million in 2007-08, $25.6 million in 2008-09, $26.2 million in 2009-10. Over these three years, a total of $76.8 million will provide the tools and oversight to substantially strengthen school accountability in New York State.

End Notes

1] The Chapter 655 Report. A Report to the Governor and the Legislature on the Educational Status of the State's Schools, New York State Education Department, Albany, NY, July 2005.

2]
This methodology is described in Rothstein, R., & Smith (1997). Adjusting Oregon Education Expenditures for Regional Cost Differences: A Feasibility Study. Sacramento, CA: Management Analysis & Planning Associates, L.L.C.

3]
Lance, Keith Curry; Marcia J Rodney; and Christine Hamilton-Pennell. *Powerful Libraries Make Powerful Learners: The Illinois Study*. Canton, Illinois: Illinois School Library Media Association, 2005. online at: http://www.islma.org/pdf/ILStudy2.pdf

Smith, Ester. *Texas School Libraries: Standards, Resources, Services, and Students' Performance*. Austin, TX: EGS Research & Consulting, 2001. Available at: http://www.tsl.state.tx.us/1d/pubs/schlibsurvey/index.html

Baxter, Susan J. and Ann Walker Smalley. *Check It Out!: The Results of the School Library Media Program Census*. Final Report. Saint Paul, MN: Metronet, 2003. available at: http://www.metronet.lib.mn.us/survey/index.cfm

4]
Entwistle, D., Alexander, K., & Olson, L.S. (1997). Children, schools, and inequality. Boulder, CO: Westview.

Neuman, S.B. (1999a). Books make a difference: A study of access to literacy. Reading Research Quarterly, 34, 286-311.

Mcquillan, J. (1998). The literacy crisis. Portsmouth, NH: Heinemann.

5]
Krashen, S. (1998). Bridging inequity with books. Educational Leadership, 54,18-22.

Smith, C., Constantino, B., & Krashen, S. (1996). Differences in print environment for children in Beverly Hills, Compton, and Watts. Emergency Librarian, 24(4), 8-10.

6]
Data are from ST-3 file codes A2610.46 (school library A/V loan program) and A2610.45 (supplies and materials). Currently, only A2610.46 expenses are eligible for reimbursement through Library Materials Aid. The intent of this conceptual direction is for the State to aid the .45 expenses.

7]
The Chapter 655 Report. A Report to the Governor and the Legislature on the Educational Status of the State's Schools, New York State Education Department, Albany, NY, July 2005.

10/19/2006 4:06 PM

THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

TO: Subcommittee on State Aid and Full Board

FROM: Jean C. Stevens

SUBJECT: Detailed Proposal on State Aid to School Districts for 2006-07

DATE: October 24, 2006

STRATEGIC GOAL: 2 and 5

AUTHORIZATION(S):

SUMMARY

Issue for Decision

Does the Board of Regents agree with the detailed proposal setting forth the proposed increase and distribution of State Aid to school districts to support the Board's 2007-08 conceptual proposal on State Aid to school districts?

Reason(s) for Consideration

Review of Policy.

Proposed Handling

This question will come before the Subcommittee on State Aid and the Full Board at the October meeting.

Procedural History

The development of the Regents proposal began in February 2006 with monthly discussion by the Subcommittee on State Aid. The full Board discussed the conceptual State Aid proposal at the September meeting. The Subcommittee Chair and SED staff met with the Department's Education Finance Advisory Group to discuss the conceptual

proposal. The detailed proposal, including the conceptual proposal and funding recommendations, is before the Board for approval in October.

Background Information

For the fourth year, the Board of Regents will carry forward a multi-year proposal to establish a foundation aid program that adjusts for differences in school district pupil needs and regional costs. Its goal is to close the achievement gap in a manner that is adequate, effective and efficient.

Based on data available now, the Regents propose an increase of $1.48 billion over the previous year. However, new information will become available after November 15, and this amount will likely change. Historically, four aids in particular have experienced significant increases as schools report their expenditures: Building, Transportation, Public Excess Cost (special education) and BOCES aids. As a result, the Regents final recommendation will likely be for approximately a $1.7 billion increase. We will provide an update in late November. The charts that follow are based on the preliminary estimate of $1.48 billion.

Recommendation

VOTED: That the Board of Regents recommend a proposal with a preliminary estimated increase of $1.48 billion in State Aid to school districts for 2007-08, with 82 percent targeted to high need school districts, as well as other details included in the attached report.

Timetable for Implementation

Once the Regents approve their detailed State Aid proposal, they will have the opportunity to advocate for its inclusion in the Executive's budget proposal and in enactment of the Legislative budget signed into law by the Governor. Once school funding is in place, the Department will continue to work with school districts on the most cost-effective practices to raise student achievement so that virtually all students meet State learning standards.

Attachment

New York State Board of Regents
Proposal on
State Aid to School Districts
DETAILED PROPOSAL

Exhibit A summarizes the increase the Regents recommend for school year 2007-08 for New York State school districts: $1.48 billion in seven general aid categories. Of this, the Regents recommend that the Legislature and Governor appropriate a $978 million increase for a new, simplified Foundation Aid to help school districts raise student achievement and accelerate gap closing.

Exhibit B shows the share of the increase for high need school districts versus all others under the Regents proposal compared with State Aid for the current school year. The Regents proposal would direct 82 percent of the increase to high need school districts compared with approximately 70 percent currently. This change would ensure all school districts have the resources needed to provide all students with an opportunity to meet State learning standards.

Exhibits C and D show the distribution of the Regents proposal in the first year (2007-08) and at full implementation for need-resource categories of school districts. For example, New York City would receive approximately 51 percent of the overall increase in 2007-08 and approximately 55 percent at full implementation.

Exhibit E shows the proposed distribution of computerized aid per pupil for school year 2007-08 compared with 2006-07 for school districts grouped by need-resource capacity category. The four high need school district categories would have the greatest increase under the Regents proposal while average and low need school districts would experience more modest increases.

The final two pages of this detailed proposal list Regents recommendations for (1) the aids and grants to be consolidated under the proposed Foundation Aid and (2) the aids and grants to be retained as separate aid programs.

Exhibit A. Regents State Aid Proposal

New York State

(all figures in millions)

Program	2006-07 School Year	2007-2008 Regents State Aid Proposal	Regents Proposal Change from Base
General Purpose Aid	**$10,644**	**$11,860**	**$1,216**
FLEX Aid/Foundation Aid	$8,587 [a]	$11,300	
Sound Basic Education Grant	$700	$0	
Supplemental Extraordinary Needs Aid	$136	$0	
All Other Programs	$899	$0	
Foundation Grant Subtotal	$10,322	$11,300	$978
Limited English Proficiency Aid	$21 [a]	$151	$130
Aid for Early Childhood Education	$301 [b]	$409	$108
Support for Pupils with Disabilities	**$2,800**	**$2,921**	**$121**
Public Excess Cost Aid	$2,571	$2,692	$121
Private Excess Cost Aid	$229	$229	$0
BOCES\Career and Technical Education	**$750**	**$829**	**$79**
BOCES Aid	$601	$599	($2)
Special Services - Career Education Aid	$110	$184	$74
Special Services - Computer Admin. Aid	$39	$46	$7
Instructional Materials Aids	**$251**	**$262**	**$11**
Instructional Materials Aid	$232	$235	$3
Library Materials Aid	$19	$27	$8
Expense-Based Aids	**$2,941**	**$2,993**	**$52**
Building Aids	$1,619	$1,627	$8
Transportation Aids	$1,322	$1,366	$44
Computerized Aids Subtotal	**$17,386**	**$18,865**	**$1,479**
All Other Aids	**$331**	**$334**	**$3**
Full-Day Kindergarten Planning Grants	$0	$3	$3
Other Programs	$331	$331	$0
Grand Total	**$17,717**	**$19,199**	**$1,482**

(a) The base year estimate for Limited English Proficiency reflects the fact that LEP Aid was consolidated into FLEX aid.

(b) The Regents proposal includes funds for targeted prekindergarten grants that were appropriated outside of General Support for Public Schools in 2006-07. They are included in the 2006-07 estimates for comparability.

NOTE: These estimates are based on the most recent data available as of September 1, 2006, and will be updated to reflect district estimates for the 2007-08 school year, submitted for the database produced by the State Education Department on November 15, 2006.

Exhibit B
Computerized State Aid Increases
How They Are Distributed

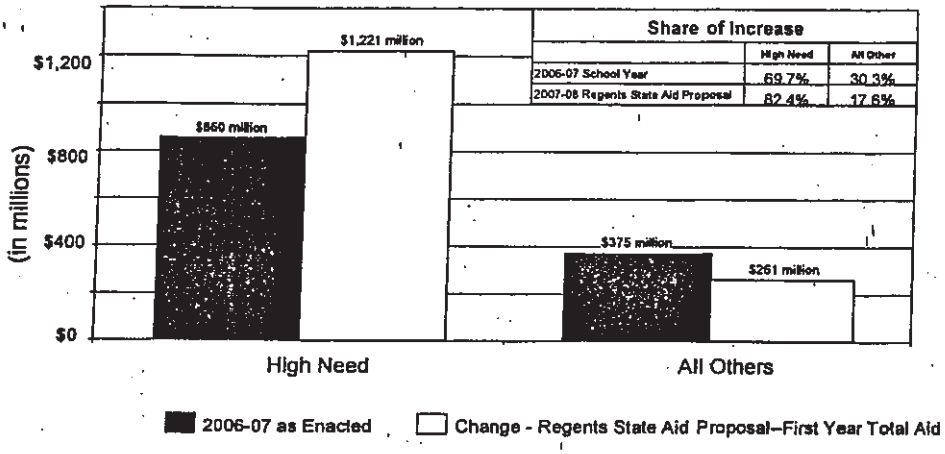


Exhibit C
Regents State Aid Proposal First Year Impact
Share of Overall Increase for 2007-08

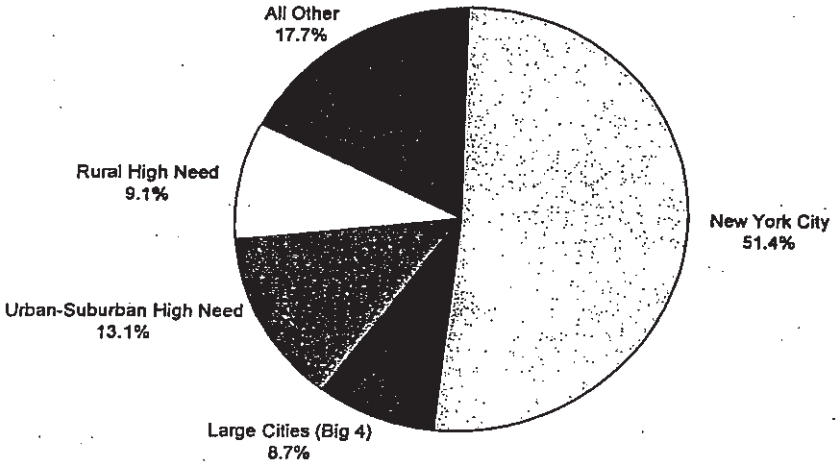


Exhibit D

Regents State Aid Proposal - Fully Implemented

Share of Overall Increase for 2010-11

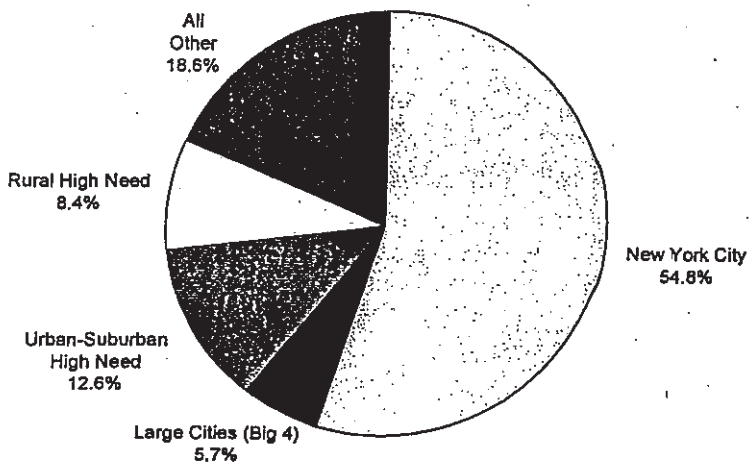
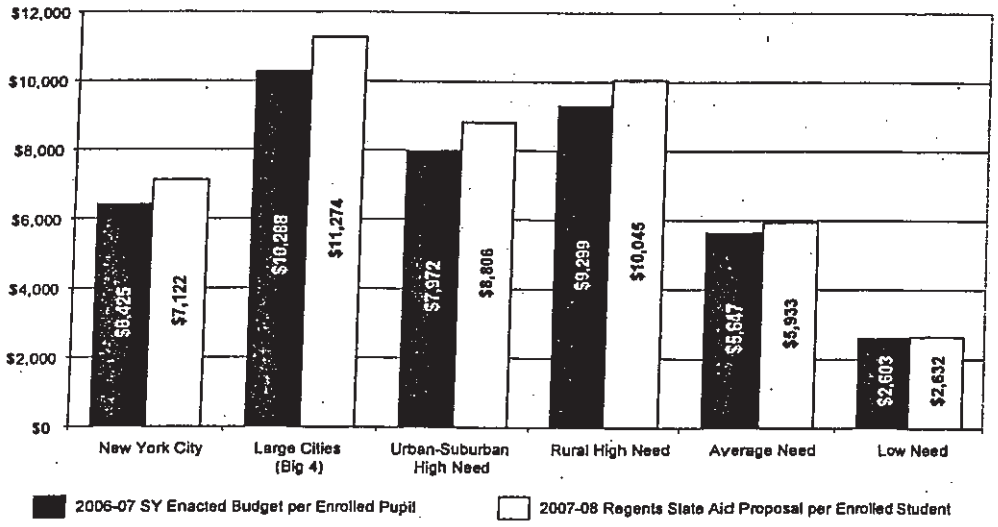


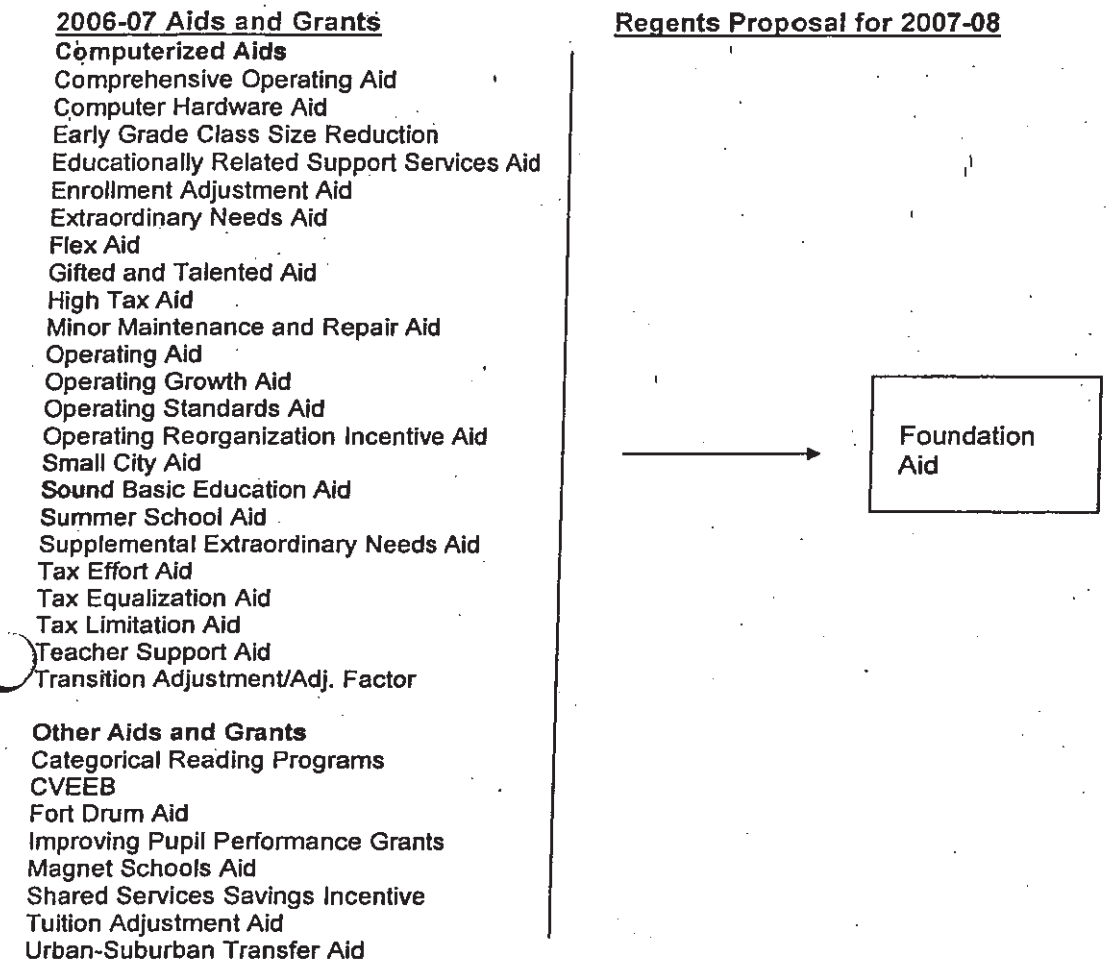
Exhibit E

Distribution of Computerized Aid per Enrolled Pupil



Aids and Grants to be Consolidated and Other Aids Under the Regents Proposal on State Aid to School Districts for School Year 2007-08

Aids and Grants Replaced by the Proposed Regents Foundation Formula



Other Aids Continued Separately for 2007-08

Other Aids and Grants
Bilingual Education Grants
BOCES Aid
BOCES Spec Act, <8,Contract Aid
Building Aid
Building Reorganization Incentive Aid
Computer Software Aid/Textbook Aid
Bus Driver Safety Training Grants
Chargebacks
Division for Youth Transportation
Education of OMH/OMR
Education of Homeless Youth
Employment Preparation Education Aid
Engineers of the Future
Fiscal Stabilization Grants
Full Day Kindergarten Conversion Aid
Full Day Kindergarten Planning Grants
Incarcerated Youth
Institutes of Mathematics and Science
Learning Technology Grants
Library Materials Aid
Limited English Proficiency Aid
Native American Education
Native American Building Aid
Prior Year Adjustments
Private Excess Cost Aid
Public Excess Cost Aid
Roosevelt
Special Act Districts Aid
Special Services – Career Education
Special Services – Computer Administration
Student Health Services
Teacher Centers
Teacher-Mentor Intern
Teachers of Tomorrow Grants
Transportation Aid
Universal Pre-Kindergarten Aid

TAB 3

Supreme Court of the State of New York
County of New York: I.A.S. Part 25

Campaign For Fiscal Equity, et al.,

Plaintiffs,

v.

Index No.
111070/93

The State of New York, et al.,

Defendants.

MEMORANDUM OF LAW ON BEHALF OF AMICUS CURIAE
NEW YORK STATE BOARD OF REGENTS

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MEMORANDUM OF LAW

Preliminary Statement

The New York State Board of Regents, as amicus curiae, respectfully submits this Memorandum of Law to provide the Panel of Referees (the "Panel") with additional information about the Regents State Aid Proposal for 2004-05 and proposed enhancements to New York State's accountability system, which together comprise the Regents plan to reform financing of public education in New York State (the "Regents Plan").[1]

This Memorandum of Law expands upon the Regents August 10, 2004 submission to the Panel by providing a more detailed description of the Regents Plan, explaining the rationale for the Plan, and describing how the Plan satisfies the mandate of Campaign For Fiscal Equity, et al. v. State of New York, et al., 187 Misc. 2d 1 (2001). As shown below, the Regents Plan: (1) ascertains the cost of providing a sound basic education; (2) reforms the current system of school funding to ensure students have the opportunity for a sound basic education; and (3) proposes a system of accountability to measure whether proposed reforms actually provide an

[1] The Regents Plan and an executive summary thereof was submitted to the Panel on August 10, 2004 as Exhibits B and A, respectively, to the Affidavit of Kathy A. Ahearn.

opportunity for a sound basic education. The Plan is a simple, elegant solution that warrants the Panel's recommendation.

I. THE REGENTS PROPOSED FOUNDATION FORMULA EFFECTIVELY DRIVES FUNDING TO EDUCATIONAL NEED

Judge DeGrasse's order, as modified by the Court of Appeals, requires defendants to reform State aid to public education to ensure that students attending New York City schools have the opportunity for a sound basic education. In response, the Regents propose that the current State aid system be abandoned, and a new system adopted statewide that focuses on identifying student need and targeting funds to that need.

There are several possible approaches to school aid reform. After careful consideration, the Regents decided on a Foundation Formula approach. The Regents Foundation Formula replaces 29 existing formulae with one that has only four components. By design, it is simple, predictable, and easily understood by the public.

The Foundation Formula first calculates the average cost of educating a general education student in New York State (i.e., the "Foundation Cost"). See, Point IA, infra. The Foundation Cost is then adjusted by two indices, the "Pupil

Need Index," which accounts for the additional cost of educating disadvantaged students (see, Point IA(1), infra), and the "Regional Cost Index," which accounts for cost disparities in different geographic areas (see, Point IA(2), infra). The State's share of aid is then calculated by subtracting from the adjusted Foundation Cost an "Expected Local Contribution" from each district (see Point IB; infra), and multiplying that result by a pupil count (see, Point IC, infra). The Foundation Formula is represented as:

Foundation Formula Aid = [Foundation Cost x Pupil Need Index x Regional Cost Index] - Expected Local Contribution

There are, of course, alternatives to the Foundation Formula approach (e.g., matching grants, expense-based aids, close-ended matching programs)[2], but the Regents considered and rejected these approaches in favor of the Foundation Formula, and urge the Panel to do the same. The Foundation Formula approach has several advantages. It sets aid independent of any decisions by districts on how much to spend. It also provides certainty to districts regarding how much funding they will receive. And, most significantly, it

[2] For a detailed discussion, see W. Duncombe and J. Yinger School Finance Reform: Aid Formulas and Equity Objectives, *National Tax Journal*, June 1998, pp. 239-262.

explicitly links school funding to the cost of educating children and drives dollars where they are most needed.

As Judge DeGrasse found, New York State's current school funding system does not effectively address educational need. It is instead the result of decades of legislative amendments, some of which benefit single districts and others that negate or control other formulae. Consequently, the current distribution of State funds bears little relationship to student need. The Regents Foundation Formula approach fundamentally alters that status quo.

A. The Regents Plan Accurately Measures The Cost Of Student Success.

Judge DeGrasse directed that the State calculate the cost of a sound basic education. The first element of the Foundation Formula, the "Foundation Cost," is the Regents starting point for determining cost.

The Regents Plan uses a "successful schools" methodology to determine Foundation Cost. This method identifies actual schools that meet a defined standard and then estimates per pupil spending in those schools.[3] The "defined standard" set by the Regents as a proxy for sound basic education has three components. The Regents standard selects school districts

[3] This does not include certain school district expenditures (which are aided separately, see Point II, infra) including special education services, transportation, debt service and others.

where students were achieving an average of 80 percent success on seven required Regents examinations (English and Math at the elementary level and five Regents examinations – Math A, Global History, U.S. History, English and Earth Science) in 1999-00, 2000-01 and 2001-02. This standard reflects student achievement at both the elementary and secondary school levels, avoids atypical results of any one year by averaging data from three years, and provides evidence that a large number of students are capable of achieving Regents standards. Indeed, the Regents approach yielded over 300 of the State's 681 major school districts, and therefore produced useful spending information. Applying this standard, the Regents concluded that successful schools are spending $4,504[4] per pupil for general education instruction.

In the Regents view, the successful schools approach best satisfies the Court's requirement to ascertain the cost of providing a sound basic education. It uses actual examples of successful schools, rather than hypothetical models, to calculate the cost of success. The approach is simple, employs basic mathematics and avoids complex statistical calculations of two alternative models, the professional judgment model (used by CFE) and the cost function model, both

[4] Spending per pupil was calculated as average spending in three years: 1999-2000, 2000-01 and 2001-02. This amount was increased to account for inflation to create an estimate for 2004-05.

of which rely on econometric techniques to interpret findings.[5] Both of these methodologies have limitations that undermine their effectiveness. The professional judgment method uses a panel of experts to define the components of model schools, and then "costs out" these components. But the results are necessarily based on the subjective judgments of a few individuals whose views are influenced by their particular frames of reference. The cost function method collects a variety of data from around the state, including school district spending and performance information, and uses statistical procedures to predict the spending required to meet a chosen performance standard in a school district with average characteristics.[6] However, it uses econometric techniques involving multiple regression statistical procedures, making it difficult for legislators and the general public to understand how the formula works. The Regents therefore urge the Panel to adopt the successful schools methodology as it most accurately establishes the actual cost of student achievement.

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[5] For a review of the process of estimating the cost of adequacy, see W. Duncombe, A. Lukemeyer and J. Yinger, 2004. "Education Finance Reform in New York: Calculating the Cost of a 'Sound Basic Education' in New York City." Center for Policy Research Policy Brief, #28, Syracuse, NY: Syracuse University (http://www-cpr.maxwell.syr.edu/pbriefs/pb28.pdf)

[6] See, W. Duncombe and J. Yinger (2004), Comparison of School Aid Reform Proposals for New York State. The Maxwell School, Syracuse University. (http://cpr.maxwell.syr.edu/efap/Campaign%20for%20Fiscal%20Equity/Comparison%20of%20Proposals2a.pdf)

1. The Regents Plan Properly Adjusts Cost To Account For Pupil Need.

Because some students require additional time and help to achieve the State learning standards, the Regents Plan adjusts the Foundation Cost of $4,504 by a "Pupil Need Index." The Pupil Need Index recognizes the additional cost of providing extra time and help for high-risk students to succeed. Thirty years of research has proven that there are additional costs associated with educating students in poverty and in schools that are small because of geographic isolation. Applying the Index increases the Foundation Cost for districts with more needy pupils.

The Regents Pupil Need Index is based on the number of students eligible for free and reduced price lunch and students living in geographically sparse areas of the State. The Index ranges from 1.0 to 2.0, where 1.0 represents a school district with no needy pupils and 2.0 represents the index for a school district with 100 percent needy pupils. The Pupil Need Index employs a formula to taper (or gradually credit) the importance of poverty; the effect is like a continuum of weightings. This enhances the cost-effectiveness of the aid system by linking dollars to different levels of student need.

The specific index chosen by the Regents is based on SED research. A September 2003 State Education Department study of educational need[7] asked how to establish an additional weight for educational need. It found that states use additional weightings of from 0.25 to 1.0 based on the availability of funds. It also reported that additional weightings from 1.0 to 2.0 are recommended by experts to raise students from economically disadvantaged backgrounds to the achievement levels of their more advantaged peers. The study concluded that New York should use an additional weighting of 1.0 for each needy pupil in districts with the highest concentrations of student need.

2. The Regents Plan Properly Adjusts Cost To Account For Differences In Purchasing Power.

Because the purchasing power of a dollar varies in different parts of the State, the Regents Plan further adjusts the $4,504 cost figure by a "Regional Cost Index." The Regional Cost Index operates to standardize costs across the geographic areas in which school districts operate.

The Regents Regional Cost Index is measured based on wages of non-school professionals in each of nine labor

[7] Glasheen, R. An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance. New York State Education Department. Report to the Board of Regents, September 2003.

regions of the State, as defined by the New York State Department of Labor. Labor regions are composed of groupings of contiguous counties. The Regents Proposal uses regions rather than school districts because job seekers tend to access an entire region when seeking employment and do not necessarily limit themselves to a single school district.

The Regents Regional Cost Index is also based on the wages of non-school professionals. Teachers are purposefully excluded because school districts exercise unusual market influence over the price they pay for teaching services, which may distort the free market costs the index is intended to represent. The varying salaries paid teachers may reflect the preference of an individual district to pay more than an adjacent, competing one, rather than economic factors beyond the district's control.

The Regents Regional Cost Index was the product of careful study. It was developed after a review of national research on adjusting school aid for variation in costs[8]. The index also reflects the recommendations of several New York State special legislative commissions charged with making

[8] For a review of this research, see *Recognizing High Cost Factors in the Financing of Public Education: A Discussion Paper and Update Prepared for the New York State Board of Regents* SA (D) 1.1 (Sept., 2000) and the technical supplement entitled *Recognizing High Cost Factors in the Financing of Public Education: The Calculation of a Regional Cost Index* (Nov., 2000). Copies can be obtained by contacting the Fiscal Analysis and Research Unit at (518) 474-5213 or visiting their web site at http://www.oms.nysed.gov/faru/articles.html.

recommendations to improve New York State's school funding system: Fleischmann in 1972; Rubin in 1982; and Salerno in 1988. SED used wage data from the 2001 Occupational Employment Statistics Survey collected by the Bureau of Labor Statistics for 63 non-education professional job titles that required at least a Bachelor's degree for employment and thus could be expected to compete with the teaching profession. Median hourly wage data were provided for each title statewide, as well as for each of nine labor regions. SED then weighted these occupational wages in each region to mirror the workforce mix of the 63 titles statewide. The index chosen ranges from 1.0 for the North Country labor force region to 1.496 for the combined New York City-Long Island labor force regions.

B. The Regents Plan Derives A State Aid Share By Subtracting From The Adjusted Foundation Cost An Expected Local Contribution.

School funding is a state and local partnership, and localities must contribute their fair share of education spending. Thus, once Foundation Cost is determined, the Regents Plan subtracts an "Expected Local Contribution" to arrive at the level of aid the State will supply. The Expected Local Contribution is an amount school districts are expected to spend as their share of the total cost of general

education. The Regents Plan measures it by multiplying the district tax base by an expected tax rate, adjusted by district income per child. The Regents Plan adjusts the tax rate by district income per child to assess the fiscal capacity of school districts by their income wealth as well as their property wealth. This method preserves both measures of district wealth (income and property) and the structure of the Foundation Formula.

Under the Regents Plan, the Expected Local Contribution is not a mandated tax rate, but a way of determining an equitable local share in order to calculate State Aid. By not mandating a local contribution that may be difficult to enforce, it ultimately holds districts accountable through public reports of student performance and school district local effort. If a district does not adequately fund its share, but student performance remains high, there need be no consequence. If student performance suffers, however, State intervention will be triggered through the State Accountability System (see Point IV, infra).

C. The Regents Plan Properly Accounts For The Number Of Students Aided.

Once State aid is determined for each district, that amount is multiplied by a count of pupils in the district to

determine the total aid the State will pay to each district. In the Regents proposal, this pupil count also includes a weighting (or additional count) for summer school students. For example, a student who attends summer school is counted as 1.12 and one who does not is counted as only 1.0. In addition, the Regents proposal recommends counting students enrolled in school districts (i.e., average daily membership) rather than those actually attending (i.e., average daily attendance) as is done in current formulae. By relying on average daily membership, the Regents proposal eliminates any disadvantage high-need school districts may suffer due to poor attendance.

II. THE REGENTS PROPOSED FOUNDATION FORMULA CONSOLIDATES 29 AIDS, BUT RETAINS SEVERAL SEPARATE CATEGORICAL AIDS

The Regents Plan is similar to others before the Panel in that it recommends some consolidation of aids for basic school operation. Specifically, the Regents propose to consolidate into the Foundation Formula 29 aids. The Executive Proposal would consolidate only seven aids, including general education instruction, special education (except high cost and private school), and pre-K programs, and the CFE proposal would consolidate as many as 39 aids, including general education instruction, special education (except high cost and private

school), early education (for children ages 3, 4 and 5), and programs for English language learners. Consolidation simplifies the formula, allows for increased equity, and gives districts greater flexibility in spending.

The Regents Plan also retains certain aids separately:

Aids For School Transportation And School Construction

Because they can vary significantly around the State from year to year, these aids should be retained separately. For example, school construction costs may be high for a district for a number of years for a project and then small or nonexistent afterward. Aid for transportation and school construction are also provided based on approved expenses, a different basis than that used for Foundation Aid.

The Regents Plan on building aid addresses many of the conditions cited by Judge DeGrasse. The Plan confronts severe over-crowding and improves the capacity of school buildings to support educational programs that are key to closing the student achievement gap. Recommendations include:

- Allowing school districts to use the Dormitory Authority of the State of New York to finance and manage school construction projects. The Dormitory Authority can help school districts reduce construction costs by assistance with master planning,

feasibility studies, cost-benefit analyses, analysis of materials selection, and third-party review of construction documents;

- Providing a supplemental cost allowance for school site acquisition and demolition in New York City;
- Providing grants to relieve severe overcrowding in New York City and identifying strategies for reducing school construction costs; limiting grants for building new space to relieve overcrowding in schools that currently provide less than 100 square feet per child.
- Encouraging the reduction of local costs by exempting school districts from the Wicks Law, thereby allowing a single general contractor for school construction projects in excess of $50,000, rather than four separate contractors as currently required.

Special Education Aid

Whether to consolidate aid for special education into the Foundation Formula is a complex question. The Regents believe this issue requires further study and comment from the field. The Regents will revisit the treatment of aid for special education in their State aid proposal for 2005-06. That proposal is currently under development.

Universal Pre-K Funding

The Regents Plan does not include grants for Universal Pre-K because current funding levels do not enable all districts to participate. When full funding occurs, these programs can be considered for incorporation in the Foundation Formula. In the meantime, the Regents have maintained separate categorical grants to support Pre-K education.

BOCES Aid

Regional and shared services are a key component for a strong education system. BOCES were originally established to give students from geographically sparse areas of the State access to programs that only school districts in more densely populated areas of the State could afford. As poverty continues to grow in our large cities, the original rationale no longer fits, and students in city school districts also need access to regional or shared services. The Regents Plan recommends that these services be available in cities to the same extent as the rest of the State.

The Regents Plan also provides support for existing regional shared services. It recommends that the State continue to provide State Aid for regional shared services separately from the Foundation Formula through BOCES Aid and Special Services Aid for noncomponent school districts,

including the Big Five City School Districts. Programs funded include career and technical education, information technology and professional development. The Regents recommend that the State:

- Allow access to BOCES services and provide aid for noncomponent districts that share services with at least one other district and pay an administrative surcharge to BOCES.
- Require districts to demonstrate maintenance of local effort and receive approval for each service requested by a BOCES District Superintendent appointed to coordinate such requests. The coordinating BOCES should be a BOCES with a Regional Information Center in a region adjacent to the relevant city.

Textbook And Instructional Materials Aids

The Regents have maintained Textbook Aid, Computer Software Aid and Library Materials Aid separately because they are different in nature from general-purpose aids and work most efficiently as expense-based aids.

Aid For Limited English Proficient Students

The Regents Plan also retains aid for the education of limited English proficient students and bilingual education grants as separate categorical programs. The Regents propose to keep these aids separate at this time to ensure that they continue to be used for their intended purpose. As school accountability systems improve, providing disaggregated achievement results for separate groups of students including limited-English-proficient students, consideration should be given to folding these aids into the Foundation Formula.

Federal Aid

Unlike the Executive Proposal, federal aid is not included in the Regents proposal. Because funding education is a State responsibility, the Regents Plan considers State and local school district funds only. Most federal funds can be used only to supplement, not supplant, a state's commitment to education. In fact, 20 U.S.C. §7902 of the No Child Left Behind Act ("NCLB") specifically prohibits states from considering payments of federal education dollars under NCLB in determining the amount of State aid payable to school districts. Accordingly, the Panel should not consider federal funds as a source to meet the State's obligation to fund education.

III. THE REGENTS PLAN RECOMMENDS $14.35 BILLION IN FOUNDATION AID OVER SEVEN YEARS

To provide the opportunity for a sound basic education, the Regents Plan recommends an increase of $880 million for school year 2004-05, with $508 million of this increase provided for Foundation Aid. Forty-three percent of the increase will go to New York City. The Regents Plan limits each district to a maximum increase of 15 percent (see discussion below), capping New York City at 43 percent in the first year. Since New York City is far from its calculated Foundation level, it would continue to receive maximum aid increases until full implementation. The Regents Plan calls for the total increase to be phased-in over seven years. When fully implemented, the Regents proposal will provide $14.35 billion in Foundation Aid, a $5.98 billion increase over comparable funding in 2003-04. New York City would receive 64 percent of the increase by year seven.

The Regents Plan redirects this increased funding to where it is most needed. Eighty-four percent of the increase in State aid goes to high need school districts in 2004-05 and 88 percent goes to high need school districts at full implementation of the proposal. Low and average need school districts would receive 16 percent of the aid increase in the first year and 12 percent at full implementation.

Consequently, some of the highest wealth school districts that have more resources than needed to fund the Foundation Program will lose small amounts of money under the Regents proposal. Moreover, school districts that receive aid for students with disabilities no longer in the district (Public Excess Cost Save-Harmless Aid) will experience a reduction for students no longer attending the district. Accordingly, the Regents Plan recommends that Public Excess Cost Save Harmless aid be provided on a per-pupil basis, that is, only for currently attending pupils with disabilities. This guarantees that if the formulae provide less than in the previous year, additional aid is provided to ensure no loss per pupil.

The Regents recommend very limited hold-harmless protections for Foundation Aid, by allowing a wealth-equalized loss up to 15 percent over the prior year. To the extent that already scarce funds are used for hold-harmless, fewer are available to target educational need. The Regents therefore recommend against broad hold-harmless provisions like those proposed by the Executive and CFE.

The Regents chose a seven-year phase-in to give the State time to produce the funding increase and to allow districts time to use the increased funds in the most cost-effective manner. School districts require time to effectively spend additional resources and accommodate funding changes. The

Regents estimate that school districts can effectively absorb up to a 15 percent annual increase in Foundation Aid, so annual increases were capped at this level. While some districts may be currently spending close to or greater than the Foundation Cost that the Regents estimate is needed, it takes seven years for all school districts in the State to be fully funded at their estimated foundation levels.

By comparison, the Executive recommends an increase of $4.5 billion in State funds, phased in over five years. Of this increase, $2.2 billion (49 percent) would go to New York City. The Executive specifies that 51 percent of the increase would go to the rest of the State, but does not break this down for high need school districts other than New York City. The Regents respectfully assert that this proposal falls short of what is needed to ensure that students have an opportunity for a sound basic education.

IV. NEW YORK'S SYSTEM OF ACOUNTABILITY SHOULD BE ENHANCED TO ENSURE THAT RESOURCES ARE BEING USED TO PROVIDE A SOUND BASIC EDUCATION

Judge DeGrasse held, and the Court of Appeals agreed, that the State defendants must institute a system of accountability that measures whether the reforms adopted actually provide students with the opportunity for a sound

basic education. In the Regents view, the State does not need a different accountability structure, a new accountability "office", or a new independent oversight panel, to comply with the Court's order. The current system of accountability need only be enhanced and funded, as described below, to satisfy the Court mandate.

New York State's current system of accountability establishes a framework that recognizes the dual responsibility of local districts and the State to ensure that public dollars are spent effectively to provide all students the opportunity for a sound basic education. It is comprehensive, rigorous and it works. The system has resulted, for example, in improvement overall in English language arts and mathematics achievement since 1999 and in a decline of the number of extremely low performing schools in the State. Approximately 70 percent of New York State schools now achieve Adequate Yearly Progress ("AYP") under the NCLB. The system responsible for this progress identifies low performing schools and districts and imposes a series of graduated actions at the local level and interventions at the State level to improve student achievement. Where results do not improve, consequences follow.

Under the present system, the Commissioner of Education evaluates schools on a continuum of criteria to determine if

they are in good standing or will be subject to intervention. When a school performs below the State standard in English language arts or mathematics, the district is required to develop and implement a plan to improve student results.

In addition to assessing whether schools are achieving the State learning standards, the Commissioner also determines annually whether every public school and district is making AYP in English language arts and mathematics at the elementary, middle, and high school levels. When a school fails to make AYP for two consecutive years, the school is identified as either a School in Need of Improvement ("SINI") if the school is subject to sanctions under Title I of the NCLB; or as a School Requiring Academic Progress ("SRAP") if the school does not receive Title I, Part A funds and therefore is subject solely to the requirements of the Regulations of the Commissioner of Education. Among other things, these schools must develop a two-year school improvement plan that is annually updated. In addition, SINI schools are required to offer parents the option to transfer their children to other public schools within the district.

Once the Commissioner identifies schools as SRAP or SINI, a series of increasingly rigorous sanctions is triggered if failure continues. Schools designated as SINI that fail to make AYP must offer eligible students supplemental educational

services. In addition, school districts are required to initiate one of several corrective actions for schools designated as SINI or SRAP that fail to make AYP for a second year. When a school has failed to make AYP for four consecutive years after being identified as a SINI or SRAP, the Commissioner requires the district to restructure or close the school.

The Commissioner also identifies for registration review schools that fail to make AYP and are farthest from State standards and most in need of improvement. Once identified for registration review, the Regents assign the school performance targets that it is expected to achieve within a specified time or risk having its registration revoked. After being placed under registration review, the school is visited by an external team that audits planning, resources and programs. The school uses the report of the external team to develop a comprehensive education plan, and the district uses it to develop a corrective action plan.

Local school districts, regional school support centers, distinguished educators, and SED staff provide schools that are identified for improvement with additional assistance and support. In general, the State Education Department itself focuses its efforts on Schools Under Registration Review ("SURR schools"). Regional school support centers and

distinguished educators provide critical support to schools designated as SURR and SINI.

In addition to individual school accountability, the State Education Department is also responsible for determining whether each school district achieves AYP. As in the case of schools, school districts that fail to make AYP for two consecutive years are designated as Districts In Need of Improvement ("DINI") and must develop district-wide improvement plans. Pursuant to the NCLB, the Commissioner must take corrective action against a district that receives Title I funds if it fails to make AYP for two years after being designated as in need of improvement.

As part of the Department's process of determining the performance status of schools and school districts, the Commissioner will begin, after the 2003-04 school year, to designate schools and districts that meet specific criteria as high-performing. Starting with the 2004-05 school year, certain schools and districts will be designated as rapidly improving.

To comply with the Court's order, the State and local districts must devote more resources to sustained and persistent reform efforts. More schools must be included in the reform effort, and reform must be comprehensive, systemic and permanent. The Panel should therefore recommend that we

build upon and strengthen the current system in several significant ways.

Enhance Technical Assistance and Support

First, the State should enhance its system of technical assistance and support for schools. This would be accomplished through Regional School Support Centers ("RSSC"), Academic Intervention Teams and BOCES.

There are currently seven RSSCs across the State, located in eastern New York, Long Island, the Hudson Valley, Syracuse, Rochester, Buffalo and New York City. These RSSCs provide technical assistance and instructional advice to low performing schools. They identify best practices and disseminate them through technology; work with academic intervention teams assigned by the Commissioner; help analyze student performance data; and develop district and school improvement plans. The work of the RSSCs should be expanded with additional funding and staff to reach more schools.

Academic Intervention Teams help build the capacity of local schools and districts to take their own corrective actions. Building capacity at the local level is indispensable to embedding reform into the school culture. Currently, these teams are staffed by distinguished educators to help improve in specific areas, such as reading and

mathematics. Expanded teams would work with every school district in the State identified for corrective action and each SURR school. They would consist of experts covering all aspects of successful schools: educational management; instructional leadership; curriculum and assessment; academic intervention and support services; parent and community involvement; educational assessment and improvement of classroom instruction. These teams would conduct comprehensive reviews of district and/or school operations, including the design and operation of the instructional program, and develop recommendations for implementation by the schools and/or districts.

BOCES and the District Superintendents who lead them could also be used more effectively in school improvement efforts. There are 38 BOCES throughout the State that work with schools in need of improvement. The State should provide additional funds to offset the local district expense associated with school improvement services provided by BOCES, and make BOCES services available to the Big Five districts, which would benefit significantly.

Improve Data and Information Systems

The State must also improve data and information systems to support school improvement. The State needs a school

district financial indicator system ("FCIS") that would ensure proper stewardship of dollars that pay for public education. The FCIS would include an early warning system for school districts to prevent financial distress; fiscal benchmarks and best financial practices; a public reporting tool providing information about the management of public funds to achieve educational goals; and a long-range financial planning tool for school districts.

Currently no such system exists. The Department's Office of Audit Services collects data to assess the short-run financial condition of school districts, but this does not assess long-term financial condition and cannot be used as a tool for long-range planning by school districts. Information that is currently available on school district finances does not incorporate professional judgments so the public lacks the necessary knowledge to interpret fiscal data.

A statewide student data system must be implemented to assess if reform is taking root. SED has already begun to build such a system, which will create greater capacity to track students, measure their progress, and thus raise the achievement of all students in New York. These efforts could be accelerated with additional funds. The current system can only analyze information for entire groups of students, but the tracking of individual students over time will allow us to

follow individual students through the system and analyze the effectiveness of state strategies and programs. For example, we will be able to measure the benefit of using smaller class sizes with certain groups of students. Such programs often involve the allocation of billions of education dollars without reliable data on their impact on student achievement. An individual record system will also help us to better meet many federal reporting requirements, including those of the NCLB.

The Regents also propose that the State develop a unified State aid management system to address the shortcomings of the current system. This improved system would provide a single point of access to all State aid data, and be capable of analyzing districts' fiscal needs. It would enable SED to more effectively collect information from school districts across the State, and would streamline the method for distributing to districts State and federal funds. The proposed system would provide timely feedback to users in schools districts and SED and would facilitate modeling of state aid formulae for legislative and executive branch use. The current system is a mix of older systems that are not efficient, flexible or as exacting as the proposed system.

An improved data system would include two final components: an update of the web-based system to improve the

efficiency of the grant awards process and provide improved reporting capability, and the elimination of redundant State reporting requirements, freeing districts to engage in more comprehensive planning and reporting. Streamlining plans, applications and reports that school districts submit to SED will reduce administrative burden and increase the focus of planning and reporting to support real gains in student achievement.

Enhance Audit Capacity

The Regents Plan calls for enhanced State oversight of local district transactions to ensure the integrity of district finances. SED would significantly expand its current audit capacity to: conduct more random audits of districts that have no known problems or issues; focus more resources on districts with indications of poor student performance, fiscal stress, or inadequate management controls; and conduct more frequent audits of school districts and review of school district financial statements. The Regents Plan also calls for strengthening protocols for annual school district independent audits conducted by CPAs and increased training on the fiscal oversight responsibilities of school officials and personnel.

Finally, to be effective, these enhancements to the current accountability system must be funded. The Regents expect to provide additional information to the Panel on the cost of these enhancements, if permitted to do so, at a future date.

CONCLUSION

The problem the Panel must solve is complex. The proposals of the Executive, CFE and the Regents help point the Panel to a solution. They have much in common. Each simplifies an archaic and dysfunctional system; focuses on aid for school operation and maintenance; ties finance reform to accountability; recognizes a State and local partnership; encourages a statewide solution; advocates State increases in spending; and recommends a multi-year phase-in period. But there are also sharp differences, particularly in the cost estimates and the structure of a system of accountability. The Board of Regents stands ready as amicus curiae and in its constitutional capacity as education policymakers to help the Panel find a solution that works for the children of New York.

Respectfully submitted,

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Dated: September 14, 2004

TAB 4

Introduction to the Concept of Adequacy

Equity is Fairness

Following are some of the policy goals that have guided Regents State Aid proposals in the past:

- Equity for students, to ensure that a fair level of resources is received by each student;
- Flexibility in the use of State Aid revenue, to allow districts to spend aid in a manner that meets the needs of its students and community;
- Simplicity of the funding scheme to foster lay understanding and reduce administrative burden, usually involving strategies for consolidating numerous formulas;
- Accountability for results;
- Cost-effectiveness, to get the greatest educational gain possible for the dollars spent;
- Stability, to allow districts to plan and budget into the future without fear of dramatic fluctuations in available resources;
- Equity for taxpayers to ensure a fair and adequate local tax effort;
- Closing the gap in student achievement;
- Building local capacity to meet higher learning standards; and,
- Recognition of geographic differences in the cost of education.

The ideal education finance system would meet all these goals, but perhaps the most fundamental of them is student equity. The concern for student equity should be the basis for any sound education funding system.

Equity can be defined to mean fairness. Do all students receive a fair share of the State and local dollars spent on education in New York State? Although the concept of fairness is simple to understand, it has been interpreted in different ways over the past three decades. It is important to understand the development of this concept over time, in order to propose a funding system with the potential to achieve this elusive goal.

Equity as Equality

For many years, equity was interpreted by the courts and the school finance community to mean equality of spending per pupil regardless of district property wealth. The "spending gap" served as the primary indicator of an inequitable state funding system. Major variation in spending per pupil among districts within a state was viewed as the problem. Equalizing spending per pupil among districts disparate in property wealth was viewed as the solution. In the 1970s and early 1980s, many state school finance systems were challenged in the courts. The basis for the challenges was the claim that dramatic inequalities in spending per pupil meant students in property poor school districts were being denied equal educational opportunity; i.e., equal access to education resources.

One problem with interpreting equity as equality of spending per pupil is that the focus is entirely on education *inputs*. The other problem is that this interpretation is based on the assumption that all students are equal and should be treated equally. In reality, some students pose a significantly greater educational challenge than others do. Therefore, *equal spending per pupil will not achieve fairness.*

Equity that recognizes inequalities

Another interpretation of equity presented by the school finance community is based on the assumption that all students are not equal. It acknowledges that some students must receive more resources than others in order for a funding system to be fair. For example, it would be unfair to provide the same per pupil expenditure to students with disabilities as to students without disabilities. Similarly, students with limited proficiency in English deserve access to additional resources. This interpretation of equity explains the proliferation of categorical aids and additional student weightings as components of state school finance systems. Both the additional aid categories and specialized weightings represent the recognition that *some students need greater resources to achieve at appropriate levels.*

But the question remains, "How much more?" How do we know to what extent to recognize the differences among students with different funding levels? This question cannot be answered as long as the focus continues to be on inputs, with no link to educational outputs.

The Introduction of Equity as Adequacy

As mentioned above, the school funding systems in many states were challenged based on the inability of property poor districts to raise the same local revenue as property wealthy districts, and therefore to provide a comparably enriched education program. Often in these cases, state courts determined that all students should have the same educational opportunity; i.e., equal access to education resources, and therefore that the existing state school finance system was unconstitutional. State legislatures were then ordered to develop new funding systems to remedy the "inequity." This, however, was not the result of the legal challenge to New York State's funding system.

The New York State Court of Appeals decision in the Levittown (1982) case was that despite major disparities in spending per pupil among districts, New York's school finance system did not violate the education clause of the New York State Constitution[1]. The New York State Constitution did not require equal spending among districts or equality in the quality of educational programming across districts, provided that minimal standards of educational quality and quantity were met.

The Levittown case helped distinguish between equity as equality and yet another interpretation: equity as adequacy. In the words of the court, "What appears to have been

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[1] The education clause in the New York State Constitution (Article XI, section 1) reads as follows: The Legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of this state may be educated.

contemplated when the education article was adopted at the 1894 Constitutional Convention was a statewide system assuming minimal acceptable facilities and services..." *The Levittown case introduced the notion that a funding system did not need to provide equal resources to be fair.*

Adequacy in 2000

Across the nation, states have been raising education standards. The minimum competence standard, as articulated in the Levittown decision, is being rejected on the premise that students need more than basic competency to be productive citizens in today's world. The movement to redefine education in terms of high minimum outcomes has brought with it the need to design a funding system that is better aligned with the goal of high minimum outcomes for every student. The most prominent members of the education finance community have addressed this need:

> "...the traditional focus on equitable distribution of resources is giving way or expanding to a new focus: ensuring that school finance policy can facilitate the goal of teaching students to higher standards. As Clune (1994a, 1994b) argues, this requires a shift in school finance thinking from equity to adequacy. Such a shift challenges policymakers to identify a new school finance structure that is more directly linked to strategies that raise levels of student achievement." (*Odden, 1998. Creating School Finance Policies that Facilitate New Goals)*

> "A shift is occurring from equity to adequacy in school finance. This shift is being driven by an emerging consensus that minimum outcomes should be the orienting goal of both policy and finance." (*Clune, 1994. The Shift from Equity to Adequacy in School Finance)*

> "The evolving concept of "adequacy" suggests that something beyond equity is at issue. The "something else" is a notion of sufficiency, a per-pupil resource amount sufficient to achieve some performance objective. Thus, adequacy is increasingly being defined by the outcomes produced by school inputs, not by the inputs alone. Clune contends that as the nation increasingly debates means for obtaining higher levels of student academic performance, the policy debate is beginning to shift away from "equity" and toward means for ensuring that students receive resources enabling them to learn to higher standards." (*Guthrie and Rothstein, 1999. Enabling "Adequacy" to Achieve Reality: Translating Adequacy into State School Finance Distribution Arrangements)*

The focus of a funding system based on adequacy is linking inputs to outputs, linking school finance policy to education policy.

To design a funding system that supports the achievement of high standards by every student, we must answer the question, "How much does it cost for each student to meet the standard?". The cost will vary dramatically for different students, depending on their educational needs. Districts with very high concentrations of poor students will require substantially greater resources to achieve the same results as districts without

concentrations of these students. *Interpreting equity as adequacy means that equity will be achieved when every student has access to the resources he/she needs to meet the new standards.*

Adequacy and Fairness

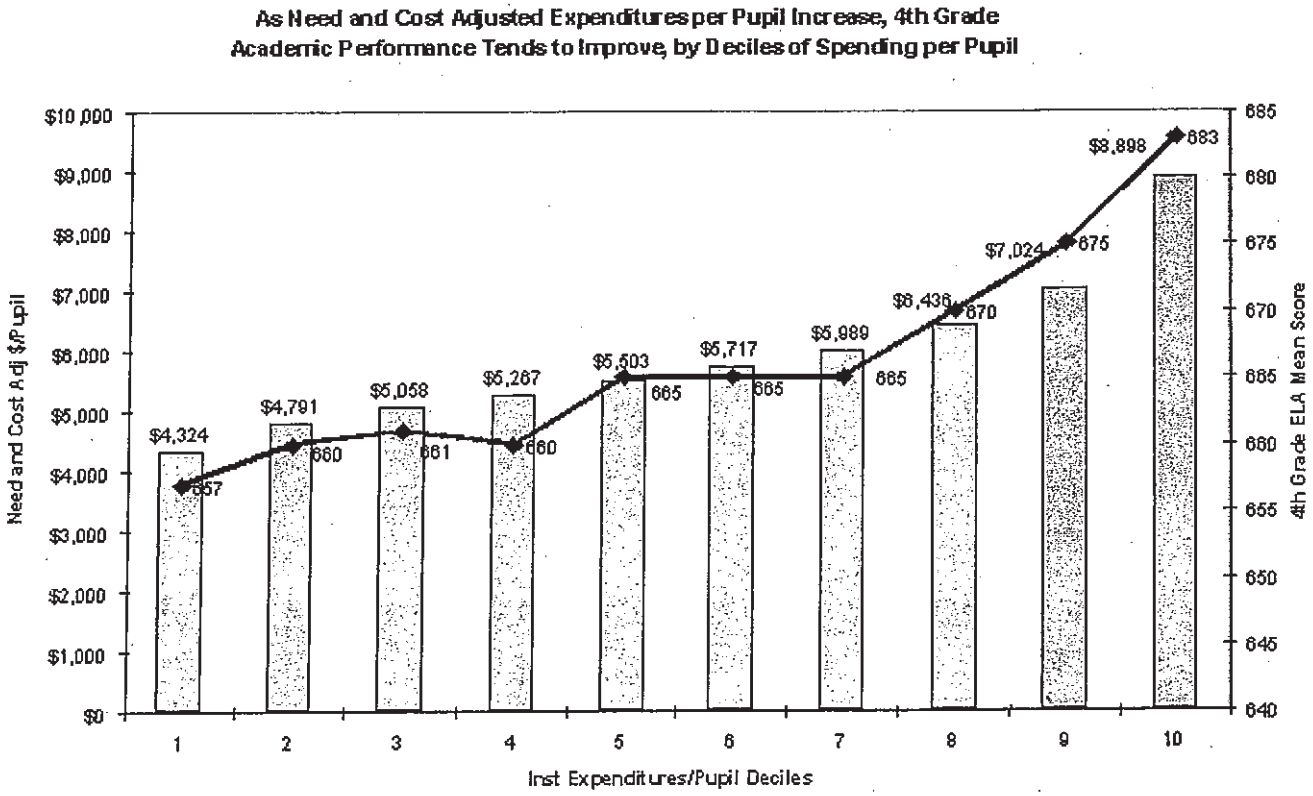
Adequacy as a policy goal is quite different from a student equity policy goal defined as equal spending per pupil. Equal spending per pupil becomes irrelevant once the goal has become for all students to reach the same, high education standard. However, we can continue to define equity in funding as fairness in funding. The principle of fairness must continue to guide the Regents State Aid Proposal. We cannot, in fairness, recommend higher standards for all, without recommending the financial support for districts to achieve that goal. To give every student a fair chance, the Board of Regents must determine the cost of meeting the high outcome standards it has implemented and put forth a funding proposal to support that cost. *It would be fundamentally unfair to create high expectations without providing adequate resources to meet those expectations.*

Adequate Funding is Not Enough

It must be pointed out that even if the goal of adequate funding were achieved, it is possible that student achievement would be unaffected. The link between funding and *successful programmatic strategies* must be made. Additional funding, with no change in the delivery of education services, is not a guarantee of improved student achievement, especially in the lowest performing schools.

TAB 5

An Exploratory Study of the Relationships Among Student Need, Expenditures and Academic Performance



NEW YORK STATE EDUCATION DEPARTMENT
FISCAL ANALYSIS AND RESEARCH UNIT
& STATE AID WORK GROUP
SEPTEMBER, 2003

Executive Summary

This study explores the relations among student need, need and cost adjusted instructional expenditures per pupil, and academic performance. This study attempted to replicate findings from a 2002 study on this topic; provide additional analysis on aggregations other than the

need-resource capacity categories used in last year's study and to include, when appropriate, variables not analyzed in the original report.

The goal was not so much to develop definitive answers, but rather to gain further insight into the relationships that exist among student need, expenditures and academic performance.

An important component of the study was the calculation of need and cost adjusted instructional expenditures. Instructional expenditures were adjusted to reflect the Regional Cost Index endorsed by the Regents. Pupils were adjusted to reflect the free lunch percent of districts.

Major conclusions and observations of the study were:

- Adjusting expenditures per pupil for need and cost is a productive approach for understanding the relationships among expenditures, student need and academic performance.

- For every aggregation studied, as need increases, expenditures per pupil and academic outcomes tend to decline;

- In order to improve academic outcomes some districts may need to improve their educational effectiveness; other districts may need to increase their services to at-risk students. How do we ensure that large State Aid increases will result in educationally effective expenditures and not be used for tax relief?

- The Regents need to give strong consideration to the specific indicators that best encapsulate what is meant by the term students in need or at-risk students. Can other standards besides the free lunch percent or free and reduced price lunch percent be used to measure students at educational risk?

- In terms of State Aid,

  - ✓ The Regents proposed emphasis on student need is roughly on a par with the treatment of need in other states' funding formulas. Given the poor student achievement in school districts with concentrations of poverty, and the strong correlation between poverty, spending and achievement, the Regents should consider the possibility of increasing this emphasis.

  - ✓ If the State wishes to provide State Aid for at-risk students it can provide either an explicit or implicit weight for such students. The literature suggests a weighting between 1.0 and 1.6 is appropriate. States that increased their commitment to at-risk pupils in recent years have tended to provide a weighting of about 1.0.

Or, the State could provide an implicit weighting for at-risk pupils. This strategy does not specifically weight such students. Rather, it provides a designated percentage of Operating Aid(s) to districts for at-risk students.

An Exploratory Study On Understanding the Relationships among Student Need, Expenditures and Academic Performance

For the second consecutive year, the New York State Education Department (NYSED) has analyzed relationships among student need (as measured by the percent of pupils eligible for a free lunch), instructional expenditures per pupil and academic performance (as measured by results of the Fourth Grade English Language Arts (ELA) exam. The studies were designed to provide preliminary insight into the relationships that exist among student need, expenditures and academic performance. They have not been designed to provide final answers.

Last year's study using need-resource capacity categories (NRCs), developed by the NYSED as the unit of analysis, demonstrated that as the free lunch percent increases, expenditures per pupil (after adjusting for regional cost and student need) and academic performance tend to decrease. The need-resource capacity categories are: New York City; Other Large Cities (Syracuse, Yonkers, Buffalo and Rochester), hereafter, this category will be referred to as the Big 4; High Need Urban-Suburban Districts; High Need Rural Districts; Average Need Districts; and Low Need Districts.

Although generally well received, several issues were raised about the report's findings. For example:

- ✓ Were the findings a one-time phenomenon or representative of an enduring pattern?
- ✓ Could similar results be found if aggregations other than the need-resource capacity categories had been used?

For these reasons it was decided to:

1) Update the study to see if last year's findings could be replicated;
2) Provide additional analysis on aggregations other than the need-resource capacity categories; and
3) To include, when appropriate, variables not analyzed in the original report.

Purpose

Figure 1 illustrates why this research study was originally conceived. The figure displays the mean value on the 2001-02 Fourth Grade ELA test and shows that academic performance was dramatically different among need-resource capacity categories developed by the State Education Department.

Figure 1: Mean Score on 2001-02 Fourth Grade ELA Test by School District Need-Resource Category

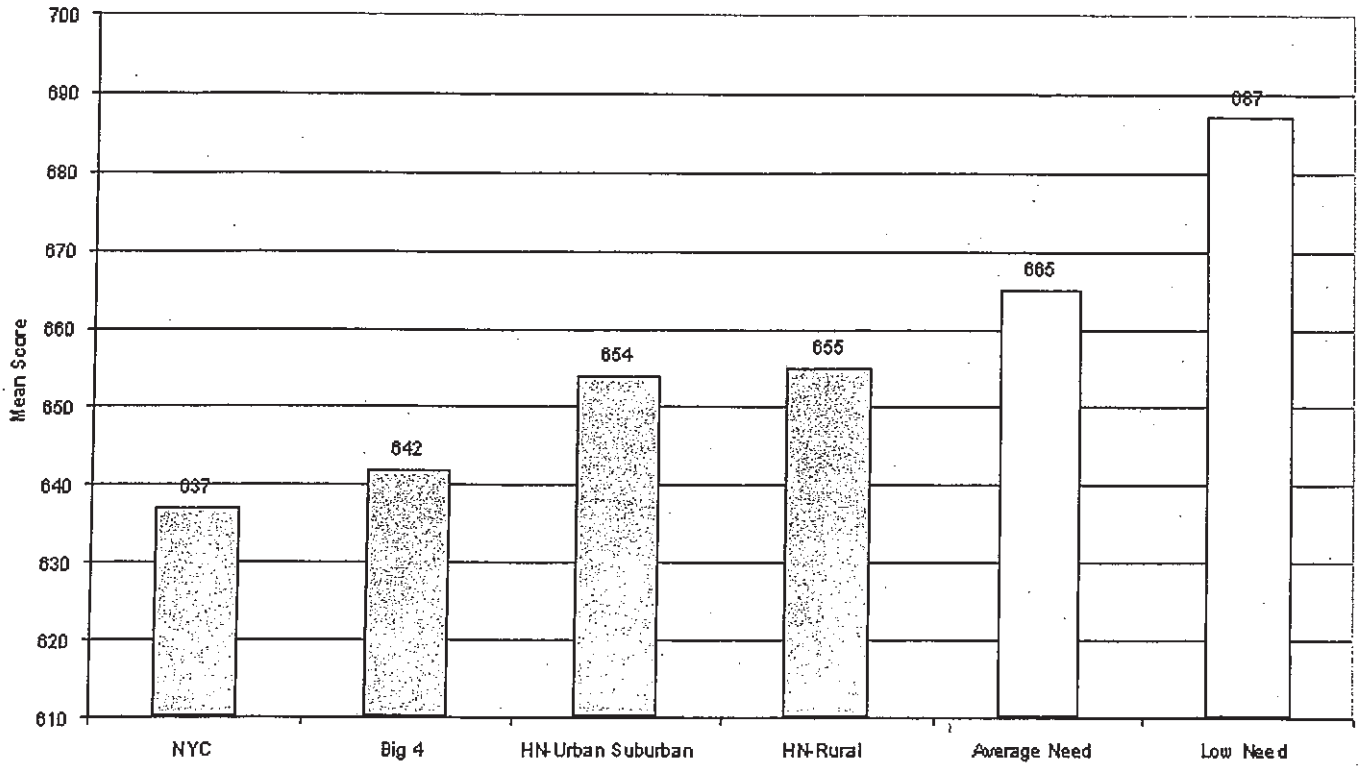


Figure 1 raises a number of questions concerning academic performance and efforts to improve academic performance.

These questions include:

- Why does academic performance vary so much by need-resource category?
- Does the pattern of spending for instruction differ according to need? Among districts of differing need, are the patterns of instructional expenditures similar or different?
- Do high need districts spend more or less per pupil on instruction than low or average need districts?
- Since the district categories displayed in Figure 1 are based on need, this suggests that perhaps student need should be addressed. But, how do we quantify student need?

The purpose of this report is to begin to address these questions. The goal was not so much to develop definitive answers, but rather to gain insight into the relationships that exist among student need, expenditures and academic performance.

Methodology

In developing the methodology for this study, a number of important issues had to be addressed. These issues are described below.

Defining Need. The Board of Regents has in recent years emphasized the importance of student need. But this concern raises two issues from the perspective of this study. The issues are:

1. How can student need be best measured?
2. Should the pupil count be adjusted to reflect need? If it should, then what adjustment(s) are needed? In school finance terms, this can be conceptualized as providing a weighting for needy pupils.

Measuring Need. For this study, an assessment of student need that was independent of student performance was desired. This meant that the measure chosen would most likely be an indicator of socioeconomic status (SES) and would be concerned with measuring poverty. The only poverty indicators updated annually and easily available at the district level are:

- The percent of K-6 students eligible for a free lunch; or
- The percent of K-6 students eligible for a free or reduced-price lunch.

The results of using either measure are similar. Since the free lunch percent was used in last year's study, it was decided to use the 2001-02 free lunch percent as the indicator of need for this study. It should be noted that some educational consultants specializing in estimating the cost of educational adequacy have suggested using additional measures beyond free and reduced lunch percents as indicators of student need.[1][1] For districts that did not offer a free lunch program, an alternative measure of need was developed based on preliminary Census 2000 data. The alternative measure was the percent of 5- to 17-year-olds in poverty.

Developing a Need Weighting. To incorporate "need" into a student count requires the development of a weighting. In school finance, the term weighting is usually associated with the quantification of the extra costs associated with providing a specified service. For this study, however, weighting should also be considered as an indicator of the need for additional services. This immediately raises the question of what is the appropriate weighting for need. In seeking guidance for a suitable need weighting, we have two sources -- the research literature and existing practice.

William Clune is in many ways the individual most responsible for starting the adequacy movement in education research. Clune suggested that adequately educating "need" pupils on average costs about twice as much as for other pupils.[2][2]

The research on the appropriate weighting for at-risk pupils has grown substantially in recent years. The research has been of three types. These types are:

1. Statistical studies in which data (both inputs and outcomes) are statistically analyzed and a cost of adequately educating at-risk students is calculated;

2. Empirical studies in which the academic and staffing practices of successful schools and/or districts are ascertained. A cost for such practices is then determined and compared with the cost of general education students; and

3. Professional judgment studies in which experts are asked to develop appropriate practices such as class size and staffing patterns. The costs of implementing such practices for at-risk students are then ascertained and compared to the practices of educating general education students.

Reschovsky and Imazeki estimated that the cost of educating a poverty student was 159 percent of the cost of educating a regular student. Their findings suggest that

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[1][1] Management Analysis & Planning Inc. Wyoming Education Finance-: Estimating the Cost of Services for "At-Risk" Students. Submitted to the Wyoming State Legislature. 2002.

[2][2] William H. Clune. The Shift from Equity to Adequacy in School Finance. June 1993. Also published in Vol. 8 Educational Policy No. 376, 1994.

formulas used by states which employ weights for poverty tend to underestimate the true costs of educating poor children.[3][3]

Peternick and others[4][4] indicated the desirability of adjusting expenditures per pupil to reflect differences in costs and student need although the need weightings suggested were lower than those suggested in other research. The New Ohio Institute recommended a class size of 12 in K-4 classrooms in high poverty areas.[5][5] This would indicate a weighting of approximately 0.8 for at-risk students in New York.

William Duncombe of Syracuse University conducted a statistical study examining New York State school districts. In his study, Duncombe found that the appropriate weighting for pupils in need was approximately 1.0.[6][6]

In recent years, Maryland has sought to provide an adequate education. As part of the process, the State appointed a commission to recommend changes to Maryland's system of school finance. Consultants using empirical and professional judgment studies provided data to the commission that indicated economically disadvantaged pupils should have a weighting of 1.39. Due to double counting of poverty pupils and limited English proficient (LEP) pupils, the Commission refined this estimate and ultimately recommended a 1.10 weighting for economically disadvantaged pupils.[7][7]

The practices of states concerning the weighting of poverty or at-risk pupils is another source to consider in attempting to determine the appropriate weighting for such students. Carey described the practices of states as of the 2001-02 school year.[8][8] He found 38 states in 2001-02 distributed some education aid on the basis of poverty: 20 states based some or all of their funding on the use of free and reduced eligible students and 10 states used only the number of students eligible for a free lunch.

Carey also found that the funding level for poverty-based education aid varied widely among the states and in his view was often more a reflection of available resources than of the actual costs of educating such children. He calculated for 2001-02 that

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[3][3] Andrew Reschovsky and Jennifer Iimazeki. The Development of School Finance Fomulas to Guarantee the Provision of Adequate Education to Low-Income Students. Developments in School Finance 1997. National Center for Education Statistics, 1997.

[4][4] Lauri Peternick, Becky A. Smerdon, William Fowler and David Monk. Using Cost and Need Adjustments to Improve the Measurement of School Finance Equity. *Developments in School Finance 1997*, 151-168.

[5][5] New Ohio Institute. Getting What You Pay For: The Right Way To Improve K-12 Public Education in Ohio. March 1997. http://www.newohio.org/getting.htm

[6][6] William Duncombe. CPR Working Paper Series No. 44: Estimating the Cost of An Adequate Education in New York. Syracuse, New York. February 2002. *http://www-cpr.maxwell.syr.edu*

[7][7] Commission on Education, Finance, Equity and Excellence: Final Report. Office of Policy Analysis, Department of Legislative Services. Annapolis, Maryland. 2002. *http://mlis.state.md.us/other/education/final/2002_final_report.pdf*

[8][8] Kevin Carey. State Poverty-Based Education Programs: A Survey of Current Programs and Options for Improvement. Center on Budget and Policy Priorities. 2002. http://www.cbpp.org

poverty-based aid ranged from 1.9 percent to 58.7 percent of the average per pupil funding level for all students with a national average of 17.2 percent. Carey indicated that this seems to be low, given research that indicates the actual cost of educating poverty students is at least 100 percent higher than the cost of educating non-poverty students.

Since the 2001-02 school year, however, the picture concerning weightings for poverty or at-risk pupils is changing. For example, New Hampshire's system of school finance was found to be unconstitutional. As part of its response to the court order, New Hampshire in 2002 funded adequacy aid. Included in this aid is a variable weighting of up to 1.0 for districts with a percent of eligible free and reduced price lunch students greater than 85 percent of the State average.[9[9]] Thus, only districts with a poverty rate greater than a specified concentration factor are eligible for this weighting.

The State of Wyoming also has been faced with a court decision declaring its system of school finance to be unconstitutional. As its part of its response to the court order, Wyoming must ensure the resources necessary to deliver the proper education or "basket of goods and services" to each student. For the most part this basket of goods and services is determined through a model commonly referred to as the MAP (Management Analysis & Planning Inc.) model and is statutorily defined as the Education Resource Block Grant Model. As part of the model, additional resources are made available for students who are at risk of failing to make adequate academic progress. The number of such students is estimated using the percent of students eligible for a free or reduced price lunch or who have limited proficiency in English. The model provides a weighting of up to 0.25 for at-risk students depending on the concentration of such students above the statewide average.[10[10]]

In 2002, Maryland passed Chapter 288 (Senate Bill 856), which reformed the system of school finance. Although Maryland did not accept the actual recommendation of the Commission on Education, Finance, Equity and Excellence of a weighting of 1.10 for poverty pupils, it did enact a weighting of 0.97 for such pupils.[11[11]]

For this report, it was decided to weight need pupils at 1.0. This weighting tends to be in the lower end of the weightings suggested by the literature but at the upper end of the need weightings enacted by states. To determine the number of students in need, the pupil count of a district (Duplicated Combined Adjusted Average Daily Membership or DCAADM) was multiplied by the K-6 free lunch percent. The students in need were then added to the original DCAADM count to create a need adjusted pupil count.

[9[9]] New Hampshire State Education Department. SB140 - Effective July 17, 2002. www.ed.state.nh.us/ReportsandStatistics/state%20Aid/Adeq%20Aid/sb140.htm

[10[10]] Wyoming Education Department. School Finance Narrative-Map Model: Revised for 2002 Changes. http://www.k12wy.us/ *FINANCE*/Docs/Financenarrativeshortupdated.doc

[11[11]] http://mlis.state.md.us/2002rs/billfile/sb0856.htm

Measuring Academic Performance. Academic performance was measured using the results of the 2001-02 Elementary English Language Arts exam. This exam was chosen as the indicator of academic performance primarily because data exists for virtually every district in the State. Data were analyzed only for districts with a minimum of five valid scores;[12[12]] thus, data for 673 districts were analyzed for the study. A mean score was determined for the districts in an aggregation.

Instructional Expenditures per Pupil Unit. Four different expenditure per pupil calculations were developed by the study. The first expenditure per pupil measure used in the study was instructional expenditures per pupil. Instructional expenditures consist of the costs associated with maintaining the instructional program of a district (including costs for building level administration, supervision and curriculum development) divided by a pupil count. The pupil count used for the calculation was Duplicated Combined Adjusted Average Daily Membership or DCAADM, which was chosen because it is viewed as the best measurement of students for whom a district makes expenditures. For aggregations, a mean instructional expenditure per pupil was calculated (sum of district expenditures per pupil divided by the number of districts). Since no adjustment for cost or need was made for this calculation, it will sometimes be referred to in the report as unadjusted instructional expenditures per pupil.

Cost-Adjusted Instructional Expenditures per Pupil. For approximately 20 years[13[13]] State commissions have recommended the use of a cost index to better reflect the actual spending patterns of districts. For this study, the cost index previously proposed by the Board of Regents will be used.[14[14]] A district's instructional expenditures will be divided by the cost index of its region to yield a cost adjusted instructional expenditure, which will then be divided by the district's DCAADM count. For aggregations, a mean instructional expenditure per pupil was calculated (sum of district expenditures per pupil divided by the number of districts).

Need- and Cost-Adjusted Instructional Expenditures per Pupil. The third expenditure per pupil calculated for the study was need- and cost-adjusted instructional expenditures per pupil. For a district, cost-adjusted instructional expenditures were divided by a need-adjusted DCAADM pupil count. The study used the pupils eligible for a free lunch as a proxy for need. To determine the number of students in need, the pupil count of a district (DCAADM) was multiplied by the K-6 free lunch percent. The result was an estimated need count. The estimated students in need were added to the DCAADM count to create a need adjusted pupil count. This procedure meant that the

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[12[12]] Only seven districts (including four central high districts for grades 7-12) were excluded from the study.

[13[13]] *The Report and Recommendations of The New York State Task Force on Equity and Excellence in Education.* Albany, N.Y., February 1982. The New York State Temporary State Commission on the Distribution of State Aid to Local School Districts. *Funding For Fairness.* Albany, NY, December 1988.

[14[14]] New York State Education Department. *Improving the Formulas to Help Students Meet State Learning Standards: The Regents Proposal on State Aid to School Districts for School Year 2002-03.* Albany, New York: December 2001. http://www.emsc.nysed.gov/stateaidworkgroup

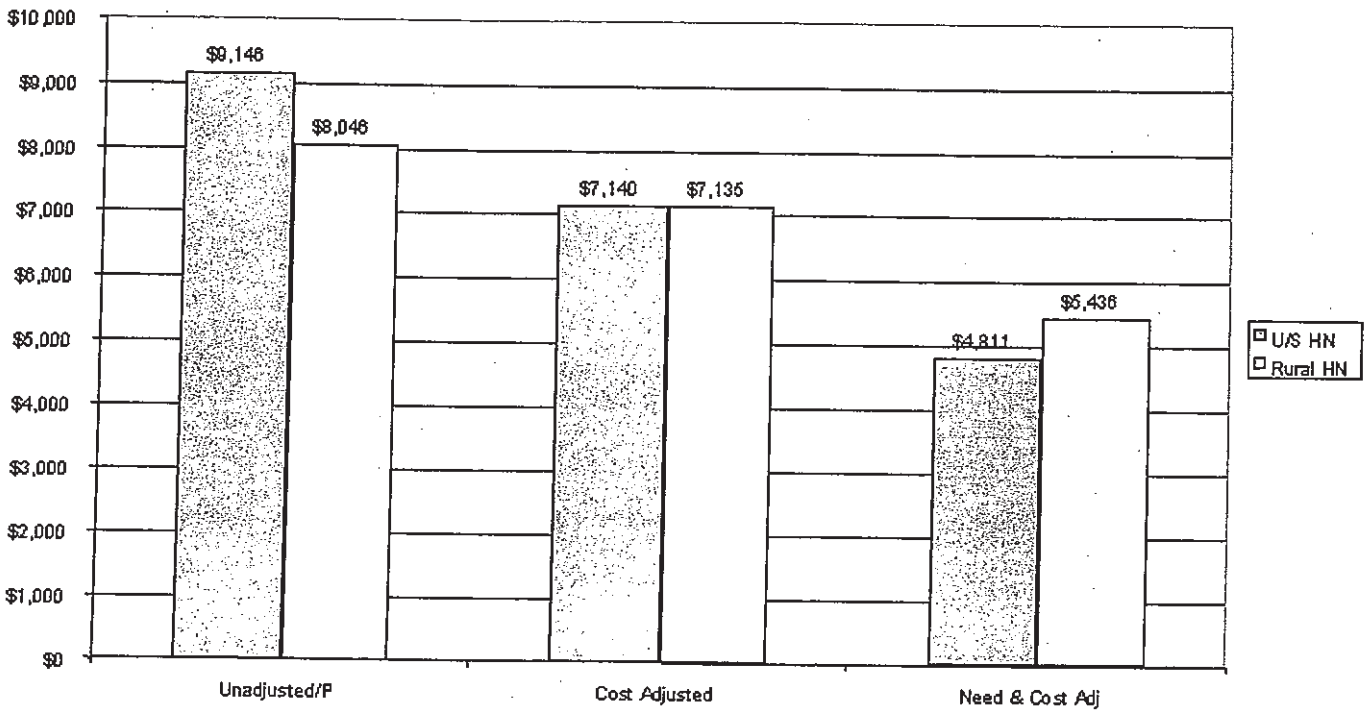
estimated need pupils received an additional weighting of 1.0. For aggregations, a mean need-and cost-adjusted instructional expenditures per pupil was calculated.

Figure 2 shows the differences among the three expenditure per pupil amounts just defined for the Urban-Suburban High Need districts and the Rural High Need districts. When no adjustment is made for cost or need, the urban-suburban districts spend approximately $1,100 more than rural districts. However, after expenditures are adjusted for regional cost, the two need-resource capacity categories spend within five dollars per pupil. After adjusting the pupil count to reflect the free lunch percent, the urban-suburban districts spend about $600 less per student than their high need rural counterparts.

Need- and Cost-Adjusted (FRPL) Instructional Expenditures per Pupil. The final expenditure per pupil calculated for the study was need and cost-adjusted (FRPL) instructional expenditures per pupil. This item was similar to the expenditure per pupil just described above. The only difference was that the percent of K-6 enrollment eligible for a free and reduced price lunch was used in place of the percent eligible for a free lunch as the proxy for student need. This item was not used in any need-resource capacity categories analysis.

A Different Path. The goal of the study is to develop insights into the relationships that exist among expenditures, student need and academic performance. Since this study will journey down a research path that has seldom been traveled, it will focus on the relationships that exist at the aggregated level. By doing so, broad trends will be able to be highlighted. The reader, however, should be aware that these aggregations are not monolithic in nature but are composed of districts that are quite diverse. Individual district behavior will not be captured in this study.

Figure 2: 2000-01 Instructional Expenditures per Pupil Unit According to Three Calculations for High Need Urban-Suburban and Rural Districts



Need and Academic Performance

Figure 3 shows that major differences in the percent of pupils eligible for a free lunch exist among the need-resource categories. The figure shows:

- · Low need districts (3 percent) and average need districts (17 percent) had noticeably lower percentages of pupils eligible for a free lunch than the other need-resource categories;
- · High need rural districts had a K-6 free lunch percent (31 percent) that was double that of average need districts;
- · High need urban-suburban districts had approximately one out of every two K-6 pupils (50 percent) eligible for a free lunch;
- · Big 4 districts (68 percent) and New York City (75 percent) had two-thirds to three-fourths of their K-6 students eligible for a free lunch; and
- · Figure 3 displaying pupil poverty is the mirror image of Figure 1, which displays pupil achievement.

Figure 3: 2001-02 Free Lunch % (Mean) by School District Need-Resource Category

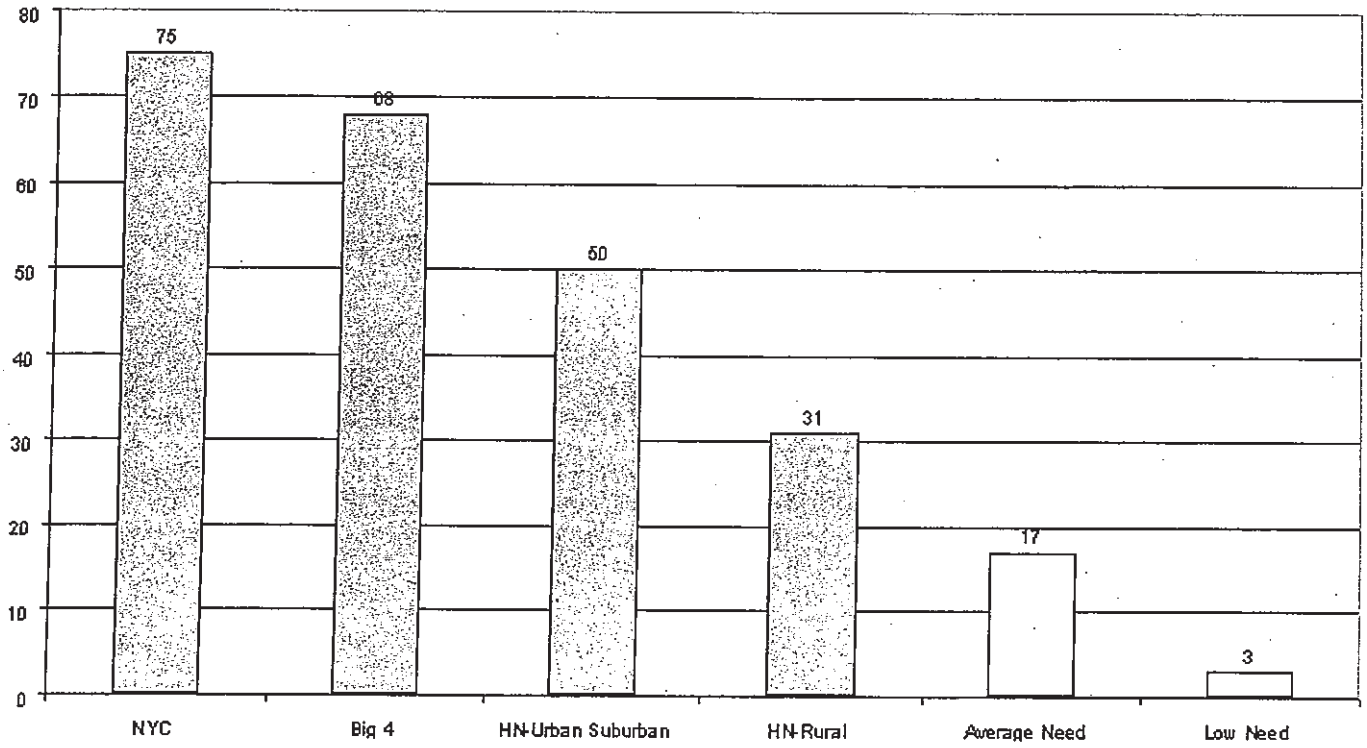


Figure 3 illustrates the large variation in student need across school districts in New York State. Low and average need districts, which constitute approximately 70 percent of the districts and 45 percent of the students in New York State, have relatively low student poverty. Conversely, high need districts, which have high rates of student poverty, constitute 30 percent of the State's school districts and 55 percent of the State's pupils.

The free lunch percent is important in understanding the academic performance of districts. The correlation or relationship between the free lunch percent and the mean score of districts on the Elementary English Language Arts (ELA) exam was -0.64.

This means that, as the percent of K-6 students eligible for a free lunch increases, test performance tends to decline. More than 40 percent of the variance in academic performance can be explained by the free lunch percent.[15][15] Hereafter, scores on the Elementary ELA will be referred to as academic performance.

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[15][15] The free and reduced price lunch percent had an even higher correlation with academic performance on the 4th Grade ELA exam (-0.68).

Do School Districts Grouped by Need-Resource Categories Differ in the Percent of Expenditures Devoted to Instruction?

Perhaps the need-resource categories differ in terms of the proportion of expenditures spent on providing the instructional program. Two possibilities seemed particularly likely. They were:

1. 1. Higher need districts might designate a noticeably lower percentage of their expenditures to the instructional program, given that academic performance tends to be lower in high need districts; or

2. 2. Higher need districts might designate a noticeably higher percentage of their expenditures to the instructional program in an effort to compensate for student need.

Last year's report found that all of the need-resource categories spent approximately three-fourth of their expenditures on providing the instructional program and any differences between the need-resource categories in the percent that instructional expenditures are of total expenditures appeared to be minimal. The 2000-01 data appear to indicate that high need urban and low need districts devote a higher proportion of their total expenditures to the instructional program.

Figure 4 shows:

- · New York City had the highest proportion of expenditures devoted to instruction (82 percent). This represents a major increase from the previous year when the City spent approximately 78 percent of its expenditures for the instructional program;[16[16]] and

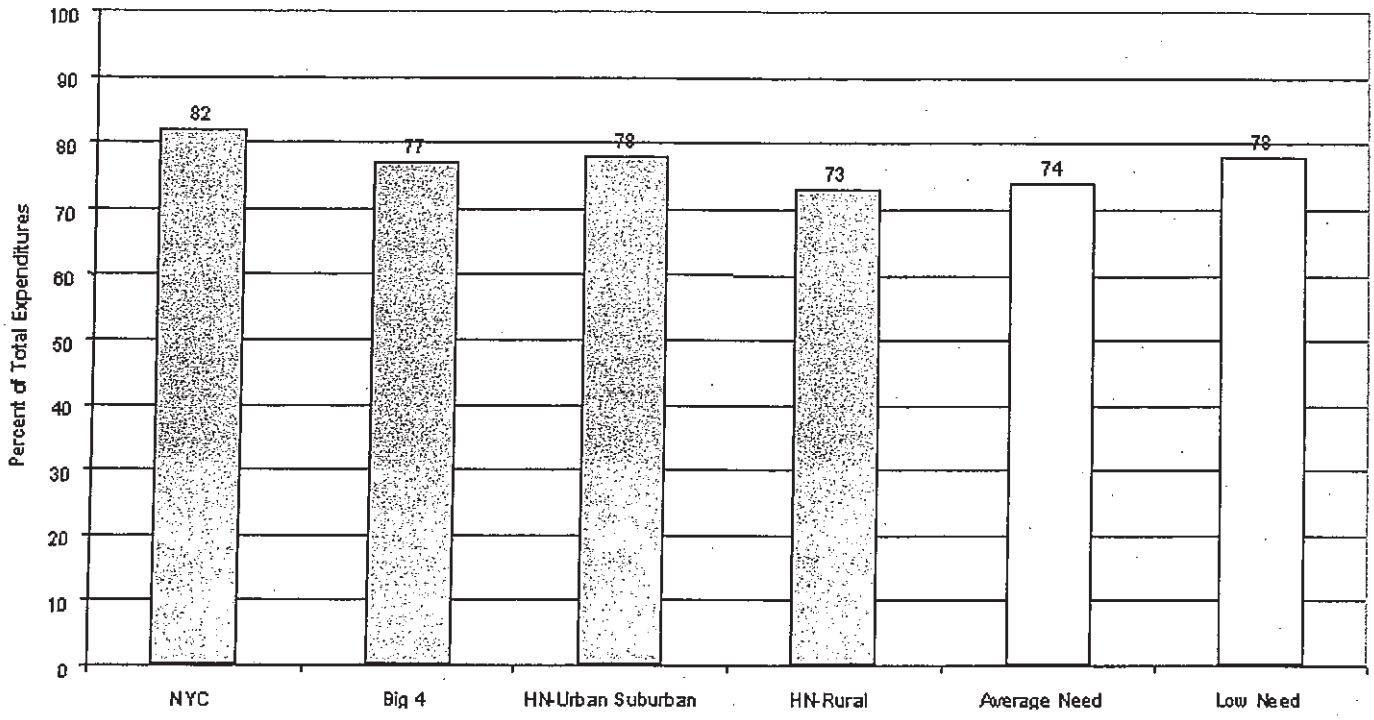
- · High need urban-suburban districts, low need districts and the Big 4 districts spent at least 77 percent of their total expenditures on the instructional program. Average need districts and high need rural districts spent the lowest proportion of their expenditures on instruction.

The percent instructional expenditures are of total expenditures was correlated with academic performance. The correlation was 0.21 indicating that a weak relationship did exist and that there is a tendency for academic performance to improve as the instructional program share of the total budget increased.

Since the need-resource categories tend on average to devote approximately the same proportion of expenditures to the instructional program, we seem no closer to explaining why educational outcomes vary so much among the need-resource categories. Perhaps major spending differences exist and can help explain the variation in academic performance.

[16[16]] An increase of four percentage points is quite large. Data will need to be carefully reviewed for several years to determine if the 2000-01 increase was a one-time occurrence or constitutes a significant change in the funding priorities of New York City.

Figure 4: Mean Percent Instructional Expenditures (Including Fringe Benefits) Are of Total Expenditures, 2000-01 by School District Need-Resource Categories



Unadjusted Instructional Expenditures Per Pupil

Figure 5 is based on the traditional approach of analyzing the relationship between expenditures per pupil (i.e., some expenditure amount reported by districts) divided by a head count of pupils. This approach ignores regional cost and student need. Figure 5 displays the average instructional expenditures per pupil (unadjusted) for each of the need-resource categories. The figure shows:

- · High need rural districts had the lowest average instructional expenditures per pupil;
- · New York City had the third highest instructional expenditures per pupil average among the need-resource categories (approximately $11 per pupil more than the high need urban suburban districts and more than $800 higher than high need rural districts);
- · Big 4 districts had instructional expenditures per pupil that were exceeded only by the low need districts; and

- Low need districts spent over $1,700 per pupil more than the Big 4 districts on instructional expenditures

Figure 5: 2001-02 Mean Instructional Expenditures/ Pupil (Unadjusted) by School District Need-Resource Category

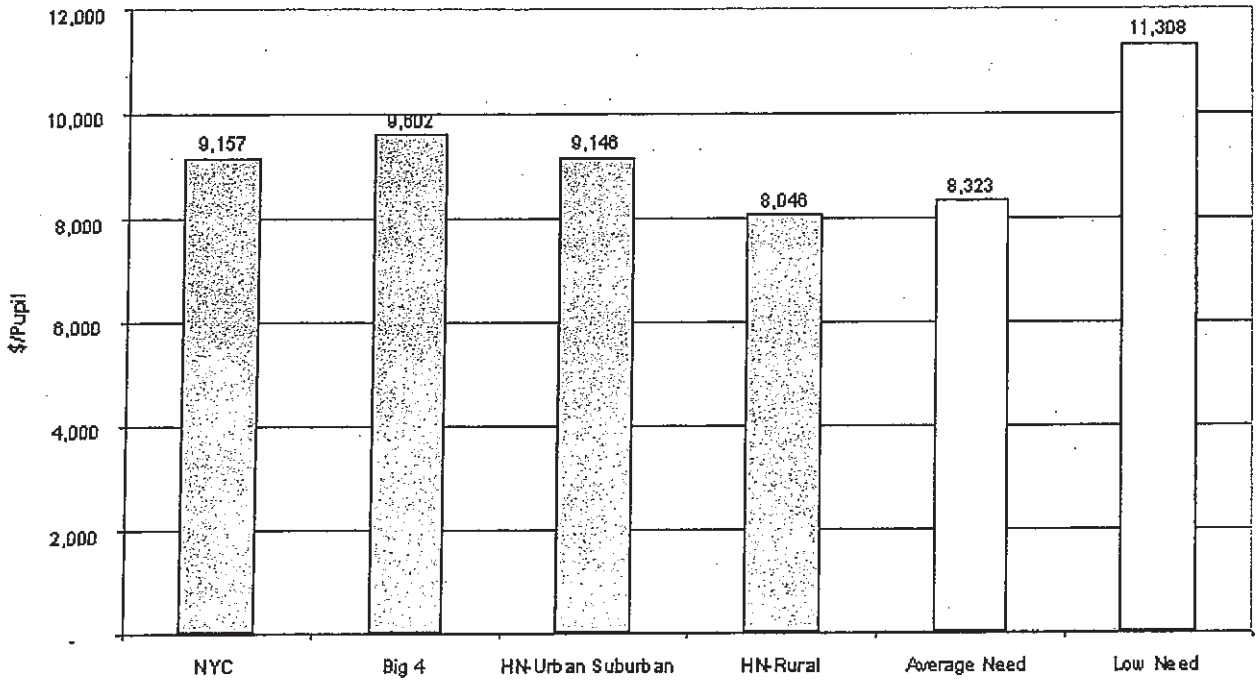


Figure 6 displays both the average instructional expenditures per pupil and academic performance. It is difficult to ascertain any discernable pattern concerning expenditures per pupil and academic performance.

Table 1 displays correlations of selected data items with academic performance. The correlation of instructional expenditures per pupil with academic performance was 0.35. Income per pupil had a stronger relationship with academic performance than did property per pupil and the Combined Wealth Ratio. The free and reduced price lunch percent had the strongest relationship (- 0.68) with 2001-02 academic performance of any of the variables shown in Table 1. The free lunch percent had the second strongest relationship (- 0.64) followed by the percent of 5-17 year-olds in poverty (-0.62) from the 2000 Census.

One might conclude from the evidence just presented that expenditures per pupil don't really matter in terms of the academic performance of a district. Such a conclusion will be shown to be erroneous.

Cost Adjusted Instructional Expenditures Per Pupil

The previous section did not address the issue of variation in the regional cost of education. Table 2 displays 2000-01 regional cost adjusted instructional expenditures per pupil unit. The regional cost adjustment used was the Regional Cost Index previously proposed by the Board

Figure 6: 2000-01 Instructional Expenditures per Pupil (Unadjusted) and 2001-02 Academic Performance by School District Need-Resource Category

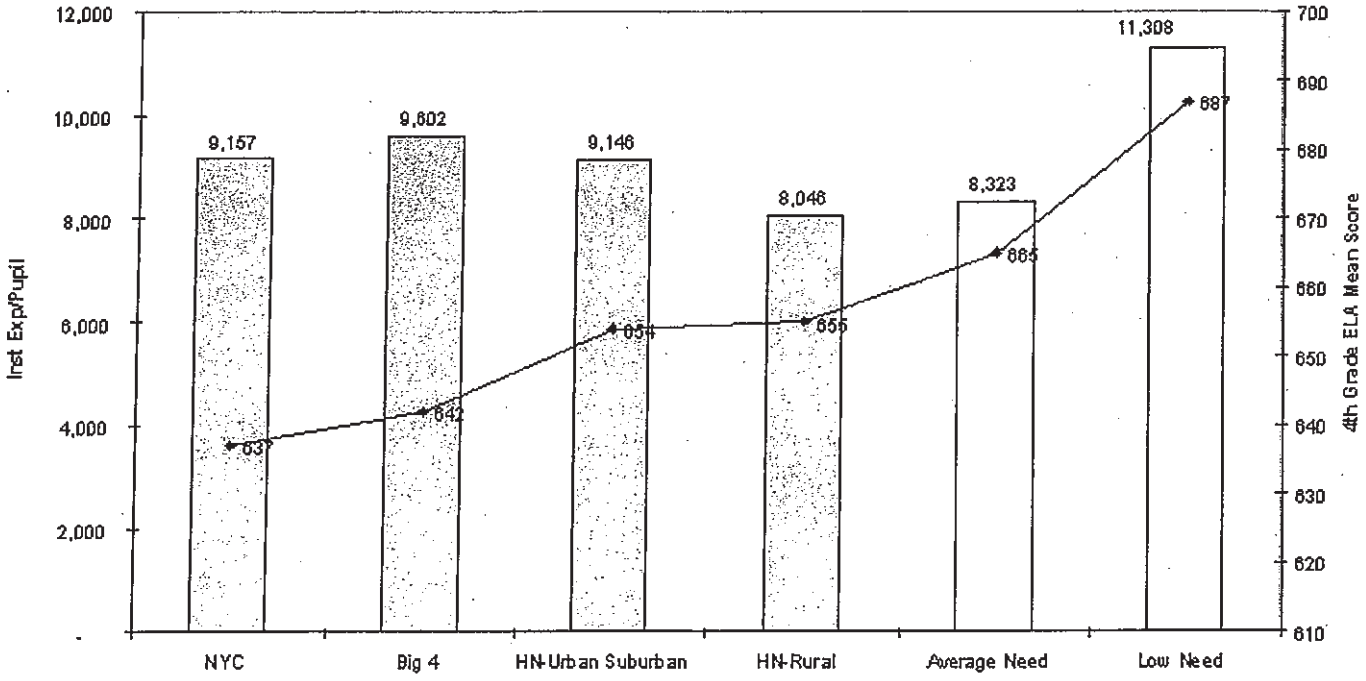


Table 1: Correlation of Selected Data Items with 2001-02 Academic Performance

Item	Correlation
2000-01 Instructional Expenditures per Pupil	+ .35
2000-01 Instructional Expenditures as a Percent of Total Expenditures	+ .21
Property Value per pupil for 2000-01 Operating Aid	+ .32

Income per pupil for 2000-01 Operating Aid	+ .60
Combined Wealth Ratio	+ .44
Cost Adjusted Instructional Expenditures per Pupil	+.06
Need Adjusted (Free Lunch) Expenditures per pupil	+.53
Need and Cost Adjusted (Free Lunch) Expenditures per pupil	+.39
Need and Cost Adjusted (Free and Reduced Lunch) Expenditures per pupil	+.47
Free Lunch %	- .64
Free and Reduced Lunch %	- .68
5-17 Year-Olds In Poverty (2000 Census)	- .62

Table 2: 2000-01 Cost Adjusted Instructional Expenditures Per Pupil by Need-Resource Category

Need-Resource Category	Instructional Expenditures/Pupil
New York City	$6,040
Big 4 Districts	7,531
High Need Urban Suburban	7,140
High Need Rural	7,135
Average Need	6,650
Low Need	7,813

of Regents. Table 2 shows that after adjusting for regional cost differences:

- · Costs among need-resource categories do not vary as much as displayed in Figure 5;
- · New York City spent noticeably less in 2000-01 than the other need types;

- · Big 4 districts had the second highest instructional expenditures per pupil among the need-resource categories;
- · Average need districts have the lowest instructional expenditures per pupil;
- · Low need districts had the highest per pupil cost for instructional program; and
- · High need rural and urban suburban districts had essentially the same expenditure level per pupil.

Need Adjusted Instructional Expenditures Per Pupil

The unadjusted and cost-adjusted instructional expenditures per pupil described above are relatively traditional methods for analyzing expenditures per pupil. In this section a new way of analyzing expenditures per pupil will be discussed.

Adjusting of the pupil count to reflect student need noticeably improves the understanding of the relationships that exist among need, expenditure per pupil and student performance.

Expenditures Matter

Figure 7 displays the mean instructional expenditures (need and cost adjusted) per pupil and the mean free lunch percent by need-resource category and shows that, as need increases, instructional expenditures per pupil decline. Need and academic performance are virtual mirror images of each other.

Figure 8 displays need and cost adjusted instructional expenditures per pupil and academic performance by need-resource capacity. The figure shows that, as need- and cost-adjusted expenditures increase, academic performance increases. The figure also shows that as need decreases, academic performance and instructional expenditures per pupil increase. This figure clearly shows that need- and cost-adjusted expenditures per pupil are an important component to understanding academic performance.

Figure 9 demonstrates the importance of accounting for regional cost and educational need. After cost and pupil need are taken into account, expenditure patterns change dramatically. For example:

- New York City had unadjusted instructional expenditures per pupil that were $800 more than the average expenditure per pupil for average need districts. However, after adjusting for inflation and pupil need, New York City spent about $2,200 less per pupil than the average need districts; and

- Rural high need districts, with the lowest unadjusted expenditure per pupil, after adjusting for inflation and pupil need spent more per pupil on the instructional program than Big 4 districts, which had the second highest unadjusted instructional expenditures per pupil among the need-resource categories. The Big 4 districts had the second lowest instructional expenditure per pupil after adjusting for inflation and need.

Analysis by Deciles of Free Lunch Percent, Academic Performance and Need and Cost Adjusted Expenditures Per Pupil

For this report, it was decided to expand the analysis beyond the need-resource categories. The purpose of the extended analysis was to ascertain if the patterns found at the need-resource capacity categories' level of aggregation could be discerned at other levels of aggregation. Districts were ranked and then grouped into deciles based upon their free lunch percent, fourth grade academic performance and their need and cost adjusted expenditures.

Free Lunch Percent. Districts were ranked from high to low on their free lunch percent. The districts were then divided into 10 groups (deciles) with approximately the same number of districts in each decile (67 or 68 districts).

Figure 7: 2000-01 Need & Cost Adjusted Instructional Expenditures per Pupil Unit (Mean) and 2001-02 Free Lunch % (Mean) by School District Need-Resource Category

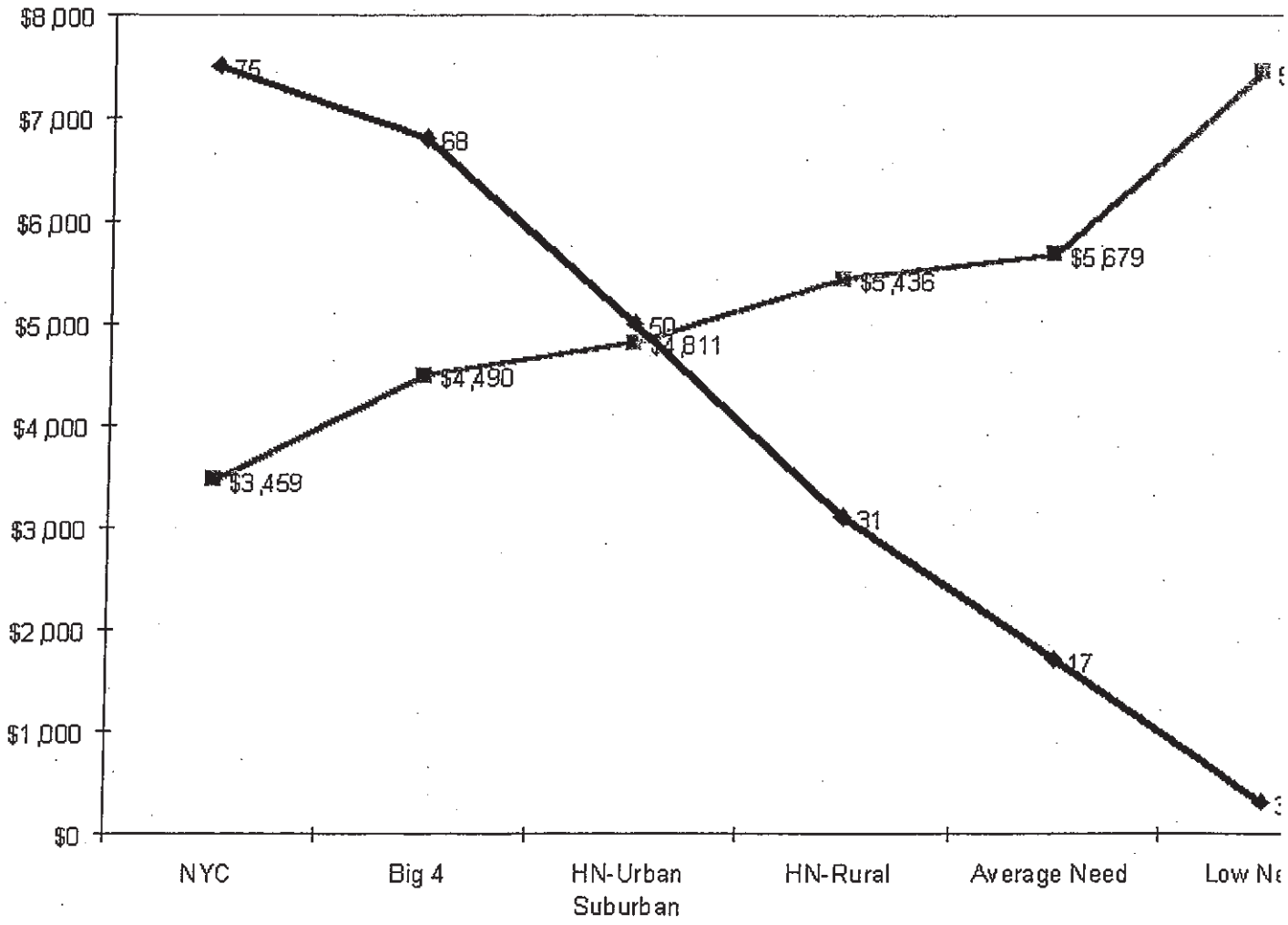


Figure 8: 2000-01 Need & Cost Adjusted Instructional Expenditures per Pupil (Mean) and 2001-02 Academic Performance (Mean) by School District Need-Resource Category

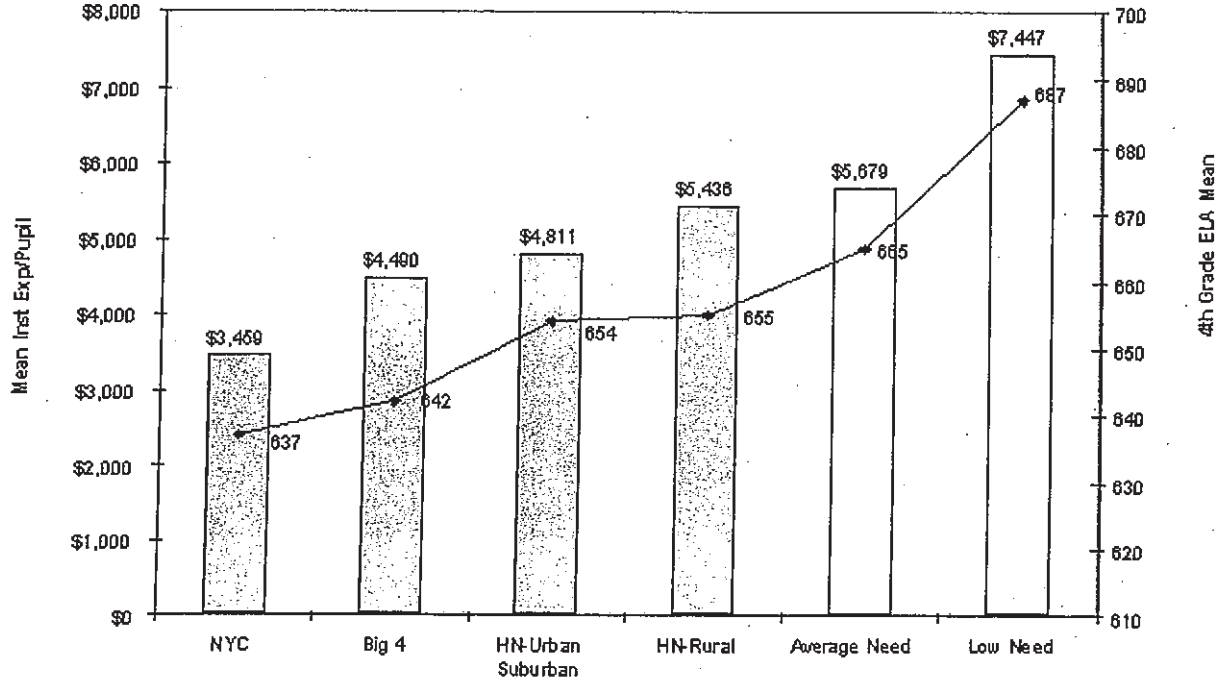


Table 4 displays data on the free lunch percent, need and cost adjusted instructional expenditures per pupil and academic performance. The table shows that the pattern of expenditures and academic performance generally increases, as the free lunch percent decreases. This exists at the need-resource capacity categories level, and was also found at the decile of need level. It should be noted that the mean need and cost expenditures per pupil of the second through the sixth decile were similar.

Figure 10 shows that, as the free lunch percent decreases, academic performance increases. This pattern is similar to the pattern found at the need-resource capacity categories level.

Academic Performance. A second series of decile analyses was based on academic performance. Districts were ranked from low to high based on their mean score for the 4th Grade ELA exam. The districts were then divided into 10 groups (deciles) with approximately the same number of districts in each decile (67 or 68 districts).

Table 5 displays the free lunch percent, need and cost adjusted instructional expenditures per pupil and academic performance by decile of academic performance. The table shows the pattern of academic performance increasing as the free lunch percent decreases, which was found when districts were analyzed at the need-resource

capacity category level, was also true among the academic performance deciles. Regarding need and cost adjusted expenditures per pupil increasing as the free lunch percent declined, which was also found at the need-resource capacity categories level, it appears that with the exception of the first decile this was generally

Table 4: Selected Characteristics by Decile of Free Lunch Percent

Decile	Free Lunch %	Cost & Need Adj $/Pupil	Mean
1	50%	$4,876	653
2	34	5,550	656
3	29	5,463	658
4	25	5,679	658
5	21	5,780	661
6	17	5,800	667
7	13	5,939	668
8	8	6,301	672
9	5	6,555	681
10	2	7,093	689

Figure 10: As the Free Lunch % Decreases,
Academic Performance Improves by Decile of Free Lunch %

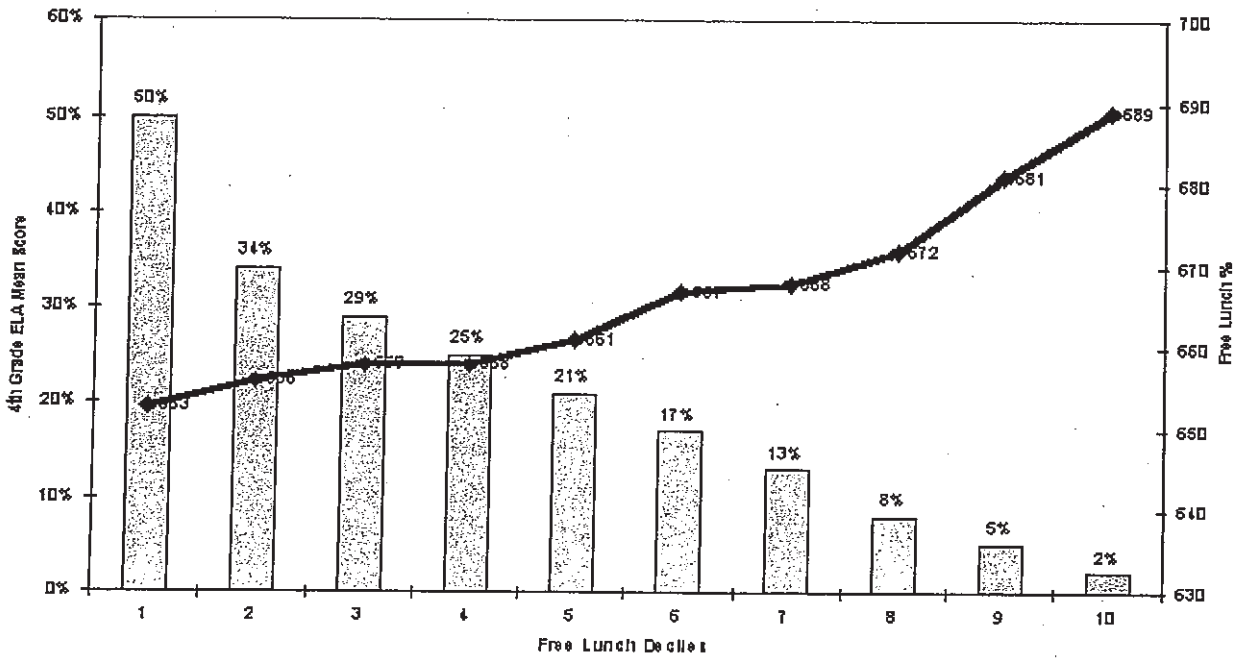


Table 5: Selected Characteristics by Decile of Academic Performance

Decile	Free Lunch %	Cost & Need Adj $/Pupil	Mean
1	37%	$5,647	643
2	28	5,409	651
3	29	5,470	656
4	27	5,632	659
5	20	5,509	663
6	21	5,698	666
7	17	5,824	670
8	11	6,034	675
9	10	6,313	683
10	4	7,424	690

true at the decile of academic performance level, although the mean need and cost instructional expenditures per pupil do not vary as much as was found at the need-resource capacity category level.

Figure 11 displays free lunch percent and academic performance data by deciles of academic achievement. It clearly shows that as academic performance improves, the free lunch percent declines.

Need and Cost Adjusted Instructional Expenditures Per Pupil. Districts were ranked from low to high on their need- and cost-adjusted instructional expenditures per pupil. The districts were then divided into 10 groups (deciles) with approximately the same number of districts in each decile (67 or 68 districts).

Table 6 displays data on the free lunch percent, need- and cost-adjusted instructional expenditures per pupil and academic performance. The table shows that the pattern of expenditures and academic performance increasing, as the free lunch percent declines, which was found at the need-resource capacity category level, was also found when districts were grouped by spending per pupil.

Figure 12 shows that, as need- and cost-adjusted instructional expenditures per pupil increased, academic performance tended to increase. The figure, however, also shows that some deciles were able to achieve similar results to a decile with a lower free lunch percent and higher expenditures. This would seem to indicate that the educational effectiveness of the strategies and academic programs offered by a district are important.

TAB 6

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APPENDIX

As mentioned in the text, the audit worksheet provides information on local property tax revenues and state aid by school district, which I was able to obtain for the years 1991–5. However, information on population, enrollment, and income was not available for all years and some years had to be constructed through interpolation and extrapolation.

The data provided by the New Jersey Department of Education includes school district population for 1990 and 1992, enrollment for 1991, 1992, 1993, and 1994, and income per capita for 1993. District enrollment was projected to 1995 from the growth of the district's enrollment during 1993–4.

Population for 1991 was taken as the average of the district's population in 1990 and 1992. For 1993, 1994, and 1995, a state population growth rate was constructed from New Jersey state level data. These growth rates were then used to project a district's population in 1993, 1994, and 1995. Similarly, state income growth rates were constructed for 1991, 1992, 1994, and 1995 from state level data. These growth rates were used to project figures for income for years other than 1993.

Nominal dollar values were converted to real dollar values by deflating by the CPI for the appropriate period; fiscal year CPI values were constructed from the commonly available annual index.

SCHOOL FINANCE REFORM: AID FORMULAS AND EQUITY OBJECTIVES

WILLIAM DUNCOMBE* & JOHN YINGER*

***Abstract** - State education officials have implemented performance standards, but state education aid has not kept up. By focusing on the relationship between spending and property wealth, most existing aid formulas only partially account for cost differences across districts and, thus, fail to fully promote equity in school performance. This paper shows how to estimate comprehensive educational cost indexes that control for school district inefficiency and include them in state aid formulas. It also simulates for New York the impact of several aid formulas on educational performance and evaluates each formula using several equity criteria. The results indicate that outcome-based foundation formulas can achieve adequacy objectives, but that practical policies to promote vertical equity or wealth neutrality do not yet exist.*

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INTRODUCTION

School finance equity has been a central issue of educational policy for decades. This paper explores the potential of several school aid formulas to satisfy the most widely discussed equity objectives. For the most part, the school equity debate has focused on the relationship between a school district's expenditure and its property tax wealth. In keeping with the growing emphasis on performance standards in education, states need to refocus their aid formulas toward the achievement of outcome equity objectives. Because educational costs vary widely across districts, an outcome standard is quite different from an expenditure standard. This paper provides one method for estimating comprehensive educational cost indexes and shows how to include them in state aid formulas designed to achieve particular equity goals.

Educational outcomes are influenced by school management and teaching methods as well as by state aid. Many state policies address these other issues. Although questions of school management and teaching reform are beyond its scope, this paper sheds some light on

the role of inefficiency in the provision of education services. Inefficiency can prevent a district from reaching minimum outcome standards, even with an outcome-based foundation formula. We illustrate how inefficiency could be taken into account in aid system design without providing incentives for districts to become more inefficient. The analysis is illustrated with detailed school aid simulations for New York state school districts.

AID FORMULAS AND EQUITY OBJECTIVES

Education in the United States is predominantly a local function, but most states fund a large share of local school budgets through intergovernmental aid.[1] Although many categorical aid programs exist, most school aid is distributed through general-purpose aid to support the basic operation of schools. Our focus is on the design of such basic operating aid. In particular, we explain the link between alternative aid formulas and various equity objectives, which are reviewed in Berne and Stiefel (1984) and Monk (1990).

Foundation Aid

The most widely used form of education aid is a foundation grant, which is designed to ensure educational adequacy, defined as a situation in which all districts provide at least some minimum level of education. In its simplest form, a foundation grant provides the difference between the state-selected minimum per pupil spending level, E^*, and the amount of revenue a district can raise at a tax rate that the state decides is fair, t^*. Let V_i stand for the property tax base in district i. Then the district's **expenditure-based** foundation grant per pupil is defined by

$$A_i = E^* - t^*V_i = E^*\left(1 - \frac{V_i}{V^*}\right) = E^*(1 - v_i) \qquad (1)$$

where $V^* = E^*/t^*$ is the property value above which a district receives no aid and $v_i = V_i/V^*$. If taken literally, equation 1 implies that districts with tax bases above V^* actually receive negative aid. This formula is usually modified in practice, through minimum aid amounts or hold-harmless clauses, so that all districts receive some aid, thereby reducing the equalizing power of the formula. Moreover, a foundation grant usually is accompanied by a requirement that each district levy a tax rate of at least t^*; otherwise, some districts might not provide the minimum acceptable spending level, E^*. New York and Illinois are notable exceptions; see Miner (1991) and Downes and McGuire (1994).

Even if one accepts the objective of guaranteeing a minimum level of education, traditional foundation grants are flawed because they do not systematically adjust for educational costs. In practice, some state aid formulas include educational cost adjustments (Gold et al., 1992), but these adjustments inevitably are *ad hoc* and incomplete. In other words, they may ensure a minimum level of spending but not of educational outcomes, such as student learning, thereby leaving higher cost districts at lower outcomes than other districts with the same property value. Because outcomes are what parents and voters care about, they are a more appropriate target of equalization. A less central problem with a standard foundation formula is that wealth is an imperfect measure of a school district's revenue-raising capacity. Districts differ in revenue-raising capacity because of (1) differences in income and (2) differences in their ability to export some of their tax burden to nonresidents. Because it does not explicitly recognize the role of exporting, wealth is an imperfect measure of revenue-raising capacity.[2]

As shown by Ladd and Yinger (1994), these two problems can be solved through the use of an educational cost index and a more general measure of revenue-raising capacity that accounts for exporting. Suppose educational outcomes in district i can be measured with an index, S_i, and that S^* is the minimum acceptable value of this index. Moreover, let C_i be the amount the district must spend to obtain one unit of S, so that $E_i = C_iS_i$ (ignoring efficiency for the moment). Now if, $\bar{C}$ is the cost of S in the average district, then we can redefine E^* as the amount that a district with average costs would have to spend to obtain the minimum acceptable level of educational outcomes, namely, $\bar{C}S^*$. Finally, let R_i be a general measure of district i's revenue-raising capacity.

To bring all districts up to S^* at an acceptable tax burden on their residents, the **outcome-based** foundation formula should be

$$A_i = E^*\left(\frac{C_i}{\bar{C}} - \frac{R_i}{R^*}\right) = E^*(c_i - r_i) \qquad (2)$$

where $c_i = C_i/\bar{C}$ is the cost index, $r_i = R_i/R^*$ is a revenue capacity index, and R^* is the revenue-raising capacity (set by state policymakers) at which a district **with average costs** would receive no aid. As with equation 1, raising E^* to an extremely high level would, at great cost, result in an equal educational output in every district, and allowing negative grants would be the equalizing impact of the program.

As discussed earlier, some school districts are more efficient than others. The consideration of efficiency complicates matters because a district might receive enough resources to achieve S^* given its costs and still fall short because it is inefficient. All else equal, inefficient districts not only must spend more to achieve any given level of S but also are likely to select a lower level of S, because efficiency raises the effective price of educational services. This issue is fundamentally different from the issues of costs and revenue-raising capacity, however, because it is inappropriate to compensate a district for its inefficiency, or for anything else within its control. Even though children are penalized for living in inefficient districts, any state program that gives aid based on inefficiency would undermine a district's incentive to provide education as efficiently as possible.

Our resolution of this issue is to define an efficiency index, k_i, with a maximum value of 1.0 in an efficient district; we then employ a foundation formula that gives each district enough resources to achieve S^* so long as its efficiency index is at or above k^*, a state-determined minimum acceptable level. To be specific, this formula sets $E^* = S^*C_i/k^*$.[3] If eligible for this foundation aid, districts with $k_i > k^*$ will receive somewhat more aid than they need to reach S^*, and districts with $k_i < k^*$ will not achieve S^* unless they become more efficient. To protect students in these inefficient districts, the state must place additional requirements on these districts in the form of either management improvements or a higher local sacrifice.

A few states use some form of a "power-equalizing" aid formula, which was popularized by Coons, Clune, and Sugarman (1970). This approach promotes vertical equity in the sense that it lessens disparities in educational outcomes across districts by linking spending to tax effort. Unlike a lump-sum foundation grant, a power-equalizing grant comes in the form of a matching rate, with a higher rate for lower wealth districts. To be specific, an **expenditure-based** power-equalizing grant takes the following form:

3

$$A_i = E_i\left(1 - \theta\frac{V_i}{\bar{V}}\right) = E_i\left(1 - \frac{V_i}{V^*}\right) = E_i(1 - v_i).$$

This formula differs from the foundation formula (equation 1) in that it is based on actual spending, E_i, not minimum acceptable spending, E^*. The matching rate, that is, the state's share of total spending, is the expression in parentheses. The local share, which is the local "price" of educational spending, is one minus the state share, or simply v_i. As before, V^* is a policy parameter that indicates the property value at which a district receives no aid. In this case, however, V^* is determined by the size of the aid budget. An equivalent formulation, the first one in equation 3, is that the budget determines a parameter, θ, which is multiplied by the ratio of V_i to the property value in the average district, $\bar{V}$.

A standard power-equalizing grant is designed to help equalize educational spending. As shown by Ladd and Yinger (1994), it can be transformed to help equalize educational outcomes. More-

with a more general measure of revenue-raising capacity. With these two changes, an **outcome-based** power-equalizing grant is

4

$$A_i = S_i\left(\frac{C_i}{\bar{C}} - \theta\frac{R_i}{\bar{R}}\right) = S_i\left(\frac{C_i}{\bar{C}} - \frac{R_i}{R^*}\right)$$

$$= S_i(c_i - r_i) = E_i\left(1 - \frac{r_i}{c_i}\right).$$

Strictly speaking, equation 4 implies that some districts will receive negative aid. This negative aid can be eliminated by lowering the value of θ (or, equivalently, raising the value of R^*), which increases the cost of the program, or by placing arbitrary floors on the matching rate, which weakens the program's equalizing impact.

Because it lowers the price of all spending, including wasteful spending, this power-equalizing formula has the disadvantage that it rewards district inefficiency. In principle, this problem can be avoided by basing the grant on spending adjusted for efficiency, not actual spending. Let k_i be a measure of efficiency in district i. Then adjusted spending equals $E_i k_i / k^*$, where, as before, k^* is minimum acceptable efficiency. Unfortunately, this approach is not yet practical because no method for calculating a district's efficiency is well known enough to be acceptable in the calculation of a district's aid amount. Moreover, as shown by Duncombe and Yinger (1997), changes in aid may alter a district's efficiency, so that efficiency and the appropriate aid amount must be simultaneously determined. Solving these problems is beyond the scope of this paper, so we simulate the effects of power-equalizing formulas that have no adjustment for efficiency.

One important equity standard is **wealth neutrality**, which is defined as a situation in which education, measured by spending per pupil or, more appropriately, by educational outcomes, is not correlated with district wealth. As first explained by Feldstein (1975), a standard power-equalizing grant helps equalize educational spending, but it does not lead, except by coincidence, to wealth neutrality. Although it ensures that districts with the same tax rate receive the same revenue, it cannot rule out the possibility that higher wealth districts systematically select higher (or lower) tax rates than low-wealth districts. Moreover, Feldstein showed that this problem could be solved by estimating the relevant behavioral elasticities and incorporating them into a grant formula.

We do not think this is practical. As an alternative, we propose building on the Feldstein intuition by adding a new policy parameter to the standard power-equalizing formula. This parameter alters the impact of wealth on the matching rate, and it can be adjusted over time until wealth neutrality is achieved. This parameter, which we call α, appears in the formula as follows:[4]

5

$$A_i = E_i(1 - (v_i)^\alpha).$$

For example, if α is set at 1.0 (the standard power-equalizing formula) and the state falls short of wealth neutrality after the formula is implemented, then the next year the value of α would be raised slightly, say, to 1.1. This process would be continued until spending and wealth were not correlated. Eliminating the correlation between spending and wealth does not imply that all districts spend the same amount per pupil. In fact, wide variation in spending within a wealth class, including spending below any definition of adequacy, is consistent with wealth neutrality.

The grant formula in equation 5 focuses on educational spending. The appropriate switch to educational outcomes can be accomplished by applying the Feldstein approach to equation 4 instead of to equation 3. The most straightforward way to do this is to use v_i as a measure of r_i and to insert the policy parameter, now called β, as follows:

6

$$A_i = E_i\left(1 - \left(\frac{v_i}{\bar{c}_i}\right)^\beta\right).$$

As before, β could be adjusted over time until the correlation between S_i and v_i equaled zero. Once the role of educational costs has been recognized, it does not make sense to limit the notion of "neutrality" to the revenue side of the budget, and a more general equity objective is fiscal-health neutrality, which exists when educational outcomes are not correlated with a district's fiscal health, defined here as v_i / c_i.

AN EMPIRICAL ANALYSIS OF EDUCATIONAL COST, INEFFICIENCY, AND DEMAND FOR NEW YORK STATE

Our simulations of various aid formulas are based on models of both the costs of producing educational outcomes and

community decisions about these outcomes. This section describes our models in general terms and explains how we estimate education cost and demand models for 631 school districts in New York state in 1991.[5] Table 1 provides descriptive statistics.

Cost Model: Theory and Results

The key step in creating outcome-based aid formulas is estimating cost models for education and using the estimates to construct education cost indexes. Our cost model borrows from the large literature in educational production and public sector costs.[6] Expenditures (E) in a school district depend on the level of outputs (G), such as reading or math classes, the district chooses to provide; the prices (P) that it pays for inputs, such as teachers; and unobserved district characteristics (ε):

7

$$E = c(G, P, \varepsilon).$$

Bringing outcomes into educational cost functions draws from the long recognized fact that educational outcomes are a function of educational outputs and of "environmental" factors, such as the number of pupils in a district and the share of pupils who live in poverty. In symbols, educational outcomes, S, can be written as follows:

8

$$S = f(G, N, F, D).$$

where N is the number of pupils in the district, F represents students' family backgrounds, and D represents other student characteristics. Thus, for example, the same G per student might lead to a higher S per student in a middle-sized district than in a very small or a very large one.

Solving equation 8 for G and substituting the result into equation 7 yields a cost function for outcomes:

9

$$E = g(S, P, N, F, D, \varepsilon).$$

In short, the spending required to provide a given level of student achievement is a function of factor prices, environmental factors, and unobserved district characteristics. A district's relative cost is defined as the extent to which input prices and environmental factors require it to pay more than other districts to receive the same level of S. In terms of equation 9, a cost index is based on the impact of (P, N, F, and D) on E, holding S and ε constant.

A district's approved operating expense (AOE) per pupil, which is provided by the New York State Department of Education, is our measure of expenditure. The AOE includes salaries and fringe benefits of teachers and other school staff, other instructional expenditure, and all other nontransportation expenditure related to operation and maintenance of schools. Our input price variable is a teacher salary index. This index adjusts for differences in teacher experience, education, and certification to reflect differences in the cost of teachers of equivalent quality. Because of the potential endogeneity of teachers' salaries, which are set by district administrators, we base this index on salaries of teachers with five or fewer

TABLE 1
DESCRIPTIVE STATISTICS FOR COST AND DEMAND MODELS (NEW YORK SCHOOL DISTRICTS IN 1991, $n = 631$)

Variable	Mean	Standard Deviation	Minimum	Maximum
Cost model:				
Dependent variable:				
Log of per pupil expenditures	8.662	0.286	8.060	10.142
Independent variables:				
PEP scores (average percent of students above SRP)	94.243	3.787	64.500	100.000
Percent receiving Regents diploma	40.437	13.072	0.000	75.385
Percent nondropouts	97.593	1.835	88.100	100.000
Log of teacher salaries	10.108	0.122	9.558	10.461
Log of enrollment	7.377	0.879	4.220	10.741
Percent children in poverty	11.569	7.453	0.258	38.040
Percent female-headed households	8.788	2.712	2.464	34.684
Percent handicapped students	10.638	3.371	1.626	30.680
Percent severely handicapped students	4.488	2.120	0.000	14.570
Persons with limited English proficiency (percent)	0.987	1.272	0.000	11.957
DEA index (percent)[a]	66.462	15.765	19.488	100.000
Estimated efficiency index (percent)[a]	69.050	9.780	45.469	100.000
Demand model:				
Dependent variable:				
Index of educational outcomes	4,914.190	1,547.250	810.710	10,284.810
Independent variables:				
Log of median family income	10.554	0.313	9.960	11.631
Ratio of operating aid to median income	0.039	0.025	0.001	0.178
Ratio of other lump-sum aid to median income	0.006	0.008	0.000	0.082
Ratio of matching aid to median income	0.006	0.005	0.000	0.045
Log of tax share	−0.623	0.464	−2.702	1.071
Log of efficiency index	−0.440	0.261	−1.635	0.000
Percent owner-occupied housing	75.362	10.158	36.499	95.381
Relative percent of adults with college education[b]	0.000	5.737	−17.146	22.800
Instruments:				
District population (thousands)	15.634	21.853	0.544	328.123
Population density	1,093.060	1,998.910	2.051	16,330.980
Percent employees managers/professionals	26.445	9.262	11.972	63.067
City district (1 = yes)	0.092	0.289	0.000	1.000
Hourly manufacturing wage (production workers)	12.146	1.853	7.500	17.965
1990 county population (thousands)	388.939	457.034	5.279	1,321.860

[a]Efficient districts have an index of 100. This is based on DEA estimates for the three outcome variables listed and per pupil expenditures.
[b]To remove collinearity with income, this variable is the residual from a regression of the percent of adults with a college education on median income.
Sources: New York State Department of Education, Comprehensive Assessment Report, Basic Education Data System and Fiscal Profile, and National Center for Education Statistics, School District Data Book.

years of experience, and we treat this wage variable as endogenous.[7]

Selecting educational outcomes is clearly difficult and controversial. We began by selecting educational outcome variables that seemed reasonable based on previous literature and that appeared to be valued by voters, as indicated by a correlation with such voter demand variables as income and tax share.[8] These criteria led us to reject average achievement test scores as outcome variables, but supported the use of three other measures. The first is the average percentage of students performing above a standard reference point on Pupil Evaluation Program, (PEP), tests

grade students [illegible] reading and math. The second mea[illegible] is the percentage of students receiving a Regents diploma upon graduation from high school. Regents diplomas are given to students who pass standardized tests given by the state to high school students. The third measure is the percentage of students not dropping out of school before their scheduled graduation, which is the inverse of the dropout rate. These three variables make an appealing package because they reflect a key trade-off that every school district faces in designing its programs, that between bringing up the bottom or raising the top of the achievement distribution.

Since many studies find that expenditure per pupil is a U-shaped function of enrollment, we include a district's enrollment and its square as environmental variables. The studies cited earlier that estimate cost indexes also found that student or family characteristics can be important environmental variables. Thus, our analysis of district costs examines the percentage of children in poverty, the percentage of households with a female single parent, the percentage of children with limited English proficiency, and the percentage of students with severe disabilities (requiring special services out of the regular classroom at least 60 percent of the school day).[9]

We estimate our educational cost model in log-linear form, with the outcome measures, the efficiency index (discussed below), and the price of labor treated as endogenous. The results are reported in Table 2. The specification performs well. The outcome measures all have positive coefficients, as expected; two of the three coefficients are highly significant statistically; and the third has a t-statistic of 1.62. The efficiency index has a negative coefficient and is statistically significant; as expected, higher efficiency is associated with lower expenditures. Moreover, five of the seven cost variables have a statistically significant coefficient with the expected sign. The teacher salary variable, child poverty rate, percentage of households that are female-headed, and percentage of students with limited English proficiency are positively related to expenditure and significantly different from zero at least at the ten percent level (with a one-sided test). Both enrollment variables are statistically significant and indicate a U-shaped per pupil expenditure function. The percentage of students with a severe handicap has the expected sign but is not significant, probably because some special education expenditures are not included in AOE.

The cost model in Table 2 is used to construct a comprehensive educational cost index. This index indicates the amount a district must spend, relative to the state average, to obtain a given level of service quality, holding efficiency constant.[10] A district with a high cost index has a high underlying cost of hiring teachers (the opportunity wage), unfavorable environmental factors (such as concentrated student poverty), or both. This index has a range of 74 to 261, with a standard deviation of 19. Seventy-five percent of the districts have indexes below 105, and 75 percent have indexes above 89.

Measuring Inefficiency

One key element of unobserved district characteristics, ε, is school-district inefficiency, which, like relatively high costs, can lead to relatively high spending. Without controlling for inefficiency, cost adjustments in aid formulas may inappropriately reward inefficient as well as higher-cost districts.

EDUCATIONAL COST AND DEMAND MODEL RESULTS, NEW YORK SCHOOL DISTRI[illegible]

Variables	Coefficient	t-Statistic
Cost model:		
Intercept	−4.9550	−1.53
PEP scores (average percent above standard reference point)*	5.1106	2.50
Percent nondropouts*	4.4757	1.62
Percent receiving Regents diploma*	1.3449	3.19
DEA efficiency index (percent)*	−1.1670	−4.87
Log of teacher salaries*	0.6487	1.57
Log of enrollment	−0.5680	−3.54
Square of log of enrollment	0.0345	3.44
Percent children in poverty	1.0109	3.93
Percent female-headed households	2.2261	3.85
Percent severely handicapped students	0.8584	1.29
Limited English proficiency (percent)	4.0525	2.65
SSE	34.58	
Adjusted *R*-square	0.31	
Demand model:		
Intercept	−1.2552	−1.45
Log of median family income	0.8947	9.65
Ratio of operating aid to median income	3.4337	2.45
Ratio of other lump-sum aid to median income	3.1814	1.38
Ratio of matching aid to median income	−7.8947	−1.53
Log of tax share	−0.3133	−6.47
Log of DEA efficiency index*	0.4637	2.10
Percent owner-occupied housing	0.2148	1.39
Relative percent of adults with college education	0.1591	0.60
n	631	
SSE	37.05	
Adjusted *R*-square	0.47	

*Cost and demand models estimated with linear 2SLS regression; variables marked with an asterisk are treated as endogenous. The dependent variables are the logarithms of per pupil operating expenditures in the cost model and the outcome index for the demand model. The outcome index is based on the three outcome variables in the cost model weighted by their regression coefficients.

Our strategy is to measure inefficiency directly, so that our cost indexes—and aid formulas—can be adjusted to avoid this problem.

Our measure of inefficiency is based on data envelopment analysis (DEA). This nonparametric programming technique compares the spending of each district with the spending of other districts that deliver the same quality of public services. In this context, the quality of public services is measured by the *S* variables included in equation 9. A district's inefficiency is measured by the extent to which it spends more than its comparison districts. This inefficiency can arise either because the district uses too many inputs to produce the output (called technical inefficiency) or because it uses the wrong combination of inputs given output prices (called input-allocative inefficiency). For a more detailed discussion of this DEA measure, see Duncombe, Ruggiero, and Yinger (1996) or Ruggiero (1996). A cost "efficiency" index was constructed for each school district in New York State. This index has a value of one (1.0) for a perfectly "efficient" district. The average "efficiency" score is 0.66, 23 districts (4 percent) have an index of 1.0, and 350

districts (35 per[illegible] have an index below 0.7.

The word "efficiency" is in quotation marks here because this DEA measure reflects factors in addition to efficiency. In fact, it reflects any factor that influences the relationship between observed S and E, including unobserved public service outcomes, cost variables, and a district's past decisions about education. Thus, the DEA variable inevitably duplicates some information in the cost model, and including it in the cost equation may cause multicollinearity. In fact, however, the coefficients of most of these variables are estimated with precision (that is, they are statistically significant at conventional levels), so the DEA variable can be included in our cost equation (and, on similar grounds, in our demand equation) to avoid potential bias from the omission of a control for efficiency. Finally, any efficiency measure might be endogenous; some of the same factors that influence decisions about spending might also influence decisions that lead districts to act in an efficient manner. To account for this possibility, we treat our DEA variables as endogenous, with instruments drawn from the public choice literature.[11]

In the aid simulations, we need to calculate the district expenditure associated with a given outcome level. The DEA variable cannot be used directly in this calculation, because the conversion of our simulated outcome, S, into expenditure, E, requires a measure of productive efficiency alone, not an index that may reflect other things. In symbols, $E_i = S_i c_i / k_i$, where k is an efficiency index. To estimate this efficiency index, we regress the DEA measure on the cost factors in equation 9; demand factors (discussed below), which control for omitted educational outcomes; and public choice factors (Duncombe and Yinger, 1997). The efficiency index is the predicted value from this equation, holding cost and demand factors at the state average while allowing public choice factors to vary across districts. The resulting index is rescaled so its highest value is 1.0 (for perfect efficiency). The mean of this efficiency index is higher, and its standard deviation lower, than that of the DEA measure.

Demand Model: Theory and Results

One of the issues that arises in estimating equation 9 is that service quality, S, is clearly endogenous; communities make decisions about service quality and spending simultaneously. Moreover, one cannot simulate the impact of a new aid program on educational outcomes without understanding how such outcomes are determined. Thus, a formal analysis of the determinants of the demand for S is central to the objectives of this paper.

We draw on the large literature on the demand for educational outcomes (Inman, 1979; Rubinfeld, 1987; Ladd and Yinger, 1991). In particular, we employ the median voter model, in which a district's demand for educational outcomes, as determined through voting, is a function of the median voter's aggregate income, TY; her tax price, TP; efficiency; and various preference variables, R. Following much of the literature, we specify a constant elasticity demand function:

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$$S = TY^{\alpha} TP^{\mu} DEA^{\gamma} R^{\nu}.$$

Our demand model uses an index of the three outcomes discussed previously as the dependent variable (Table 1). The weights for these outcomes are derived directly from the cost model.[12] Preference variables include community characteristics, such as the percentage of adults who graduated from college and the percentage of households living in owner-occupied housing, that might affect voting outcomes.[13]

Following the literature (especially Ladd and Yinger, 1991), we define the tax price, TP, as tax share, τ, multiplied by the marginal expenditure for educational services. We measure τ with the ratio of median housing value to total property value per pupil. Marginal expenditure equals marginal cost divided by the efficiency index to reflect wasted spending. Assuming constant returns to scale with respect to S, average cost equals marginal cost, and the educational cost index from the cost model can be used as a measure of marginal cost. In estimating the demand model, we split marginal expenditure into two pieces. The first piece is τ multiplied by the cost index and the second is the DEA index.

Aggregate income (TY) equals the median voter's income plus her share of state aid:

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$$TY = Y + \tau A = Y\left(1 + \tau\frac{A}{Y}\right)$$

where Y is median income, A is aid per pupil, and τ is the median voter's tax share. Because the term in parentheses is close to one in value, this form can be approximated using the aid-income index ($\tau A/Y$) in unlogged form. New York, like most states, has several education aid programs; t[illegible]er, they fund about 40 percent of school district budgets. The aid distributed by formula (over 95 percent of the total) can be divided into lump-sum and matching grants. The largest program, basic operating aid, is a lump-sum, noncategorical, foundation-type grant, which constitutes 60 percent of total state aid and provided $3.05 billion in 1991. We include this grant separately in the demand model since it is closest in design to the general operating aid programs we simulate. In addition, we combine several smaller lump-sum grants into a second aid variable[14] and several matching aid programs into a third aid variable. Because they are not open ended, the matching grants cannot be expressed as an adjustment to the tax price.[15]

We estimate our demand model in log-linear form, with the DEA index treated as endogenous. Based on the form in equation 11, the aid variables are not expressed in natural logarithms. Following standard practice for percentages, neither are the preference variables. The results are in Table 2. The income elasticity for education is estimated to be somewhat below unity, 0.89. Our estimate is higher than that found in most past research (Inman, 1979), possibly due to our controls for costs and efficiency.[16] The elasticity for the operating aid variable is 3.4. This result is consistent with the so-called "flypaper" effect. In the average district, a $1 increase in state aid is associated with a $0.33 increase in educational expenditure, whereas expenditure rises by only $0.10 when district income increases by $1. The other aid variables are not statistically significant.

The price elasticity for education, μ, is estimated to be –0.31, which is in line with past research on education (Inman,

DEA index is p[illegible]ve and statistically significant; as e[illegible]cted, higher efficiency lowers the effective price facing the median voter and increases demand for S. The preference variables are positively related to educational outcomes, but are not statistically significant.

SCHOOL AID SIMULATIONS FOR NEW YORK

To evaluate alternative aid formulas on the basis of various equity criteria, we used our results to simulate the choices school districts in New York would make if several different aid formulas were implemented. We are particularly concerned, of course, with their choice of educational outcome, S. While simulations have been performed on individual aid systems (Megdal, 1983; Rothstein, 1992), our paper represents one of the first attempts to assess the implications of different school aid formulas for several equity standards.

Simulation Methodology

The first step in our simulation is to construct the aid formulas presented previously. Since foundation aid is exogenous to local behavior, aid can be allocated prior to estimating districts' behavioral responses. Aid given according to equation 1, for example, depends only on a district's tax base. Power-equalizing aid formulas (equations 5 and 6) yield matching rates, not aid amounts. All of the aid simulations are adjusted to keep total state spending approximately at the 1991 level of actual state operating aid and other lump-sum aid, namely, $3.65 billion or $2,427 per pupil.[17]

To simulate service outcomes under different aid formulas, the coefficients of the demand regression (table 2) are multiplied by actual district data for median income, tax price, efficiency, matching aid, and preference variables. In addition, we include the estimated residual in the simulation to pick up district-specific effects not captured by our demand model. For each foundation plan, the new aid-income ratio is multiplied by the operating aid elasticity to simulate the income effect of the grant. The aid ratio for other lump-sum aid is set to zero because we want to simulate the distribution of all general lump-sum aid through one foundation formula. For power-equalizing grants, the aid-income ratios for both lump-sum aid variables are set to zero, which is equivalent to eliminating lump-sum aid, and the estimated price elasticity is used to simulate the effects of the new matching rate. These steps yield a simulated value of S for each grant formula. The value of E is found by multiplying S by the cost index and dividing it by the estimated efficiency index, k (not the DEA index). The estimated matching aid amount is found by multiplying E by the matching rate.

We carry out simulations (a) comparing lump-sum (foundation) and matching (power-equalizing) grants (b) with and without negative aid and (c) based on expenditure or outcome as the object of equalization. Outcome-based formulas are constructed using both property wealth and revenue-raising capacity. Foundation formulas are tested for three different foundation levels: the 25th, 50th, and 75th percentiles of the 1991 expenditure or outcome distribution. These foundation levels correspond to E^* (for expenditure) or S^* (for outcome) in the aid formulas. The foundation formulas also set k^*, the minimum acceptable efficiency level, at the 75th percentile of the current efficiency distribution, as defined by k, not by the DEA measure. Power-equalizing formulas are constructed for seven values of α in equation 5 (or β in equation 6) to determine how much the standard power-equalizing matching rate formula needs to be dampened or accentuated to achieve wealth (or fiscal-health) neutrality. For comparative purposes, we also include the simplest of all aid plans—a flat grant per pupil. If an aid plan does not do much better at equalizing than a flat grant, then the costs associated with implementing a more complex aid system are probably not worth it.

Simulation Results

The distribution of aid for various aid formulas is presented in Table 3. Three themes emerge from this table. First, systems that allow for negative aid permit more redistribution than those that do not. For example, the aid per pupil received by the five percent of districts deemed most needy by a particular formula is up to $700 higher with negative aid than without it. Second, for foundation plans, increasing the value of E^* (or of S^*) raises the extent of redistribution, but the impact of such an increase is greater if there is negative aid. Third, in both foundation and power-equalizing plans, switching from an expenditure-based to an outcome-based formula tends to increase redistribution. For example, the neediest districts receive about $1,000 more per pupil with the most generous outcome-based foundation plans than with the comparable expenditure-based plan. This table hides another feature of these simulations, namely, that aid to specific districts may be quite different in two plans with similar implications for redistribution.

To explore the impacts of the various plans in more detail, Tables 4 through 7 show how each plan perf[illegible]ord-ing to five different equit[illegible]s. Tables 4 and 5 present results for foundation plans (with and without negative aid), and Tables 6 and 7 present results for power-equalizing plans (with and without negative aid). The absolute equity standard in the first two columns is the share of the outcome gap below an absolute standard closed by each aid plan. The first column sets the absolute standard at the current median S, and the second sets it at the current 25th percentile of S. The outcome gap is defined as the weighted average difference, across districts with outcomes below the absolute standard, between the actual district outcome and the absolute standard. In this definition, the weights reflect the number of students in each district. We calculate the gap for our new aid formulas and the gap for actual aid formulas in 1991 and estimate the percent of the existing gap that would be closed by the new formulas. Thus, the entries in these two columns indicate how far each aid formula goes toward bringing all students up to the stated absolute standard.

In addition, these tables use the Gini coefficient (column 3) as a vertical equity standard, the elasticity of outcomes with respect to property wealth (column 4) as a measure of wealth neutrality, and the elasticity of outcomes with respect to fiscal health (column 5) as a measure of fiscal-health neutrality. A higher percentage indicates a higher ranking for the two absolute standards, whereas a value closer to zero indicates a higher ranking for the other three standards.

Absolute standards

Which aid systems do the best job of boosting students in poor or high-cost districts above some minimum educa-

TABLE 3
DISTRIBUTION OF AID BY TYPE OF AID SYSTEM[a]
NEW YORK SCHOOL DISTRICTS IN 1991 PERCENTILES OF THE AID DISTRIBUTION

Aid System	95th Percentile	75th Percentile	Median	25th Percentile	5th Percentile
Present aid system	$4,135	$3,545	$3,066	$2,106	$921
Foundation plans:					
Expenditure based:					
Negative aid					
E^* = 25th percentile	$3,891	$3,560	$3,153	$2,024	–$1,761
E^* = median	$4,248	$3,837	$3,331	$1,926	–$2,786
E^* = 75th percentile	$5,081	$4,481	$3,744	$1,697	–$5,169
No negative aid					
E^* = 25th percentile	$3,790	$3,421	$2,967	$1,707	$0
E^* = median	$4,084	$3,609	$3,026	$1,406	$0
E^* = 75th percentile	$4,740	$4,010	$3,112	$619	$0
Outcome based (using property values):					
Negative aid					
S^* = 25th percentile	$4,206	$3,302	$2,540	$1,430	–$1,852
S^* = median	$5,081	$3,728	$2,814	$1,009	–$4,117
S^* = 75th percentile	$6,044	$4,311	$3,112	$567	–$7,095
No negative aid					
S^* = 25th percentile	$4,074	$3,025	$2,334	$1,027	$0
S^* = median	$4,690	$3,308	$2,239	$0	$0
S^* = 75th percentile	$5,324	$3,402	$2,005	$0	$0
Outcome based (using revenue raising capacity):					
Negative aid					
S^* = 25th percentile	$4,293	$3,287	$2,650	$1,678	–$453
S^* = median	$5,179	$3,867	$2,958	$1,524	–$1,937
S^* = 75th percentile	$6,180	$4,444	$3,277	$1,335	–$3,540
No negative aid					
S^* = 25th percentile	$4,219	$3,189	$2,540	$1,503	$0
S^* = median	$4,986	$3,578	$2,630	$1,048	$0
S^* = 75th percentile	$5,762	$3,938	$2,615	$307	$0
Power-equalizing plans:[b]					
Expenditure based:					
Negative aid	$5,850	$4,359	$3,459	$2,114	–$5,428
No negative aid	$5,033	$3,752	$2,906	$1,058	$0
Outcome based (using property values):					
Negative aid	$5,993	$4,242	$3,272	$1,876	–$5,288
No negative aid	$5,269	$3,610	$2,696	$732	$0
Outcome based (using revenue raising capacity):					
Negative aid	$6,942	$4,343	$3,325	$2,208	–$2,674
No negative aid	$6,399	$3,949	$2,894	$1,654	$0

[a]All plans are adjusted to have approximately the same budget as 1991 operating and other lump-sum aid—$3.65 billion.
[b]For comparision purposes, the value of α (or β) is held at one; see the text.

tional standard? As shown in Tables 4 and 5, the clear winners in this case are the plans explicitly designed to meet this objective, namely, outcome-based foundation plans that both set S^* high enough and require a minimum t^*. If S^* is set at least as high as the standard that policymakers are trying to meet and districts are required to set t^* high enough to fund this outcome, then at least 70 percent of the outcome gap is closed, regardless of whether there is negative aid. The entire outcome gap is not closed because some of the districts with low values of S are relatively inefficient. Thus, students in these

TABLE 4
EQUITY COMPARISONS FOR DIFFERENT FOUNDATION FORMULAS WITH NEGATIVE
NEW YORK SCHOOL DISTRICTS, 1991[a]

	Absolute Standard		Relative Standard	Fiscal Neutrality[b]	
Aid System	Percent of Outcome Gap Closed Minimum Outcome Set at Median	Percent of Outcome Gap Closed Minimum Outcome Set at 25th Percentile	Gini Coefficient (Outcome Index)	Elasticity of Outcomes and Property Wealth	Elasticity of Outcomes and Fiscal Health
Present aid distribution	0%	0%	0.203	0.147	0.259
Flat grant	–4%	–1%	0.200	0.235	0.317
Expenditure based:					
No minimum t^*					
E^* = 25th percentile	8%	14%	0.182	0.124	0.218
E^* = median	11%	16%	0.178	0.096	0.194
E^* = 75th percentile	16%	22%	0.173	0.033	0.138
Minimum t^*					
E^* = 25th percentile	22%	36%	0.166	0.098	0.169
E^* = median	34%	48%	0.153	0.054	0.122
E^* = 75th percentile	60%	75%	0.123	–0.048	0.011
Outcome based (using property value):					
No minimum t^*					
S^* = 25th percentile	17%	42%	0.162	0.133	0.200
S^* = median	27%	52%	0.149	0.072	0.139
S^* = 75th percentile	35%	63%	0.140	0.006	0.073
Minimum t^*					
S^* = 25th percentile	43%	84%	0.134	0.114	0.152
S^* = median	74%	98%	0.103	0.021	0.038
S^* = 75th percentile	95%	100%	0.081	–0.074	–0.078
Outcome based (using revenue raising capacity):					
No minimum t^*					
S^* = 25th percentile	13%	36%	0.165	0.163	0.195
S^* = median	20%	44%	0.154	0.120	0.131
S^* = 75th percentile	28%	50%	0.145	0.072	0.062
Minimum t^*					
S^* = 25th percentile	41%	83%	0.135	0.142	0.149
S^* = median	73%	99%	0.103	0.060	0.037
S^* = 75th percentile	95%	100%	0.080	–0.028	–0.073

[a]All grants require approximately the same state budget to fund as the aid system in 1991—$3.65 billion.
[b]The fiscal health index used in the fiscal neutrality calculation uses a general measure of revenue raising capacity.

districts are penalized because of the inefficiency of their school district. One way the state could avoid this problem would be to set the inefficiency standard, k^*, at the minimum efficiency level of all districts. This approach would not provide incentives for districts to be inefficient, and it would require either a substantial increase in either state aid or t^*.

While expenditure-based foundation plans are certainly an improvement over the present system in New York or a simple flat grant per pupil, they do not close as much of the outcome gap as an outcome-based foundation because they neglect high-cost, low-outcome districts. In fact, these aid systems close between 30 and 40 percent less of the

EQUITY COMPARISONS FOR DIFFERENT FOUNDATION FORMULAS WITHOUT NEGATIVE AID, NEW YORK SCHOOL DISTRICTS, 1991[a]

Aid System	Absolute Standard: Percent of Outcome Gap Closed, Minimum Outcome Set at Median	Absolute Standard: Percent of Outcome Gap Closed, Minimum Outcome Set at 25th Percentile	Relative Standard: Gini Coefficient (Outcome Index)	Fiscal Neutrality[b]: Elasticity of Outcomes and Property Wealth	Fiscal Neutrality[b]: Elasticity of Outcomes and Fiscal Health
Present aid distribution	0%	0%	0.203	0.147	0.259
Flat grant	−4%	−1%	0.200	0.235	0.317
Expenditure based:					
No minimum t^*					
E^* = 25th percentile	6%	11%	0.183	0.147	0.235
E^* = median	8%	13%	0.181	0.133	0.222
E^* = 75th percentile	10%	15%	0.178	0.105	0.195
Minimum t^*					
E^* = 25th percentile	21%	36%	0.170	0.167	0.216
E^* = median	35%	48%	0.160	0.167	0.199
E^* = 75th percentile	64%	77%	0.141	0.189	0.177
Outcome based (using property value):					
No minimum t^*					
S^* = 25th percentile	13%	39%	0.165	0.159	0.221
S^* = median	18%	45%	0.158	0.135	0.192
S^* = 75th percentile	21%	49%	0.155	0.118	0.170
Minimum t^*					
S^* = 25th percentile	41%	84%	0.140	0.191	0.206
S^* = median	75%	99%	0.124	0.224	0.182
S^* = 75th percentile	98%	100%	0.133	0.307	0.211
Outcome based (using revenue raising capacity):					
No minimum t^*					
S^* = 25th percentile	11%	34%	0.167	0.175	0.211
S^* = median	15%	39%	0.160	0.152	0.172
S^* = 75th percentile	18%	42%	0.156	0.132	0.137
Minimum t^*					
S^* = 25th percentile	41%	83%	0.136	0.160	0.173
S^* = median	74%	99%	0.113	0.124	0.125
S^* = 75th percentile	97%	100%	0.110	0.112	0.126

[a]All grants require approximately the same state budget to fund as the aid system in 1991—$3.65 billion.
[b]The fiscal health index used in the fiscal neutrality calculation uses a general measure of revenue raising capacity.

outcome gap. Expenditure-based plans bring approximately the same number of districts above an outcome-based adequacy standard as do otherwise comparable outcome-based plans, but their impact is primarily on low-cost districts currently just below the standard. Even with a high expenditure standard (E^* = 75th percentile) and a required local tax rate, 25 percent of the outcome gap below the 25th percentile would remain after aid distribution. By comparison, this outcome gap would be eliminated entirely under the two outcome-based plans. This finding is particularly important because most existing foundation plans account principally for wealth differences across districts with few adjustments for cost differences.

TABLE 6
EQUITY COMPARISONS FOR DIFFERENT POWER-EQUALIZING FORMULAS WITH [illegible]ID, NEW YORK SCHOOL DISTRICTS, 1991[a]

Aid System	Absolute Standard: Percent of Outcome Gap Closed, Minimum Outcome Set at Median	Absolute Standard: Percent of Outcome Gap Closed, Minimum Outcome Set at 25th Percentile	Relative Standard: Gini Coefficient (Outcome Index)	Fiscal Neutrality[b]: Elasticity of Outcomes and Property Wealth	Fiscal Neutrality[b]: Elasticity of Outcomes and Fiscal Health
Present aid distribution	0%	0%	0.204	0.147	0.259
Flat grant	−4%	−1%	0.201	0.235	0.317
Expenditure based:[c]					
α = 0.7	13%	18%	0.183	0.084	0.184
α = 0.8	16%	21%	0.179	0.053	0.157
α = 0.9	19%	23%	0.177	0.022	0.130
α = 1.0	21%	26%	0.175	−0.009	0.103
α = 1.1	24%	28%	0.173	−0.041	0.076
α = 1.15	26%	29%	0.173	−0.056	0.063
α = 1.4	32%	35%	0.171	−0.135	−0.004
Outcome based (using property value):[d]					
β = 0.7	19%	33%	0.169	0.090	0.169
β = 0.8	23%	38%	0.164	0.059	0.140
β = 0.9	27%	44%	0.160	0.029	0.111
β = 1.0	31%	49%	0.156	−0.002	0.082
β = 1.1	36%	52%	0.152	−0.032	0.053
β = 1.15	38%	54%	0.151	−0.048	0.038
β = 1.3	44%	59%	0.146	−0.093	−0.005
Outcome based (using revenue raising capacity):[d]					
β = 0.7	13%	23%	0.173	0.160	0.152
β = 0.8	16%	27%	0.168	0.139	0.121
β = 0.9	20%	31%	0.164	0.118	0.089
β = 1.0	23%	35%	0.159	0.098	0.058
β = 1.1	26%	39%	0.156	0.077	0.027
β = 1.15	28%	41%	0.154	0.068	0.011
β = 1.2	30%	43%	0.151	0.056	−0.005

[a]All grants require approximately the same state budget to fund as the aid system in 1991—$3.65 billion.
[b]The fiscal health index used in the fiscal neutrality calculation uses a general measure of revenue raising capacity.
[c]The role of α is defined in equation 5.
[d]The role of β is defined in equation 6.

Plans with a required minimum tax rate promote adequacy because they force needy school districts to raise their tax effort. For an outcome-based foundation plan (using a more general capacity measure), where the standard is set at the current median outcome, 80 percent of districts with outcomes presently below the standard would be forced to impose a higher tax rate than the median voter would select. For the median of these districts, the required tax rate would be twice the desired level. Even with required minimum tax rates, however, school tax rates in districts with low fiscal health are slightly lower, on average, than in other districts. If one accepts the property tax rate as a suitable measure of effort, taxpayers in these "unhealthy" districts are not being asked to make a greater effort than are other taxpayers.

Without a minimum t^*, we find, somewhat surprisingly, that power-equalizing formulas designed to achieve

TABLE 7

EQUITY COMPARISONS FOR DIFFERENT POWER-EQUALIZING FORMULAS WITHOUT NEGATIVE AID, NEW YORK SCHOOL DISTRICTS, 1991[a]

Aid System	Absolute Standard: Percent of Outcome Gap Closed Minimum Outcome Set at Median	Absolute Standard: Percent of Outcome Gap Closed Minimum Outcome Set at 25th Percentile	Relative Standard: Gini Coefficient (Outcome Index)	Fiscal Neutrality[b]: Elasticity of Outcomes and Property Wealth	Fiscal Neutrality[b]: Elasticity of Outcomes and Fiscal Health
Present aid distribution	0%	0%	0.204	0.147	0.259
Flat grant	–4%	–1%	0.201	0.235	0.317
Expenditure based:[c]					
$\alpha = 0.7$	9%	14%	0.184	0.134	0.219
$\alpha = 0.8$	11%	16%	0.182	0.120	0.206
$\alpha = 0.9$	12%	17%	0.179	0.107	0.194
$\alpha = 1.0$	14%	18%	0.178	0.095	0.183
$\alpha = 1.1$	15%	19%	0.176	0.084	0.172
$\alpha = 1.15$	16%	20%	0.175	0.074	0.161
$\alpha = 3.25$	20%	23%	0.177	–0.058	0.027
Outcome based (using property value):[d]					
$\beta = 0.7$	14%	29%	0.172	0.137	0.205
$\beta = 0.8$	17%	33%	0.169	0.123	0.190
$\beta = 0.9$	19%	37%	0.165	0.110	0.177
$\beta = 1.0$	21%	40%	0.162	0.099	0.164
$\beta = 1.1$	23%	43%	0.160	0.088	0.152
$\beta = 1.15$	25%	45%	0.158	0.079	0.142
$\beta = 3.25$	30%	59%	0.160	–0.002	0.036
Outcome based (using revenue raising capacity):[d]					
$\beta = 0.7$	10%	21%	0.172	0.177	0.177
$\beta = 0.8$	13%	24%	0.168	0.165	0.156
$\beta = 0.9$	15%	28%	0.165	0.153	0.137
$\beta = 1.0$	17%	30%	0.162	0.143	0.119
$\beta = 1.1$	18%	33%	0.160	0.132	0.101
$\beta = 1.15$	20%	35%	0.158	0.123	0.085
$\beta = 2.00$	27%	45%	0.151	0.066	–0.022

[a]All grants require approximately the same state budget to fund as the aid system in 1991—$3.65 billion.
[b]The fiscal health index used in the fiscal neutrality calculation uses a general measure of revenue raising capacity.
[c]The role of α is defined in equation 5.
[d]The role of β is defined in equation 6.

fiscal neutrality with respect to fiscal health close slightly more of the outcome gap below the median than do outcome-based foundation plans (Table 6). Thirty to forty-four percent of the outcome gap below the median level of S^* is closed under power equalization (with negative aid) compared to between 28 and 35 percent for the most redistributive outcome-based foundation plans (S^* = 75th percentile). This finding reflects the well-known fact that the price effect in a matching grant makes it more powerful than a lump-sum grant in raising expenditures and outcomes. Thus, the high matching rates in low-capacity districts are more effective in raising outcomes than are the large amounts of aid in foundation formulas. However, these matching plans are much less effective at targeting aid to districts with the worst current educational outcomes; outcome-based foundation plans close more of the gap below the 25th percentile than do power-equalizing grants.

Vertical equity

We measure vertical equity with the Gini coefficient. Several other measures of vertical equity are available (Berne and Stiefel, 1984), including the coefficient of variation and several range measures; they all yield similar results.

The current aid system, with a Gini coefficient of 0.203, is no more equalizing than a flat grant per pupil for every district. Assuming no restrictions on local tax rates, most aid plans result in a Gini between 0.14 and 0.19, which indicates more equity than the current system. Eliminating negative aid causes a small decrease in equity in most cases. Tables 4 and 5 indicate, for example, that the Gini for an outcome-based foundation plan (when S^* is set at the 75th percentile) goes from 0.14 to 0.155 when negative aid is disallowed. Moving from an expenditure-based to an outcome-based aid system improves equity, with Gini coefficients dropping by 10 to 20 percent.

Under outcome-based foundation plans, requiring a minimum tax rate significantly improves vertical equity, with Gini coefficients falling to as low as 0.08 (when S^* = 75th percentile). This large improvement in equity is achieved because most of the outcome gap below S^* is closed. For example, with an S^* set at the 50th percentile (and negative aid), 73 percent of the outcome gap is closed and there is little variation in S, let alone inequity. As noted earlier, most of this boost in equity is due to forced local spending by low-capacity/high-cost districts rather than to the intergovernmental aid itself.

Fiscal neutrality

We measure fiscal neutrality by the elasticity (at the mean) of the simulated service outcomes relative to either property wealth or fiscal health. The elasticity of the present (1991) aid distribution is 0.147 with respect to wealth and 0.259 with respect to fiscal health. In other words, a 1 percent increase in a district's property wealth (fiscal health) is associated with a 0.147 percent (0.259 percent) increase in S. A flat per pupil aid system would increase both elasticities—and thereby move the system away from neutrality.

Not surprisingly, power-equalizing grants with negative aid do particularly well by these standards (Table 6). For an unadjusted (α or β =1) power-equalizing grant, elasticities range from –0.01 to 0.1 for wealth and from 0.06 to 0.1 for fiscal condition. Expenditure- and outcome-based power-equalizing grants based on wealth both come close to wealth neutrality (as indicated by the very small negative elasticity), but do not achieve fiscal-health neutrality. Outcome-based power-equalizing grants based on a general measure of capacity come closer to fiscal-health neutrality, but do not get all the way there unless β is set at approximately 1.2.

Table 7 shows that power-equalizing grants have a difficult time achieving fiscal neutrality without negative aid. In order for wealth and fiscal-health elasticities to approximate zero, α (or β) must be set at 2.0 or above. Thus, standard formulas must be altered dramatically to come close to neutrality in either sense. Moreover, the more one boosts the matching rate for the lowest wealth (or fiscal-health) districts, the more redistribution occurs among districts that receive aid, but the fewer districts receive aid (to keep the budget constant). As a result, some states may find it impossible to obtain wealth or fiscal-health neutrality without negative aid. Despite their origins, realistic power-equalizing systems (that is, those

without nega[illegible]id) actually prove to be a difficult [illegible]o achieve fiscal neutrality.

Foundation formulas vary significantly in their impact on fiscal neutrality (Tables 4 and 5). Increasing the redistributive power of the grant by raising S^* lowers the elasticities for all types of foundation formulas with negative aid. Forcing districts below S^* to assess a minimum tax rate lowers the elasticities still further, particularly when S^* is set at a high level. For example, with S^* set at the 75th percentile, elasticities with respect to wealth and fiscal health are actually negative for outcome-based aid formulas. The results change dramatically when negative aid is not permitted. Elasticities remain at 0.10 or above for all aid systems and elasticities actually go up with S^* in some cases when a minimum t^* is imposed. In general, similar expenditure- and outcome-based foundation formulas have roughly equivalent impacts on wealth or fiscal-health neutrality.

Conclusions

Expenditure-based foundation grants, which are used by over 80 percent of states, do not perform well by either absolute or vertical equity standards—even when a minimum t^* is imposed. By controlling for costs in an *ad hoc* fashion, the typical foundation formula does not provide sufficient aid to high-cost districts, and therefore leaves many students below any reasonable standard for educational outcomes. The resulting wide disparities also show up in higher Gini coefficients or in other measures of vertical equity. By shifting to performance standards for local schools, states have implicitly recognized the role of input and environmental cost factors, so it is particularly troubling that they continue to rely so heavily on aid formulas that only partially account for these factors, if at all. Moreover, there appears to be a growing emphasis on absolute outcome standards, often called educational adequacy (Clune, 1993). State policymakers need to understand that expenditure-based foundation grants do not and indeed cannot assure that educational adequacy is achieved.

Outcome-based foundation plans cannot be implemented without addressing several difficult issues, such as deciding which educational outputs and environmental cost factors to consider and selecting a way to control for district efficiency. We provide one method for addressing these issues that attempts to find a balance between the precision required by scholars and the simplicity required for actual implementation. Our simulations of the impacts of the resulting outcome-based plans indicate that such plans can be an effective tool for promoting educational adequacy, at least when they include a required minimum tax rate. Indeed, by requiring contributions from local taxpayers, these plans can bring the vast majority of districts up to any educational outcome standard policymakers select. The districts that remain below the standard are relatively inefficient.[18]

The majority of states with foundation plans do require minimum tax rates, but states tempted to drop this requirement (or states considering the adoption of an outcome-based foundation plan without it) should recognize that it is essential to the goal of educational adequacy. Without a required minimum tax rate, many districts will spend below a relatively modest adequacy standard (in this paper, the 25th percentile of the current distribution) even if the foundation level is set very high. Of course,

[illegible]states can minimize the impact of a required minimum tax rate on needy districts by boosting the state budget. Without an extremely generous state plan, however, a significant increase in the tax rate in many districts is necessary, at least in New York, to meet any reasonable adequacy standard. Our simulations for New York also indicate that foundation plans with negative aid and a required minimum tax rate promote vertical equity and fiscal neutrality, at least if the foundation level is set high enough. Indeed, if the outcome foundation level is set at the 75th percentile of the current distribution, the two outcome-based foundation plans have the lowest Gini coefficients of all plans and are close to fiscal neutrality.

We also find, not surprisingly, that power-equalizing grants with negative aid are particularly effective at achieving fiscal-health (or wealth) neutrality, even without boosting their power beyond that in the standard formula. Thus, policymakers concerned with wealth neutrality should continue to consider power-equalizing grants. However, a child is just as disadvantaged by poor education associated with high costs as by poor education associated with low wealth, and it is difficult to justify a neutrality objective that ignores the role of costs. Thus, we believe that fiscal-health neutrality is a more general and more appealing objective than is wealth neutrality. As it turns out, outcome-based power-equalizing grants with negative aid can be effective in promoting fiscal-health neutrality. Such grants cannot be implemented, of course, without overcoming the same challenges that face outcome-based foundation plans. Power-equalizing grants do not do as well in promoting educational adequacy. They have a stronger carrot for low-outcome districts than do foundation plans[illegible] they involve a matching rate, [illegible]e have a price effect, but they do not have the same stick in the form of a required minimum tax rate. Without this stick, many districts fall below any reasonable minimum standard even with the most generous power-equalizing formula.

Overall, if policymakers and courts are prepared to focus on outcome-based equity standards, aid formulas are available to help them move toward these goals. Adequacy goals can be achieved with an outcome-based foundation plan that includes a required minimum tax rate. Fiscal neutrality or vertical equity goals can be achieved either with a power-equalizing plan that includes negative aid or with a foundation plan that includes a minimum tax rate combined with a very high outcome target and negative aid. Only the second of these routes will result both in fiscal neutrality and in educational adequacy for high-cost, low-wealth districts.

The problem, of course, is that change in an education finance system seldom comes easily. A required high minimum tax rate, negative aid, or a significant increase in the state budget all imply a greater state role in education finance, and the political fallout from this reduction in local control is likely to be compounded by the inevitable conflict between winners and losers under any new aid system. Moreover, required minimum tax rates are bound to be unpopular, and moving to an outcome-based aid system requires the introduction of new and potentially controversial measures of outcomes, costs, and efficiency. In light of these formidable political hurdles, it is small wonder that states have made so little progress in improving the equity of educational outcomes.

The authors have benefitted from discussions with Eric Hanushek, Michael Wolkoff, Jerry Miner, and John Ruggiero and from the comments of two anonymous reviewers.

[1] In Michigan and Wisconsin, for example, state funding recently increased from about one-third to about two-thirds of local education budgets (Kearney, 1995; Reschovsky, 1994).

[2] Under some circumstances, wealth may be a reasonable approximation of a more general measure. In the case of Minnesota cities, for example, Ladd, Reschovsky, and Yinger (1991) found the correlation between wealth and a general measure of capacity to be 0.92. In New York, however, the correlation is only 0.7.

[3] Strictly speaking, setting k^* is equivalent to altering the base of the cost index. Because the cost index is serving only to translate S^* into its spending equivalent, however, we see no reason to use a cost-index base other than the cost of the average district.

[4] The Feldstein approach builds on a quasi-behavioral regression. A detailed comparison of our approach with that of Feldstein using expenditures or outcomes is available from the authors upon request.

[5] There were 695 school districts in New York in 1991. Due to missing observations, including New York City and Yonkers, the sample was limited to 631 observations. Except for these two notable omissions, the sample appears representative of the major regions in New York State.

[6] The literature on education production functions and costs is reviewed in Bridge, Judd, and Moock (1979), Hanushek (1986), Cohn and Geske (1990), and Monk (1990). Several recent production function studies include Ferguson (1991) and Ferguson and Ladd (1996). For research on educational cost functions, see Ratcliffe, Riddle, and Yinger (1990), Downes and Pogue (1994), and Duncombe, Ruggiero, and Yinger (1996).

[7] Salaries and teacher characteristics are collected in a self-reporting survey called the "Personnel Master File" of the "Basic Education Data System" (BEDS). Salaries were adjusted to control for teacher characteristics, such as years of experience, level of education, type of certification, and tenure. A number of districts were missing information on salary levels. We filled in for these missing observations by assuming that a district had the same average adjusted salary level as other districts of the same type (e.g., suburban or rural) in its county. As instruments for teacher salaries, we use hourly wages for production workers in manufacturing at the county level and 1990 county population.

[8] For a review of earlier studies and discussion of the outcome selection process, see Duncombe, considered to be correlated with demand factors if the R-squared of a regression of that variable on those factors was 0.1 or higher. We also checked our selections using factor analysis, which indicated that the variables we identified explained most of the variation in the set of outcome variables in our data set.

[9] The source of most of these variables is the *1990 Census* as reported in the "School District Data Book" (Washington, D.C.: U.S. Bureau of the Census and the National Center for Education Statistics, 1994). The remaining variables come from the New York Department of Education's BEDS.

[10] To be specific, we multiply regression coefficients by actual district values for each cost factor (and by the state average for outcomes and efficiency) to construct a measure of the expenditure each district must make to provide average quality services given average inefficiency. Similar procedures (without the efficiency variable) are used by Ratcliffe, Riddle, and Yinger (1990), Ladd and Yinger (1991), Downes and Pogue (1994), and Duncombe, Ruggiero, and Yinger (1996). Since the price of labor is treated as endogenous in the cost model, a predicted wage is used to construct the cost index. The predicted wage is based on the predicted value of a first-stage regression between the price of labor and all exogenous and instrumental variables used in the cost model.

[11] Identifying instruments for the efficiency index is difficult. While there is a large literature on bureaucratic behavior (Niskanen, 1975; Leibenstein, 1978), there is little associated empirical literature. The bureaucratic models suggest that greater inefficiency will be associated with larger and wealthier school districts, those facing less competition, and those with poorer performance incentives for their employees. Income is already used as an instrument. Our new instruments include total district population and population density, the occupational mix of the district (the percent of total private employees that are managers or professionals), and whether a district faces a budget referendum. City districts in New York do not have to submit any portion of their budget to voter approval.

[12] Under the assumption of constant costs per unit of output, the coefficients of the cost equation can be interpreted as the weight that voters place on each output variable. The state aid formula requires S^*C_i to be the amount a district must spend to obtain the outcome level S^*. Thus, our outcome index S has to be rescaled. See Duncombe and Yinger (1997) for a proof of the first proposition and an explanation of the scaling process.

[13] Because of a high correlation between the percent of college graduates and median income, we used the residual from a regression of percent college on median income as the college variable.

and small city students with compensatory education needs (PCEN and PSCEN), aid for educationally related support services (ERSSA), Attendance Improvement–Dropout Prevention Aid, and Limited English Proficiency Aid. Since some of these grants are for higher cost students, it was important to include them in the model. In total, these aid programs provided approximately $0.6 billion in aid in 1991.

[15] Aid programs included in the matching aid variable include Excess Cost Aid and High Cost Aid for handicapped students and High Tax Aid for districts with relatively high tax effort. The two aid types for handicapped students provide aid to districts based on the actual district operating expenditure and a weighted pupil count of handicapped students. While these aid programs are not traditional matching grants, they are not purely lump-sum since they can be affected by district behavior. Matching aid given by New York State for transportation, buildings, and computer equipment is not included in our analysis since we are focusing solely on nontransportation operating expenditure.

[16] When we estimate a median voter model without the cost index or the efficiency index, the income elasticity drops to 0.5. This result is consistent with the predictions of Schwab and Zampelli (1987), who highlight the potential downward bias in the income elasticity when costs are omitted from the tax price.

[17] For the aid systems without negative aid or for all power-equalizing aid systems, an iterative process was used to adjust V^* (or R^*) to reach approximate budget neutrality. Aid budgets were kept within three percent of the original state operating budget in 1991.

[18] One uncertainty regarding the impact of equalizing grants is whether increased aid for poor districts leads to more inefficiency. Our results from a related study (Duncombe and Yinger, 1997) indicate that the most generous foundation plans actually raise efficiency in the average district, and in the central-city districts, which receive the largest increases in aid, inefficiency increases by at most 15 percent.

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HOW WORKERS USE 401(k) PLANS: THE PARTICIPATION, CONTRIBUTION, AND WITHDRAWAL DECISIONS

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Abstract *- This paper examines how workers use 401(k) plans by examining their participation, contribution, and withdrawal decisions. Sixty-five percent of eligible workers participate in 401(k) plans. Employee participation rises with income, age, job tenure, and education. While participation also rises if the employer matches contributions, 401(k) participation does not grow with the rate of matching. When pension plan assets are withdrawn in lump-sum distributions before retirement, just 28 percent of distribution recipients (representing 56 percent of distribution assets) roll over the withdrawn funds into tax-qualified savings plans. Our findings suggest that many workers, particularly those with low incomes, do not use 401(k) plans to save for retirement.*

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INTRODUCTION

An increasing fraction of the workforce is being offered an employer-sponsored pension plan where the worker makes the critical plan decisions. These decisions include whether to participate, how much to contribute, how to invest the plan assets, and what to do with the plan assets should one receive them upon switching jobs. Such salary reduction plans, of which the 401(k) is the most common type,[1] are now available to more than 40 percent of the workforce. Half of the workers offered such plans are offered no other employer-sponsored retirement plan.[2]

In this study, we use data from the April 1993 Current Population Survey and its Survey of Employee Benefits supplement (CPS) to examine how workers use 401(k) plans. Participation, contribution, and distribution rollover decisions are reviewed in aggregate and across income groups, and models are developed that relate participation and rollovers to a variety of factors. We also

TAB 7

Assessing an Adequate Education

The notion of an adequate education implies one that provides all students with the opportunity for a sound basic education, not one that goes beyond this particular standard. As Justice DeGrasse explains in his decision, "the Education Article requires a sound basic education, not one that is state of the art." He further explains that "the Court repeatedly used the terms "adequate," "basic," and "minimally adequate" to describe the education to be provided to the State's public school students (State Supreme Court Decision,719 N.Y.S.2d 475, January 9, 2001, p.15)."

In reality, successful school districts may provide a sound basic education or they may provide more. Many people agree that some successful school districts, that is districts that have the vast majority of students meeting State learning standards, provide more than an adequate education. This is the result of a funding system that allows communities to spend beyond a required minimum.

There is some direction in the research literature about how to target adequate spending to districts. Staff have used this knowledge in formulating the Regents cost study. John Augenblick conducted a study[1] for the State of Ohio in which they attempted to establish instructionally adequate spending levels. "Once having identified a pool of districts which did not exhibit extremes of wealth or spending and in which students had met state measure performance criteria, a weighted per pupil revenue amount was constructed from among these eligible districts." One hundred two of 607 Ohio school districts were used for this adequacy standard. In the Regents study a larger sample was used: 232 of 677 school districts.

A 1996 cost study[2] conducted for Illinois Governor James Edwards and his Commission of Education Funding by Professor Bruce Cooper calculated a foundation level for Illinois school districts. He performed a series of *filters*: for poverty groups of school districts, for student performance, and for districts whose per-pupil expenditures were below the State average. In the Regents cost study, the filters used were performance and per-pupil expenditures in relation to the average for successful school districts.

The Regents incorporated a measure in their cost study to identify those districts that are providing a sound basic education with few enrichments. The Regents 2004-05 school aid proposal assessed spending in the 50 percent lowest spending successful districts, after applying regional cost and pupil need adjustments, rather than in all successful school districts. This is continued in the Regents 2007-08 proposal.

In order to better assess whether the higher spending group of school districts was providing more than a sound basic education, we compared resource allocation and programs between the two groups of successful school districts.

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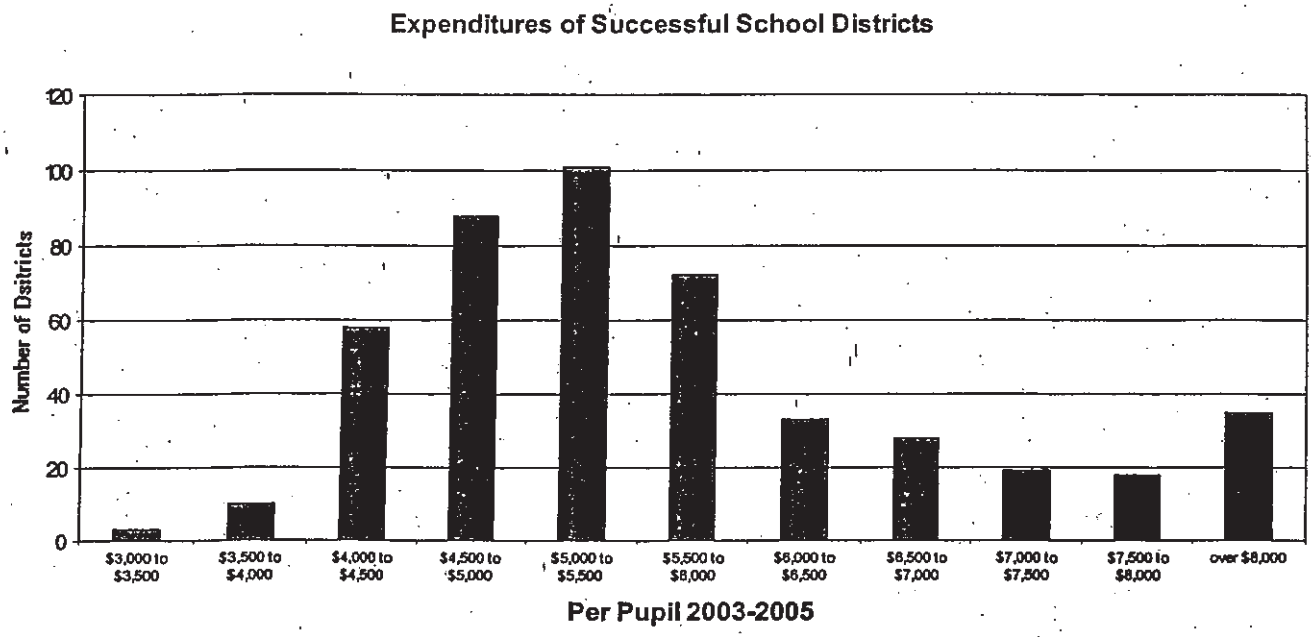
[1] See a description of Augenblick's study in J. Guthrie and R. Rothstein, Enabling 'Adequacy' to Achieve Reality.
[2] See a description of Cooper's study in J. Guthrie and R. Rothstein, Enabling 'Adequacy' to Achieve Reality.



The first factor we examined was spending levels. Successful school districts in the top half of the spending distribution spent an average of 50 percent more per pupil on general education instruction than successful school districts in the lower half. This is a substantial difference. Examining the range of spending shows further that spending of the full group of successful districts varied substantially: from a low of $3,100 per pupil to a high of $21,000 per pupil. In addition, as Figure X shows, the distribution of spending of the 465 successful districts is not a normal distribution but one that is skewed to the high end. This led us to hypothesize that many of these districts were providing programs and services that went beyond the provision of a sound basic education, and to examine other programmatic and teacher characteristics to sort this out. In this review, we found that the two groups of districts were similar on some characteristics and different on others.

The two groups of school districts were similar with respect to the following teacher quality characteristics:

- Years of experience
- Percent that failed the first certification exam
- Percent teaching outside of certification area
- Permanent certification in all subjects
- Percent with BA or less
- Barron's ranking of colleges attended

The two groups of districts were different with respect to the following characteristics:

Factor	Amount of Difference
Teacher salaries	Regionally cost-adjusted salaries in the higher spending group were 16 percent more
Pupil-Teacher Ratio	Lower spending group had 10 percent more pupils to teachers
Percent of teachers with a Master's Degree and 30 credits or more	Proportion of teachers with this level of education was twice as high in the higher spending group
Enriched course offerings, including Advanced Placement	Higher spending districts had more than 50 percent of enriched course offerings per pupil

After a careful examination of characteristics of these two groups of successful school districts, we conclude that there is a meaningful difference between the two groups. The higher spending group has chosen to spend more by having lower pupil-teacher ratios, paying higher teacher salaries for coursework taken, and offering more Advanced Placement courses. We conclude that these districts have likewise chosen to offer more than a sound basic education and should be excluded from the sample of school districts whose spending is used to estimate the cost of an adequate education. Our sample remains the 232 school districts that meet the Regents performance criteria while spending below the median of spending for all successful school districts.

TAB 8

The Regents Foundation Formula
Determining the Proposed Foundation Amount

For the past three years, the centerpiece of the Regents State Aid proposal has been a foundation formula with four components:

Foundation Aid =

*[Foundation Amount * Regional Cost Index * Pupil Need Index] – Expected Local Contribution*

This report explains and updates the method for determining the Foundation Amount. The Foundation Amount represents the cost of educating a student to New York State standards. It represents an education-oriented, research-based method for determining State Aid needed to meet the standards rather than determining aid based on available funding or on what districts got the year before.

The Foundation Amount can be established by several methods. These include a professional judgment method, statistical methods using complex regression techniques and an empirical approach known as the successful school districts method. The successful districts method, first used in the development of the Regents State Aid Proposal for 2004-05, is again proposed in the development of this year's proposal.[1]

With this approach, districts are identified which have *already* achieved a specified level of student performance. Their spending levels are then used to estimate the level of spending required to offer the opportunity for an adequate education in other districts throughout the State. This method is relatively simple. The basic concept is easily understood. It requires no new data gathering.

This month's report is limited to the process of identifying districts that meet the success standard. Expenditures of successful school districts will be used to calculate a new Foundation Amount for use in the Regents 2007-08 State Aid proposal.

Calculating Student Performance for Successful School Districts

A simple formula is used to determine if school district expenditures are to be included in estimating the Foundation Amount:

$$\frac{\text{Sum of All Who Passed}}{\text{Sum of All Students Tested}} \geq 80\%$$

[1] For a detailed discussion, see http://www.oms.nysed.gov/faru/Articles/SuccessfulSchools.html

The Performance Criteria

School districts were considered successful for purposes of considering their expenditures in the calculation of the Foundation Amount if they met the following performance criteria:

- 80 percent passing (Level 3 or 4 on the grade 4 tests; 65 or better on Regents exams).
- 7 tests
  - Grade 4 English language arts
  - Grade 4 mathematics
  - Regents Earth Science
  - Regents Mathematics A
  - Regents Global History and Geography
  - Regents United States History and Government
  - Regents English
- 3-year period (2002-03, 2003-04, 2004-05)
- Results of 21 tests for most districts

Results

Four hundred and sixty-five school districts had an average of 80 percent of students passing the seven State examinations over the three-year period. These are described in the following table by Need/Resource Capacity Category of school districts. The table also reports the average change for each district group from the analysis done three years ago. This shows growth in student achievement for all types of school districts.

Testing Results Using the Regents Criteria For Calculating the Cost of An Adequate Education

2002-03, 2003-04, 2004-05

	Successful Districts (465)			Other Districts (211)		
Type	# Districts	Average Score	Average Change	# Districts	Average Score	Average Change
NYC	NA	NA	NA	1	61%	9%
Big Four	NA	NA	NA	4	57%	9%
Hi Need Urban/Suburban	7	82%	5%	38	69%	6%
Hi Need Rural	67	83%	6%	89	75%	5%
Average Need	259	85%	5%	77	76%	3%
Low Need	132	92%	2%	2	75%	-2%

TAB 9

New York State Education Department

Recognizing High Cost Factors in the Financing of Public Education:

The Calculation of A Regional Cost Index

December, 2003

The State Aid Work Group

Executive Summary

The Regional Cost Index was developed in recognition of the geographic cost variations in different areas of New York State. The index, which is based on the work of researchers for the state of Oregon, uses median salaries in professional occupations that require similar credentials to that of positions in the education field. These occupational titles typically require a bachelor's degree for employment at the entry level. The cost index was created from the wages of 63 professional, non-education occupations. Education-related titles were excluded to ensure that the index measured labor market costs and not the tastes or control of school districts.

Professional Cost Index for New York State by Labor Force Region (2003)

Labor Force Region	Index Value	Purchasing Power of $1,000 by Region
Capital District	1.168	$856
Southern Tier	1.061	$943
Western New York	1.080	$926
Hudson Valley	1.359	$736
Long Island/NYC	1.496	$668
Finger Lakes	1.181	$847
Central New York	1.132	$883
Mohawk Valley	1.016	$984
North Country	1.000	$1,000

Methodology

Construction of the Index

In order to adjust for geographic variations in the cost of educational resources, the regional cost index (RCI) was generated following a methodology similar to one developed by Rothstein and Smith1 for the state of Oregon. This involved the use of a statewide index based on median salaries in professional occupations that require similar credentials to that of positions in the education field. In particular, these titles represented categories for which employment at the entry level typically requires a bachelor's degree. The professional occupations selected for use in this index are based on a list of 94 occupational titles developed for use in the state of Oregon.

Due to insufficient wage information, the previous RCI was based on 77 of the 94 occupational titles used in the Oregon study. However, due to a lack of employment data within many of New York State's ten Labor Force Regions, 63 titles were used for this edition of the RCI. The titles used appear in Appendix A. In addition to those titles with missing data, the final list excluded teachers, other educational positions and categories that tended to be restricted to federal and state government, since the markets for teachers and for many government positions tend not to be fully competitive. Education-related titles were also excluded in order to ensure that this index be entirely a measure of labor market costs, and not be subject to the tastes or control of districts. Therefore, we sought to measure genuine labor market costs, not the results of districts' decisions to hire especially high quality teachers, or to influence the index value in later years by choosing to pay more for staff. By basing the index on the wages earned in the labor market by professionals with similar skills, we have created a measure of costs in the sector of the labor market in which districts compete for teachers and staff, in each region of the State. Since personnel salaries and benefits make up the vast majority of the costs faced by school districts, the RCI allows for an individual to compare the buying power of the educational dollar in the different labor force regions of the State

Selection of Occupational Titles

The data on which the RCI is based was made available through the New York State Department of Labor. Since the prior edition of the RCI, the structure of the occupational title system has been revised. This has resulted in the expansion of a number of titles. Through the use of a crosswalk provided by the Department of Labor, it was found that the 77 occupational titles used in the previous version of the RCI had increased to 105. However, due to a lack of employment data, a fair amount of the 105 titles were eliminated. In the end, 46 titles had both employment and wage data, six were plugged with wage data, and an additional 11 employment titles were plugged where data was available statewide and for nine of the ten labor force regions. In all, 63 occupational titles were used for this analysis. Fifty-five of these titles were direct matches with the 77 titles used in the previous version of the RCI.

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1 This methodology is described in Rothstein, R., & Smith (1997). Adjusting Oregon Education Expenditures for Regional Cost Differences: A Feasibility Study. Sacramento, CA: Management Analysis & Planning Associates, L.L.C

Statewide Median Wage

The first step in generating a regional cost adjustment from the list of 63 titles was to establish a statewide median wage figure for which median wages in each labor force region could be compared for indexing purposes.The statewide median wage was calculated by taking the total number of employees in each of the 63 titles for the state as a whole for example, the total number of people working in the title "pharmacist" across the state), and multiplying that amount by the median annual wage for that title (15,103 pharmacists * $72,020). This result was then summed for all titles, and then divided by the total number of employees in all 63 occupational titles (972,073). This produced a weighted annual median wage of $65,189 for the professional titles making up the index.

Title Weightings

It was important to avoid the possibility that the index could be skewed due to compositional differences in the percentage distribution or mix of the individuals occupying the 63 selected titles. Therefore, if professional wages in the titles selected were found to be identical in two labor force regions, but 60 percent of the employees in region A occupied the 10 lowest salaries titles (vs. a 10 percent employee representation in these lower salary titles in region B), a simple summation of wages could lead to the erroneous conclusion that professional service costs were far higher in region B than in region A. In short, "apparent" cost differences would be due totally to differences in the title composition of the workforce, not to true wage differences in those titles.

This problem was avoided by weighting the wage for each title based on the relative importance of that title in the group of 63 titles statewide. Thus, in determining the regional differences in median wage, we assume that the "mix" of jobs in each region is the same as the "mix" in the state as a whole. These title weights were then applied to each region, therefore making the distribution or service "mix" of titles a constant across the state. For example, if sales managers made up 10% of the total number of employees statewide in the 63 titles, then a 0.10 compositional weighting was assigned to sales managers in every region. This title weighting procedure thus imputes to every labor force region precisely the same mix of employees across the 63 titles in every region.

Title weights were generated by dividing the statewide number of employees in a given title by the total number of employees in the 63 titles of the index. For example, the number of pharmacists statewide was 15,103, which was then divided by 972,073 (the total number of workers in the state in these 63 titles). This yielded a title weight of 0.0155. (Since this was performed for all the titles in the list, the sum of all title weightings equals one.)

Final Calculation of the Regional Index

Once the title weights were determined, they were incorporated into the data set for each of the ten labor force regions. The median annual wage for each title was multiplied by the title weight. This result was summed for all 63 titles, yielding a regional median wage. This regional median was divided by the statewide weighted median professional service wage to yield the final

professional service wage index for each region. These results were then normed on the North Country.

When median wage data were missing for a title in a given region, two alternatives were explored for "plugging" these holes. One method involved a simple substitution of the state median wage for a given title for the missing wage information in a particular labor force region. However, it was recognized that this method of wage attribution was biased "upward" (toward the median) in low cost areas of the State, and biased downward in high cost areas of the State. The alternative solution, which was selected, was based on the creation of a similar regional cost index, using a smaller set of occupational titles (those titles, in which data was not missing in any region of the State, n=46). The smaller index, in conjunction with the statewide median salary information for any occupational title that was lacking salary information in a specific region, was used to estimate the missing regional salary item.

Data

While the list of professional occupations used to create the RCI was based on the work of Rothstein and Smith in Oregon, the Bureau of Labor Statistics provided the wage data used in the index. The wage data was obtained from the 2001 Occupational Employment Statistics (OES) Survey, which allows employers to report the number of employees and wages for each title they employ. The United States Department of Labor has noted, "Establishment surveys have little information on the demographics of their employees, but...wages and earnings tend to be more accurately reported in establishment surveys as they are based upon administrative records rather than recall by respondents...These factors make establishment data the natural choice...2"

The data from the 2001 Occupational Employment Survey for New York State was made available to the staff of the New York State Education Department through the New York State Department of Labor. Therefore, data was provided for all of the 671 occupational titles in each of the ten labor force regions in New York State, as well as a statewide total for all titles. The wage data obtained from the OES is based on "straight-time, gross pay, exclusive of premium pay. Base rate, cost-of-living allowances, guaranteed pay, hazardous-duty pay, incentive pay including commissions and production bonuses, tips, and on-call pay are included. Excluded are back pay, jury duty pay, overtime pay, severance pay, shift differentials, nonproduction bonuses, employer cost of supplementary benefits, and tuition reimbursements."3

The Bureau of Labor Statistics develops its estimates through the use of an annual mail survey of about one-third of the establishments state- (and nation-) wide in occupational groups such as: business and financial operations; transportation and material moving; personal care and service;

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2 See U.S. Department of Labor, "Interarea Comparison of Compensation and Prices", Report on the American Workforce, 1997, pp.69-97.

3 United States Department of Labor's Bureau of Labor Statistics Website. Technical Notes for 2001 OES Estimates. (http://www.stats.bls.gov/oes/2001/oes_tec.htm)

architecture and engineering; office and administrative support; and management.4 The survey is repeated in a three-year cycle, whereas the cycle continues, data from the third of establishments surveyed in current years builds on previous years' data, in a process called wage updating. This results in detailed and precise estimates of wage levels even in small job categories or geographic regions. In the fourth year, the survey cycle starts over.

Since wage data is built-up over a three-year period, the approximations of wages become increasingly accurate and most precise in the third year. This year's index calculations are based on the most accurate data-year in the cycle, and thus inspire confidence that the results are a good representation of the variation in professional service costs around the state. The triennial nature of the data suggests that the RCI need only be updated in those years for which the most accurate data in the cycle are available.

It should be noted that the index results for New York City and Long Island were combined. A single median wage was calculated for this labor force area, because there is evidence that these two areas actually function as a single labor market region. With professionals, especially those in the education professions, moving to jobs across the lines between New York City and Long Island, it is necessary to consider this entire region as a single area, with similar wage costs.

Regional Cost Index Variation by District Type and Need

In order to gain a greater understanding of the RCI, several analyses were conducted to measure the index in relation to school district type and need. As seen in Chart 1, school districts in the downstate region have higher labor costs when compared to other areas of the state. For example, with a median cost index value of 1.359, the labor costs of downstate small cities are 25.8 percent higher than their upstate counterparts. The difference in labor costs between the upstate and downstate regions are further displayed when examining suburban school districts. The purchasing power of downstate suburban districts was found to be 75.7 percent of upstate suburban districts. Therefore, every dollar spent to purchase goods and services in upstate suburban districts purchases 76 cents worth of these services in the downstate suburban areas.

As we shift our focus from district type to an examination of district need/fiscal capacity5 in relation to the RCI, we find that an interesting relationship exists. As shown in the decile table below, as need/fiscal capacity worsened districts are generally more likely to experience lower labor market costs. However, with its high pupil need and average wealth, New York City, which would be situated in the ninth decile, shares the same high labor costs as low need districts in the first decile. Therefore, for districts such as New York City, recognition of both labor market differences and need become important.

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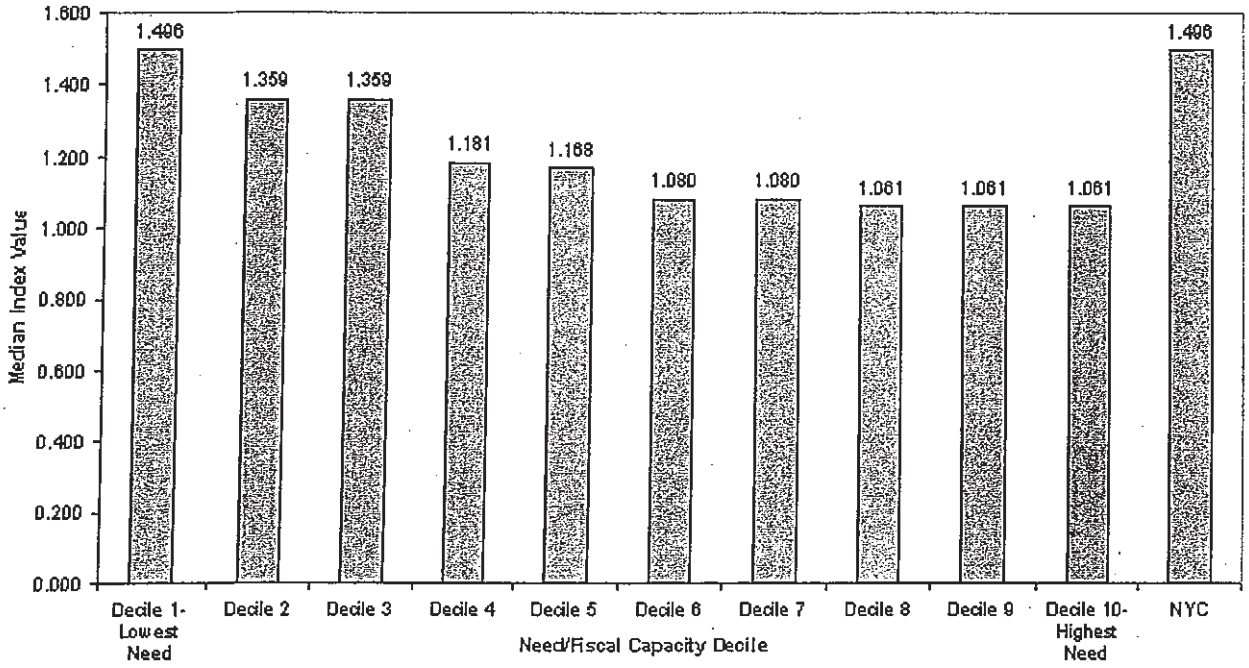
4 Ibid

5[5] The need/fiscal capacity index consists of an extraordinary needs index without sparsity, divided by the Combined Wealth Ratio. The need/fiscal capacity index is similar to the need/resource index in that it provides a measure of pupil need in relation to district wealth.

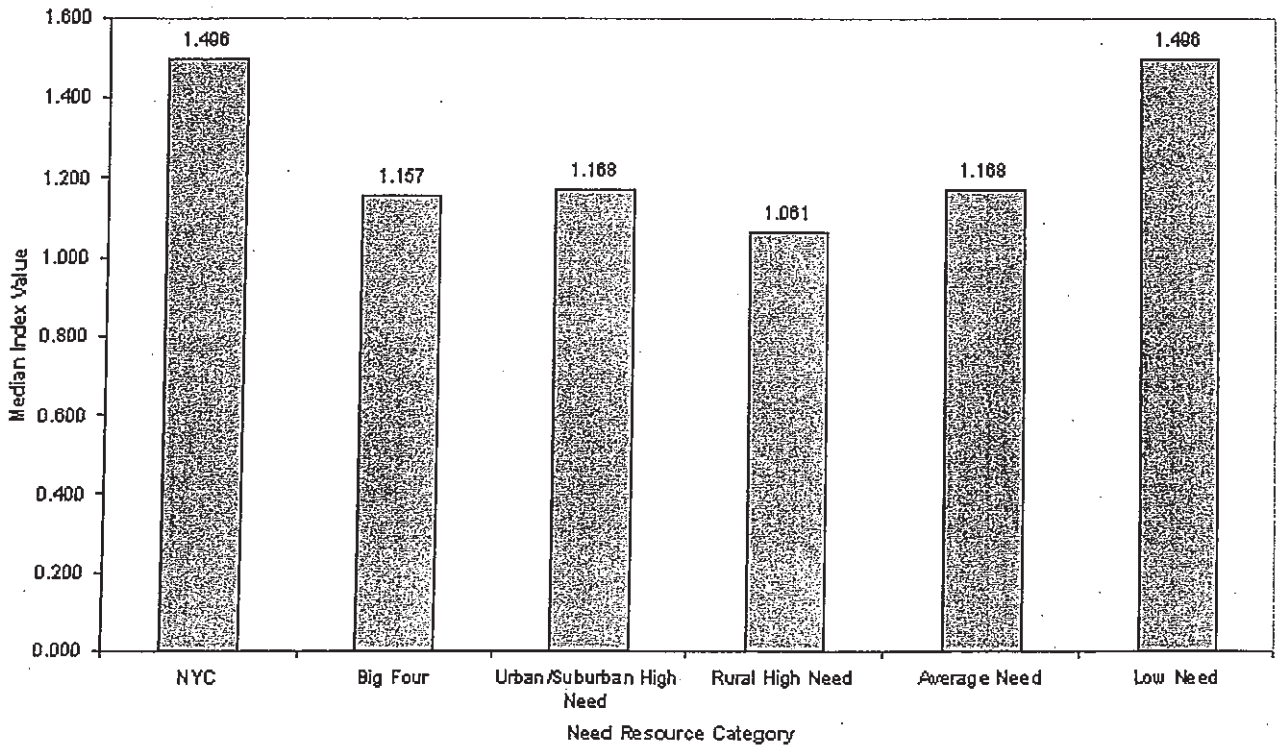
Chart B.
Median Regional Cost Index by Need/Fiscal Capacity Index Decile*



*Deciles were calculated without New York City, but including the Big Four Cities

To further explore those districts that are located in high cost areas, have high pupil need, and whose wealth capacity is adequate, an additional analysis was conducted to examine regional cost by district need/resource capacity. As seen in Chart C, while low need-high wealth districts share the same high labor market costs as New York City, rural districts have the lowest regional costs when compared to the other categories of need.

Chart C.
Median Regional Cost Index by Need Resource Category



It is also found that urban/suburban high need districts also have high costs. Since these districts operate in the same high cost labor market as their neighbors with more resources, they are unable to pay market rates. This creates difficulties for urban/suburban districts that seek to hire and retain highly qualified educators that can assist high-need student populations in meeting academic standards.

The variation in regional costs when comparing different types of districts shows that high costs are problematic in both high and low wealth areas. While the lowest cost areas of New York State tend to be rural, where salaries and the overall cost of living is lower, high cost areas are much more diverse. We have found that some of the wealthiest districts in the State are in high cost regions, yet some of the poorest districts face very high costs as well.

Alternative Methods of Calculating Regional Costs

There are several possible methods for developing an index to adjust for geographic variations in the cost of labor. Rothstein and Smith recommend the method used above in their work dealing with the state of Oregon. The Rothstein and Smith method, along with other methods that will be discussed below, are all designed to do the same thing – namely, to control for specific attributes of the goods and services being purchased, so that valid inter-area cost comparisons can be made. A brief description of each method follows:

Statewide Wage Index

Rothstein and Smith (1997) base their index on the claim that unlike the past, when teachers were predominantly female and underpaid, salaries have increased and the teacher labor market has become a part of a broader labor pool of college educated, professional workers. Other professionals in this group include accountants, health professionals, and managers.

Rothstein et al. suggest that insight into the regional variation in teacher cost can be gained by examining the regional variation in salary of other professionals within the broader competitive labor market of similarly educated and salaried individuals. Indeed, they argue that in many communities, the overwhelming majority of teachers are employed by (and thus costs controlled by) a single agency or a very few agencies – in effect, these agencies dominate the market for the purchase of educational components. In this market situation, one purchaser can heavily influence the expenditures/costs of professional compensation; therefore, it is more appropriate to use salaries of non-teacher professionals (which are subject to free market conditions) as the basis for price estimation. Since school districts have no control over the salary scales of other professions in their geographic area, a cost adjustment based on regional variations in these salaries is more likely to represent an accurate reflection of true variations in cost as opposed to factors under the direction of school districts.

Rothstein and Smith acknowledge that their index is focused mainly on labor costs, and that it does not take into account variations in non-labor inputs to education. They argue that this is acceptable because the vast majority of school expenses are for compensation of staff. (They estimate the percentage at around 85% of total costs.) Rothstein and Smith suggest that the index multiplier could be applied to the portion of school aid that is directly applied to salaries. These include 85% of operating aid, the total aid in categories that are focused on teachers and teacher improvement, and the proper proportion of other categorical aids.

A strong point of this index that Rothstein and Smith do not mention, but which is nevertheless important, is the fact than an index of wages is relatively easy to explain to policymakers, district leaders, teachers, parents and other interested parties. In addition, the data is easy to obtain, the calculations are simple and as discussed above, this index yields fairly stable results that only need to be recalculated every three years. These characteristics, as well as the focus on market wages and the fact that it is not subject to district control, provide an extremely practical means of calculating the differences in regional costs. Therefore, this method was viewed as an appropriate choice in which to adjust for regional cost differences.

Consumer Price Index

Rothstein and Smith also suggest the use of the Consumer Price Index (CPI). In fact, they suggest that the CPI might be used alongside the RCI method to increase the precision of the measure. However, Rothstein and Smith also acknowledge serious limitations on the use of a CPI measure to determine regional costs. The first problem is that this information is collected on a different geographical basis than the wage data, making comparisons difficult. Should New York attempt to collect the price data based on its own internal regions, the cost would be prohibitive. In addition, the costs faced by school districts would be difficult to measure, since such precise local data is hard to collect. The

CPI has been criticized for failing to incorporate new shopping patterns, and to account for differences in cost due to taste. Since shopping patterns and tastes for quality vary significantly around the State, it would be difficult to avoid confounding differences in shopping patterns with differences in cost. The method of calculating the RCI that was selected successfully avoids these problems.

Hedonic Wage Index

Chambers and Fowler (1995) suggest another type of cost index of teaching. This is based on a hedonic wage model that considers relevant conditions that may attract workers to a certain geographic area or certain positions. This cost adjustment uses a comprehensive statistical analysis (typically a series of hedonic equations) which predict the market price or wage compensation that would occur if certain personal characteristics of teachers, variations in local amenities, and job environment factors were presumed to be the same in each local geographic area. This method requires complex calculations and would be difficult to explain to decision-makers. In addition, the selection of relevant characteristics on which to measure districts and teachers could be open to significant political debate. The Rothstein and Smith method is preferred for its objectivity and simplicity.

Occupational Titles Used for the Regional Cost Index

1. Chief Executives
2. General and Operations Managers
3. Advertising and Promotions Managers
4. Marketing Managers
5. Sales Managers
6. Public Relations Managers
7. Administrative Services Managers
8. Computer and Information Systems Managers
9. Financial Managers
10. Human Resources Managers
11. Industrial Production Managers
12. Purchasing Managers
13. Transportation, Storage, and Distribution Managers
14. Construction Managers
15. Engineering Managers
16. Medical and Health Services Managers
17. Property, Real Estate, and Community Association Managers

18. Social and Community Service Managers
19. Purchasing Agents, Except Wholesale, Retail, and Farm Products
20. Cost Estimators
21. Employment, Recruitment, and Placement Specialists
22. Compensation, Benefits, and Job Analysis Specialists
23. Training and Development Specialists
24. Management Analysts
25. Accountants and Auditors
26. Budget Analysts
27. Financial Analysts
28. Loan Officers
29. Computer Programmers
30. Computer Systems Analysts
31. Network and Computer Systems Administrators
32. Civil Engineers
33. Electrical Engineers
34. Industrial Engineers
35. Mechanical Engineers
36. Civil Engineering Technicians
37. Electrical and Electronic Engineering Technicians
38. Environmental Scientists and Specialists, Including Health
39. Market Research Analysts
40. Clinical, Counseling, and School Psychologists
41. Urban and Regional Planners
42. Substance Abuse and Behavioral Disorder Counselors
43. Rehabilitation Counselors
44. Child, Family, and School Social Workers
45. Medical and Public Health Social Workers
46. Mental Health and Substance Abuse Social Workers
47. Librarians
48. Multi-Media Artists and Animators
49. Graphic Designers
50. Public Relations Specialists
51. Writers and Authors
52. Dietitians and Nutritionists
53. Pharmacists

54. Physician Assistants
55. Physical Therapists
56. Recreational Therapists
57. Speech-Language Pathologists
58. Medical and Clinical Laboratory Technologists
59. Medical and Clinical Laboratory Technicians
60. Police and Sheriff's Patrol Officers
61. Recreation Workers
62. Residential Advisors
63. Interviewers, Except Eligibility and Loan

TAB 10

Methodology

Construction of the Index

In order to adjust for geographic variations in the cost of educational resources, the regional cost index (RCI) was generated following a methodology similar to one developed by Rothstein and Smith[1] for the state of Oregon. This involved the use of a statewide index based on median salaries in professional occupations that require similar credentials to that of positions in the education field. In particular, these titles represented categories for which employment at the entry level typically requires a bachelor's degree. The professional occupations selected for use in this index are based on a list of 94 occupational titles developed for use in the state of Oregon.

The previous RCI was based on 63 of the 94 occupational titles used in the Oregon study.[2] However, due to a lack of employment data within many of New York State's 10 Labor Force Regions, 59 titles were used for this edition of the RCI. The titles used appear in Appendix A. In addition to those titles with missing data, the final list excluded teachers, other educational positions and categories that tended to be restricted to federal and state government, since the markets for teachers and for many government positions tend not to be fully competitive. Education-related titles were also excluded in order to ensure that this index be entirely a measure of labor market costs, and not be subject to the tastes or control of districts. Therefore, we sought to measure genuine labor market costs, not the results of districts' decisions to hire especially high quality teachers, or to influence the index value in later years by choosing to pay more for staff. By basing the index on the wages earned in the labor market by professionals with similar skills, we have created a measure of costs in the sector of the labor market in which districts compete for teachers and staff, in each region of the State. Since personnel salaries and benefits make up the vast majority of the costs faced by school districts, the RCI allows for an individual to compare the buying power of the educational dollar in the different labor force regions of the State.

Selection of Occupational Titles

The data on which the RCI is based was made available through the New York State Department of Labor. Since the original edition of the RCI, the structure of the occupational title system has been revised. This has resulted in the expansion of a number of titles. However, due to a lack of employment data, a fair amount of the titles were eliminated. In the end, 50 titles had both employment and wage data, 7 were plugged with wage data, and an additional 2 employment titles were plugged where data was available statewide and for 9 of the 10 labor force regions. In all, 59 occupational titles were used for this analysis.

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[1] This methodology is described in Rothstein, R., & Smith (1997). Adjusting Oregon Education Expenditures for Regional Cost Differences: A Feasibility Study. Sacramento, CA: Management Analysis & Planning Associates, L.L.C.

[2] See http://www.oms.nysed.gov/faru for a discussion of alternate methods.

Statewide Median Wage

The first step in generating a regional cost adjustment from the list of 59 titles was to establish a statewide median wage figure for which median wages in each labor force region could be compared for indexing purposes. The statewide median wage was calculated by taking the total number of employees in each of the 59 titles for the State as a whole (for example, the total number of people working in the title "pharmacist" across the State), and multiplying that amount by the median annual wage for that title (13,410 pharmacists * $86,841). This result was then summed for all titles, and then divided by the total number of employees in all 59 occupational titles (1,026,769). This produced a weighted annual median wage of $69,975 for the professional titles making up the index.

Title Weightings

It was important to avoid the possibility that the index could be skewed due to compositional differences in the percentage distribution or mix of the individuals occupying the 59 selected titles. Therefore, if professional wages in the titles selected were found to be identical in two labor force regions, but 60 percent of the employees in region A occupied the 10 lowest salaries titles (vs. a 10 percent employee representation in these lower salary titles in region B), a simple summation of wages could lead to the erroneous conclusion that professional service costs were far higher in region A than in region B. In short, "apparent" cost differences would be due totally to differences in the title composition of the workforce, not to true wage differences in those titles.

This problem was avoided by weighting the wage for each title based on the relative importance of that title in the group of 59 titles statewide. Thus, in determining the regional differences in median wage, we assume that the "mix" of jobs in each region is the same as the "mix" in the State as a whole. These title weights were then applied to each region, therefore making the distribution or service "mix" of titles a constant across the State. For example, if sales managers made up 10% of the total number of employees statewide in the 59 titles, then a 0.10 compositional weighting was assigned to sales managers in every region. This title weighting procedure thus imputes to every labor force region precisely the same mix of employees across the 59 titles in every region.

Title weights were generated by dividing the statewide number of employees in a given title by the total number of employees in the 59 titles of the index. For example, the number of pharmacists statewide was 13,410, which was then divided by 1,026,769 (the total number of workers in the State in these 59 titles.) This yielded a title weight of 0.0130. (Since this was performed for all the titles in the list, the sum of all title weightings equals one.)

Final Calculation of the Regional Index

Once the title weights were determined, they were incorporated into the data set for each of the ten labor force regions. The median annual wage for each title was

multiplied by the title weight. This result was summed for all 59 titles, yielding a regional median wage. This regional median was divided by the statewide weighted median professional service wage to yield the final professional service wage index for each region. These results were then normed on the North Country.

When median wage data were missing for a title in a given region, the solution was based on the creation of a similar regional cost index, using a smaller set of occupational titles (those titles, in which data was not missing in any region of the State, n=50). The smaller index, in conjunction with the statewide median salary information for any occupational title that was lacking salary information in a specific region, was used to estimate the missing regional salary item.

Data

While the list of professional occupations used to create the RCI was based on the work of Rothstein and Smith in Oregon, the Bureau of Labor Statistics provided the wage data used in the index. The wage data was obtained from the 2004 Occupational Employment Statistics (OES) Survey, which allows employers to report the number of employees and wages for each title they employ. The United States Department of Labor has noted, "Establishment surveys have little information on the demographics of their employees, but...wages and earnings tend to be more accurately reported in establishment surveys as they are based upon administrative records rather than recall by respondents...These factors make establishment data the natural choice..."[3]

The data from the 2004 Occupational Employment Survey for New York State was made available to the staff of the New York State Education Department through the New York State Department of Labor. Therefore, data was provided for all of the 671 occupational titles in each of the 10 labor force regions in New York State, as well as a statewide total for all titles. The wage data obtained from the OES is based on "straight-time, gross pay, exclusive of premium pay. Base rate, cost-of-living allowances, guaranteed pay, hazardous-duty pay, incentive pay including commissions and production bonuses, tips, and on-call pay are included. Excluded are back pay, jury duty pay, overtime pay, severance pay, shift differentials, nonproduction bonuses, employer cost of supplementary benefits, and tuition reimbursements."[4]

The Bureau of Labor Statistics develops its estimates through the use of an annual mail survey of about one-third of the establishments state- (and nation-) wide in occupational groups such as business and financial operations; transportation and material moving; personal care and service; architecture and engineering; office and administrative support; and management.[5] The survey is repeated in a three-year cycle, whereas the cycle continues, data from the third of establishments surveyed in current years builds on previous years' data, in a process called wage updating. This results in detailed and

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[3] See U.S. Department of Labor, "Interarea Comparison of Compensation and Prices," Report on the American Workforce, 1997, pp.69-97.

[4] United States Department of Labor's Bureau of Labor Statistics Website. Technical Notes for 2001 OES Estimates. (http://www.stats.bls.gov/oes/2001/oes_tec.htm)

[5] Ibid

precise estimates of wage levels even in small job categories or geographic regions. In the fourth year, the survey cycle starts over.

Since wage data is built-up over a three-year period, the approximations of wages become increasingly accurate and most precise in the third year. This year's index calculations are based on the most accurate data-year in the cycle, and thus inspire confidence that the results are a good representation of the variation in professional service costs around the State. The triennial nature of the data suggests that the RCI need only be updated in those years for which the most accurate data in the cycle are available.

It should be noted that the index results for New York City and Long Island were combined. A single median wage was calculated for this labor force area, because there is evidence that these two areas actually function as a single labor market region. With professionals, especially those in the education professions, moving to jobs across the lines between New York City and Long Island, it is necessary to consider this entire region as a single area, with similar wage costs.

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22. Training and Development Specialists
23. Management Analysts
24. Accountants and Auditors
25. Budget Analysts
26. Financial Analysts
27. Loan Officers
28. Computer Programmers
29. Computer Systems Analysts
30. Network and Computer Systems Administrators
31. Civil Engineers
32. Electrical Engineers
33. Industrial Engineers
34. Mechanical Engineers
35. Civil Engineering Technicians
36. Electrical and Electronic Engineering Technicians
37. Environmental Scientists and Specialists, Including Health
38. Market Research Analysts
39. Clinical, Counseling, and School Psychologists
40. Substance Abuse and Behavioral Disorder Counselors
41. Child, Family, and School Social Workers
42. Medical and Public Health Social Workers
43. Mental Health and Substance Abuse Social Workers
44. Librarians

45. Graphic Designers
46. Public Relations Specialists
47. Writers and Authors
48. Dietitians and Nutritionists
49. Pharmacists
50. Physician Assistants
51. Physical Therapists
52. Recreational Therapists
53. Speech-Language Pathologists
54. Medical and Clinical Laboratory Technologists
55. Medical and Clinical Laboratory Technicians
56. Police and Sheriff's Patrol Officers
57. Recreation Workers
58. Residential Advisors
59. Interviewers, Except Eligibility and Loan

TAB 11

Options for Special Education Funding

Current Laws

Current laws provide school districts State Aid to help meet the excess costs of educating students with disabilities--that is, districts receive operating aid for each student including those with disabilities, and, in addition, excess cost aid for those costs that are above and beyond the costs of a non-disabled student. In addition, the laws provide:

- That excess cost aid be wealth-equalized but require a substantial local contribution;
- That excess cost aid be based on the average spending on all students in the district but provide more aid for higher levels of service to students with disabilities;
- A substantial minimum aid, regardless of wealth;
- Extra aid for high cost students and students integrated with their nondisabled peers; and
- Aid for students with disabilities placed in approved nonpublic special education schools.

Public Comment

In a series of four focus forums around New York State in 2004, the attendees revealed their dissatisfaction with the current funding system. The vast majority (98 percent) stated that the State Aid system for students with disabilities needs change although few could agree on how that change should occur. A majority of participants expressed the views that:

- Special education funding should remain a separate, categorical aid program;
- Levels of aid for students with disabilities in public and private school placements should be the same;
- Aid should be simplified and responsive to increased costs for students with disabilities educated in programs integrated with general education students;
- Aid should be based on counts of children with disabilities; and
- Increased levels of aid should be provided for high cost students with disabilities including current year aid.

Participants expressed concern that federal funding accompanying federal education requirements for students with disabilities has fallen far short of what was promised in the laws. Participants noted that inconsistencies in the way school districts respond to requests for school aid data limit the effectiveness of the funding formulas.

Principle

Decisions regarding the provision of services should be independent of cost or State Aid reimbursement

Optional Funding Approaches

The following funding options concern students with disabilities educated in public schools and BOCES. All of the following options provide aid for the excess costs associated with educating students with disabilities separately from general purpose operating aid provided for all students.

1. *Adjust the Current Funding Scheme*

   Continue proposals the Regents have advanced in recent State Aid proposals, in which adjustments are made to the current funding system. These have included:

   - Increasing funding for students with disabilities educated in integrated settings (by increasing the size of the pupil weighting provided for students with disabilities educated with their nondisabled peers);
   - Providing current year aid for new high cost students with disabilities; and
   - Providing for a minimum guarantee of aid for students with disabilities educated in public schools and BOCES on a per-pupil basis rather than a total dollar basis.

   The advantage of this approach is that, by building on the existing funding system, it provides for stability in funding. Disadvantages of this option are that it:

   - Is a complex system prone to problems resulting from different interpretations of necessary data; and
   - Lacks responsiveness to varying levels of district cost.

2. *Base Aid on More Levels of Service*

   This option would represent a further refinement of the existing formula. Currently one weighting (0.9) is provided when the level of service provided to a student with a disability is 20 to 59 percent of the school week and another weighting (1.65) is provided for students with disabilities receiving special education programs and services 60 percent or more of the school day. School district representatives have argued that this system is not adequately responsive to the costs associated with varying levels of service provided to students with disabilities.

   An optional approach is to provide an additional weighting in between these two (such as a weighting of 1.2 for students with disabilities receiving special education programs and services between 40 and 59 percent of the school day).

   An advantage of this approach is to make funding more responsive to district costs. Disadvantages include that this option would further complicate data discrepancies that districts complain about in the existing system and that data are only available to support the existing system (students provided special education programs and services 20 to 59 percent of the school day) and not on the number of pupils that receive services from (a) 20 to 39 percent and (b) 40 to 59 percent of the school day.

3. *Use of a Single Weighting for All Pupils with Disabilities*

This option would provide a single weighting for funding the excess costs of all pupils with disabilities educated in public schools and BOCES. (High cost students with disabilities would continue to receive additional reimbursement for costs more than three times greater than average spending in the district.) The single weighting would be determined by averaging current weightings based on levels of service. This single weighting would be used in a formula similar to the current one. For example, the formula could consist of the number of pupils with disabilities multiplied by the single weighting multiplied by average spending in the district (AOE per pupil) multiplied by a State share (Aid Ratio).

Advantages of this option are that it continues to count students classified in special education, simplifies the existing system thus avoiding data discrepancies among districts resulting from different interpretations of different levels of service, and it could allow for adjustments for poverty.[1][1]

The disadvantage of this option is that it doesn't account for variation in district costs to the extent that multiple weightings could.

Additional Features

Any of these options can be enacted with the following additional features:

- Provide additional aid for high cost students with disabilities as currently;
- Provide current year high cost aid for new high cost students with disabilities;
- Continue a separate aid for students with disabilities whose individualized education plan requires their education in private school settings;
- Provide incentive grants to reward school districts that show large increases in the number of students with disabilities educated with their nondisabled peers; and
- Except in circumstances of reduced enrollment, districts would be "held-harmless" as the new formula was instituted.

ATTACHMENT C

Public Excess Cost Aid for Students with Disabilities

State Aid Work Group

May 2005

In addition to Operating Aid for each pupil, a district receives Public Excess Cost Aid for students with disabilities in special education programs run by public school districts and BOCES. In 2005-06 a district can receive:

- Basic Excess Cost Aid;
- High Cost Excess Cost Aid;
- Declassification Support Services Aid;
- Aid due to the 95 percent minimum guarantee; and,
- Integrated Settings Excess Cost Aid.

High Cost Excess Cost Aid = (Approved Program Cost - Deduct) x Aid Ratio

- Approved Program Cost = to be aidable, cost per student must exceed the lesser of : $10,000 or 4 x AOE/TAPU (without limits).
- Deduct = 3 x AOE/TAPU.
- Aid Ratio = 1 - (Combined Wealth Ratio x 0.51); minimum = .250.

Note: High Cost Aid is calculated for each eligible 2004-05 student. Aid is in addition to Basic Excess Cost Aid.

Declassification Support Services Aid = (Aid per Pupil x 0.50) x # of students

- Aid per Pupil = Basic Excess Cost Aid per pupil.
- Number of students = 2004-05 students declassified from special education.

Note: A district that provides support services to teachers and pupils in the first year that a student moves from a special education program to a full-time regular education program is eligible for this aid.

Minimum Guarantee Provision = A district is eligible to receive the greater of:

- 2005-06 Basic Excess Cost Aid + High Cost Aid + Declassification Support Services Aid; or,
- 95 percent of 2004-05 Basic Excess Cost Aid + High Cost Aid + Declassification Support Services Aid + any aid due to minimum guarantee.

Note: Integrated Settings Aid is not part of Minimum Guarantee calculations.

Integrated Settings Excess Cost Aid = Aid per Pupil x (0.50 x # of students)

- Aid per Pupil = Basic Excess Cost Aid per pupil.
- Number of students = 2003-04 students who require special education services at least 60 percent of the time and who receive these services in a general education setting.

Note: This aid is not subject to the Minimum Guarantee provision.

TAB 12

Full-day Kindergarten Conceptual Legislative Proposal

Background

Currently, 79 districts do not offer full-day kindergarten to all students. Forty-four of the 79 districts only offer half-day kindergarten. Many districts have fewer students attending public school kindergarten than public school first grade. The Regents propose to lower the compulsory age of attendance to five years of age and mandate that all districts provide full-day kindergarten for all students. It is estimated that 13,000 children currently not attending kindergarten in public or nonpublic school will enroll once the compulsory school age is lowered to age five. In addition, the Regents propose a combination of grants and State Aid to support full-day kindergarten.

Key Elements of Proposal

1. The mandatory school age would be lowered from six to five years of age. Parents of children less than six years of age would be allowed to request that their child not be required to attend school.

2. The requirement would be phased in over a three-year period. The 2006-07 school year would be a planning a year. It is assumed one-third of eligible students would be phased-in each year beginning in the 2007-08 school year. All eligible students would attend full-day kindergarten beginning September 2010. The projections include 2,000 students in New York City and 11,000 in the rest of the State.

3. The State will provide start-up planning grants of $10,000 for each additional classroom required to provide full-day kindergarten for all students. The planning grants would cover planning time and the cost of materials and supplies not covered by State Building Aid. New York City will need 100 additional classrooms and the rest of the State will need 750 classrooms.

4. Current year Full-day Conversion Aid equal to the Regents Foundation Formula Aid amount would be paid to the district in the first year. Regents-proposed Foundation Aid represents the State support for general education instruction needed for districts to meet State learning standards for students in grades prekindergarten through 12. Foundation Aid would continue to be paid for full-day kindergarten students after the first year. Foundation Aid helps pay for teacher salaries and operation and maintenance costs.

5. State Building Aid would be provided for all new classrooms and leased classrooms. Building Aid for new construction would be based on an assumed amortization of capital costs over 30 years. Voter approval, except in the Big Five Cities, would still be required for capital construction and leases longer than five years.

6. The list of eligible expenditures for Textbook Aid would be expanded, for kindergarten only, to include textbook substitutes including: non-consumable educationally-based

materials such as developmentally appropriate games and hands-on manipulatives that promote early literacy; numeracy; scientific inquiry; and social learning. Textbook Aid is based on the lesser of a district's reported textbook expenditures or $57.30 per pupil. Each year the total textbook expenditures reported statewide exceeds by millions the total aid paid statewide. The change will provide more flexibility in what districts can claim as an aidable textbook expense.

Construction Cost Data:

New York City	
$150.0 million	Construction Costs
$9.8 million	Annual Debt Service
$4.9 million	Annual State Building Aid
Rest of State	
$130.0 million	Construction Costs
$8.4 million	Annual Debt Service
$4.2 million	Annual State Building Aid
Total State	
$280.0 million	Construction Costs
$18.2 million	Annual Debt Service
$9.1 million	Annual State Building Aid

Full-Day Kindergarten State Aid Projections

2006-07

- $ 2.8 million Planning Grants

2007-08

- $ 2.8 million Planning Grants
- $ 4.0 million Foundation Aid (New York City)
- $12.2 million Foundation Aid (Rest of State)
- **$19.0 million Total**

2008-09

- $ 2.8 million Planning Grants
- $ 8.4 million Foundation Aid (New York City)
- $25.6 million Foundation Aid (Rest of State)
- $ 3.0 million State Building Aid (New York City and Rest of State)
- **$39.8 million Total**

2009-10 (Fully Phased-In with all students)

- $ 13.1 million Foundation Aid (New York City)
- $ 39.8 million Foundation Aid (Rest of State)
- $ 6.0 million State Building Aid (New York City and Rest of State)
- **$ 58.9 million Total**

2010-11 and thereafter

- $ 53.0 million + inflationary adjustment for Foundation Aid (New York City and Rest of State)
- $ 9.1 million State Building Aid (New York City and Rest of State)
- **$ 62.1 million Total**

The cost estimates are based on the following assumptions:

1. 20 percent of students not attending public school kindergarten will attend in New York City.
2. 60 percent of students not attending public school kindergarten will attend in the rest of the State.
3. 30-year amortization for capital costs.
4. 5 percent assumed interest on capital project borrowing.
5. 50 percent net average State Building Aid for New York City, 50 percent net average State Building Aid for Rest of State.

TAB 13

Overview of Fiscal Structure for Statewide Pre-kindergarten

- **Funding History**

Targeted Pre-kindergarten Program

- The State has provide $50 million from 1992 to the present
- 96 districts are implementing targeted pre-kindergarten programs

Universal Pre-kindergarten (UPK)

- In 1997, legislative action set forth a five-year schedule for phasing in universal pre-kindergarten education as follows:
  - $67 million for 1998-99
  - $100 million for 1999-2000
  - $225 million for 2000-01
  - $500 million for 2001-02 and continuing

- Legislative action produced the following results:
  - $67 million for 1998-99
  - $100 million for 1999-2000
  - $225 million for 2000-01
  - $205 million was allocated for 2001-02 through the present

- School Year 2005-06

  - 197 districts implementing programs
  - 977 community-based organizations are used as settings for universal pre-kindergarten by school districts
  - Approximately 60 percent of the funding that districts receive goes to contracts with community-based organizations for pre-kindergarten program
  - Distribution of funds by Need-Resource Category (see attached charts)
  - New York City receives 72 percent of UPK funding.(and 35 percent of targeted pre-kindergarten funding)
  - Each of the Big 5 city school districts has had full day kindergarten for many years

- School Year 2006-07

  - $205 million for districts who received grants in 2005-06
  - $50 million more for supplemental pre-kindergarten grants (for program expansion)
  - $50 million for continuing targeted pre-kindergarten

- **Advantages of Current Mechanism**

  - The purpose of a grant allocation is to target funding for a specific purpose – in this regard the initial purpose has been successful. The grant allocation has been successful in building a critical mass of universal pre-kindergarten programs across the State.

- **Disadvantage of Current Mechanism**

  - A grant allocation is a highly burdensome and restrictive way to move a focused program to a statewide component of this public education system. Three grant programs with separate funding systems complicate the State support for pre-kindergarten programs. The grant system is at the end of its useful life as a funding mechanism for sustainability. The grant program has been expanded to three different grant programs all with different mechanisms to achieve similar purposes. The result is a very complex and restricting mechanism that may prohibit expansion – the desired outcome. Results include:

    - the grant has been frozen;
    - formulas have been suspended;
    - amounts have been layered ;
    - the grant allocation process has been revised and tweaked; and
    - a large amount of work is required of SED with no administrative funds.

EXHIBIT B

2007-2008 NEW YORK STATE EXECUTIVE BUDGET EDUCATION, LABOR AND FAMILY ASSISTANCE ARTICLE VII LEGISLATION MEMORANDUM IN SUPPORT

CONTENTS

MEMORANDUM IN SUPPORT

A BUDGET BILL submitted by the Governor in
Accordance with Article VII of the Constitution

AN ACT to amend the education law, in relation to uniform quality standards for pre-kindergarten programs, the review of regents learning standards, the development of an enhanced accountability system, establishing a distinguished educator program, the development of a school leadership report card, tenure determinations, and requiring certain schools to prepare contracts for excellence (Part A); to amend the arts and cultural affairs law, in relation to designating a member of

the board of regents to serve on the New York state cultural education trust; to amend the education law, in relation to authorizing the commissioner of education to expend money for formula grants to public library systems in the 2007-2008 state fiscal year, special education classification reviews, the textbook factor and the library materials factor for the 2007-2008 school year, the amount annually appropriated for general support for public schools commencing with the 2011-2012 school year, the determination of selected actual evaluation, the computation of pupil counts and related factors, apportionment of public moneys to certain school districts, transitional aid for charter school payments, the universal pre-kindergarten program, charter schools, full-day kindergarten transition planning grants, supplemental educational improvement grants and the excelsior scholars program for certain students; to amend the state finance law, in relation to the state lottery fund; to amend chapter 756 of the laws of 1992, relating to funding a program for work force education conducted by the consortium for workers education in New York city, in relation to certain reimbursements and the effectiveness of such chapter; to amend chapter 169 of the laws of 1994, relating to certain provisions related to the 1994-95 state operations, aid to localities, capital projects and debt service budgets, in relation to the effectiveness thereof; to amend chapter 82 of the laws of 1995, amending the education law and certain other laws relating to state aid to school districts and the appropriation of funds for the support of government, in relation to the effectiveness thereof; to amend chapter 472 of the laws of 1998, amending the education law, relating to the lease of school buses by school districts, in relation to the effectiveness thereof; to apportionment of monies appropriated for the support of public libraries; to establish the school district efficiency review program; to provide for special apportionment for salary expenses; to provide special apportionment for public pension accruals; in relation to suballocation of certain education department monies; to establish a

temporary task force on preschool special education; to repeal certain provisions of the education law relating to annual apportionments to school districts; and providing for the repeal of certain provisions upon expiration thereof (Part B); to amend the education law, in relation to providing additional mayoral involvement in school governance in certain cities (Part C); to amend the real property tax law and the tax law, in relation to establishing a “Middle Class STAR” program; to amend the administrative code of the city of New York, in relation to credits against tax; to amend the state finance law, in relation to reimbursement payments to the city of New York; and to repeal certain provisions of the real property tax law and the tax law, relating to a local real property tax rebate and a state income tax credit (Part D); to amend the education law, in relation to eligibility requirements and conditions governing awards and loans (Part E); in relation to the discontinuance of services and operations at specified residential programs operated by the office of children and family services (Part F); to amend the state finance law, in relation to establishing the youth facility per diem account; and to amend the executive law, in relation to the reimbursement owed to the state by the social services districts for expenditures made by the office of children and family services for the care, maintenance and supervision of youth in office facilities and programs (Part G); in relation to preventive services funding (Part H); to amend part C of chapter 83 of the laws of 2002 amending the executive law and other laws relating to funding for children and family services, in relation to making the provisions of such part permanent (Part I); to amend the executive law, in relation to establishing the office for the blind and in relation to establishing vending programs; to repeal chapter 693 of the laws of 1992 relating to establishing a vending program for the blind and visually handicapped; to repeal chapter 415 of the laws of 1913, relating to establishment of a state commission for the blind and visually handicapped; and to repeal section 38 of the social services law relating to removing the state commission for the

blind and visually handicapped as a bureau of the department of family assistance (Part J); and to improve performance and provide flexibility in the allocation of temporary assistance for needy families (Part K)

PURPOSE:

This bill contains provisions needed to implement the Education, Labor and Family Assistance portions of the 2007-08 Executive Budget.

SUMMARY OF PROVISIONS, EXISTING LAW, PRIOR LEGISLATIVE HISTORY AND STATEMENT IN SUPPORT:

Part A – Strengthen educational accountability by establishing measurable performance targets, promoting strong educational leadership, and raising standards

This bill enacts comprehensive education reforms for tracking and improving student and teacher performance through results-oriented measurements. Deficiencies will be identified from analysis of student/teacher performance data, and this information will be used to determine when intervention and sanctions are necessary.

This bill enacts numerous changes to the State Education Law to ensure sound, basic pre-K through secondary educational preparation for college or employment. It implements the Court of Appeals' *Campaign for Fiscal Equity* decision, and furthers compliance with the mandates of federal education law, including the "No Child Left Behind Act".

Several key issues are addressed, including:

Higher Standards: Uniform standards will be established for pre-kindergarten programs, including curriculum and teacher certification requirements. The Board of Regents will continue to review the adequacy of existing Regents Learning Standards, and the English Language Arts standards review will be completed by July 2008.

Enhanced Accountability: By July 2008 student progress reports reflecting multiple years of testing will be required. Moreover, if federal approval is received, a cumulative enhanced accountability system for individual student academic growth, linked to individual teachers, will be required by July 2010.

"School leadership" and "school progress" report cards that reflect the performance of schools, as well as superintendents and other school district leadership, will be made available to the public and the State Education Department. School superintendents, the Chancellor of the New York City schools, and school boards will be subject to removal for persistent deficient performance of schools in their districts. A cadre of "distinguished educators" will be designated by the Commissioner of Education to assist in improving troubled schools.

By July 2008, improvement targets for schools and districts will be tightened so that up to 5% of all schools will be required to restructure and reorganize. All school districts that receive a supplemental educational improvement plan grant or significantly increased financial support under the new Foundation Aid formula will be required to submit a "contract for excellence," which details how schools' expenditures of increased aid will be targeted to implement or expand programs demonstrated to improve student achievement, including class size reduction, increased student time on task, teacher quality initiatives, middle and high school restructuring and full-day prekindergarten. School districts must involve the public and other interested parties in the development of their contracts for excellence, which must also include financial details on per pupil expenditures.

Teacher Quality Standards: The Board of Regents will review the effectiveness of post-secondary teacher preparation programs, and expand alternative means for certification. Statutory standards are established for tenure determinations, which include whether the teacher adequately contributes to the academic success of students. Additionally, the Commissioner will identify incentives to encourage highly qualified teachers to work in low performing schools.

Part B – Reform the State's education finance system through the establishment of a Foundation Aid formula, expansion of pre-kindergarten and other changes necessary to implement the four-year Educational Investment Plan

Reform the State's education finance system.

This bill would amend existing law to: advance reforms to public school finance through the creation of Foundation Aid; expand Universal Prekindergarten and other early childhood education initiatives; expand the availability of charter schools by increasing the limit on the number of such schools and providing transitional aid to districts impacted by a concentration of charter schools and provide for reforms to special education programs.

Foundation Aid: This bill would amend Education Law to establish Foundation Aid which will replace 30 aid formulas. Education Law would be amended to specify the factors necessary to calculate Foundation Aid for school districts including the following:

- **Foundation Amount:** This bill would specify a standard local education cost based upon actual costs in successful schools, adjusted for geographic cost differences and educational need factors including students at risk due to poverty, limited English proficiency, and special education needs;
- **Expected Local Contribution:** This bill would establish an expected—but not mandated—local contribution, adjusted to reflect district income wealth;
- **Phase-in Factor:** This formula would be phased in over 4 years, starting in the 2007-08 school year with the incremental phase-in amount each year specified in the law;
- **Student Count:** This bill would define the student count used to allocate funds based upon enrollment, rather than attendance;

- **Minimum Increase:** This bill would ensure that all school districts receive a Foundation Aid increase of at least 3 percent;
- **Foundation Aid conforming changes:** This bill would address a large number of conforming changes to reflect the new Foundation Aid, and update section references related thereto.

Big Four Cities Maintenance of Effort: This bill would ensure the Big 4 Cities (Buffalo, Rochester, Syracuse, and Yonkers) use additional State aid to supplement and not supplant local support.

Universal Prekindergarten Program: This bill would amend Education Law to establish a formula that would provide State funding to support expansion of the Universal Prekindergarten program. Under this formula, the Foundation Amount per pupil would be used in the computation of Universal Prekindergarten Aid to reflect school district wealth and student educational needs. Similarly, a number of amendments are made to existing program planning requirements to facilitate timely implementation of the expansion of this program.

Full-Day Kindergarten Program: This bill would require high-need or low-performing districts, as determined by the Commissioner, to offer Full-Day Kindergarten programs for all children in those districts by 2010-11.

Charter Schools: This bill would amend Education Law regarding charter schools in the following areas:

- **Charter School Cap:** The existing cap of 100 schools would be increased by 150 schools with SUNY, the Board of Regents and the NYC Schools Chancellor each authorized to approve 50 new charter schools;
- **Charter School Transitional Aid:** This bill would amend Education Law to establish a new formula that would provide transitional aid to districts that have a concentration of charter schools; and
- **Expanded Notification Requirements:** This bill would require the Regents to take action on the issuance of a charter by March 15 of each year in order for the charter school to open in the following September, thus allowing the school district to be notified of a new charter school prior to the adoption of its budget.

School Efficiency Reviews: This bill would establish a new school district efficiency review program to assist school districts in identifying administrative and other operational savings that could be reinvested to support classroom instruction and minimize property tax growth. Performed by management consultants under contract with the State, the reviews are intended to be voluntary based upon requests from school superintendents. All costs would be fully supported by the State from a recommended $5 million appropriation in the 2007-08 Executive Budget.

Special Education: To focus greater attention on special education services, this bill would amend Education Law to:

- Create a Taskforce on Preschool Special Education that would review the relationship between preschool special education and other early childhood programs as well as different financing approaches; and
- Require school districts with high special education classification rates or with excessive referrals to special education by race/ethnicity to address these deficiencies.

Other Miscellaneous Provisions: Other provisions of this bill would make various changes to Education Law, miscellaneous school aid provisions and other education programs. These changes include:

- **Excelsior Scholars Program:** This bill would create an Excelsior Scholars program that would recognize and reward talented middle school students in the areas of math and science and provide summer enrichment programs at college campuses throughout the State;
- **Aid Payment Schedule Changes:** This bill would conform current School Aid payment schedules to reflect the new Foundation Aid. It also would establish a payment schedule for School Aid payments made through the Video Lottery Terminal (VLT) account;
- **Increasing Textbook and Library Materials Aids:** This bill would make minor adjustments in the per student grant amounts for both Textbook Aid and Library Materials Aid;
- **Building Aid:** This bill would make permanent the payment reforms previously enacted for new school facility projects; and
- **Supplementary State Aid for Public Library Systems:** This bill would continue supplementary State aid for public library systems at 2006-07 levels and would amend the payment schedule for library construction aid.

Part C – Ensure that the mayors of Syracuse, Rochester and Buffalo are represented on their local school boards

This bill will further the goal of enhanced school district accountability by authorizing the mayors of Buffalo, Rochester and Syracuse to appoint two members to the school board, to serve at the pleasure of the mayor.

This bill amends sections 2552 and 2553 of the Education Law to increase the size of the school boards in three of the “Big Five” cities, by authorizing the mayors of those cities to appoint two of the members of the school board. The school boards in two of the “Big Five” cities would not be affected by this legislation. The school board in New York City is governed by a separate statute and is already under mayoral control, and the mayor of Yonkers appoints the school board pursuant to section 2553(3) of the Education Law.

Sections of the Education Law governing elected school board members, including the number of individuals that serve in elected school board positions, remain unchanged. The number of school board members in Buffalo would increase from nine to eleven, and board size would increase from seven to nine members in Rochester and Syracuse. Appointed school board

members will be required to meet residency and citizenship requirements applicable to elected school board members.

Part D – Enhance the School Tax Relief (STAR) Program by increasing funding and targeting the benefits to low and middle class homeowners

To establish a new "Middle Class STAR" program, providing greater school tax relief to New York State's middle class homeowners.

In recent years, the crushing local property tax burden has become the number one concern of homeowners throughout New York State. While the impact of ever-increasing local taxes has been cushioned somewhat by the School Tax Relief (STAR) program enacted in 1997, the basic STAR program is flawed to the extent that, except for seniors, it fails to take into account the owner's ability to pay. The program will be restructured to concentrate relief for those taxpayers who need it the most by establishing a "Middle Class STAR" program that (1) expands the Basic STAR Exemption for homeowners by up to 100 percent by 2009-10, depending on income, (2) expands the Enhanced STAR Exemption for qualifying senior citizens, and (3) expands the Personal Income Tax Credit for eligible taxpayers in New York City.

The Basic STAR Exemption will be increased with funds targeted to middle class homeowners based upon their incomes. The income brackets for eligible homeowners will be indexed in future years to reflect growth in average wages. In most areas of the State taxpayers whose incomes are at or below $60,000 (adjusted for inflation) will see their Basic STAR exemption increased by 80 percent of the $30,000 base exemption in 2007-08, by 90 percent in 2008-09, and by 100 percent in 2009-10 and thereafter. For example, the exemption for a homeowner with an income of $70,000 (adjusted annually for inflation) will increase by 67.5% in 2007-08, by 75% in 2008-09 and by 82.5% in 2009-10 and thereafter.

In the downstate metropolitan region (which currently encompasses New York City and the Counties of Nassau, Suffolk, Westchester, Rockland, and Putnam), the Basic STAR exemption increases will be adjusted in recognition of the region's higher income levels.

The Enhanced STAR Exemption will be increased for qualifying senior citizens by 30 percent in 2007-08 (from $56,800 to $73,800), and by another 10 percent in 2008-09 (to $79,500), with cost-of-living adjustments driven by the Consumer Price Index (CPI-W) in each year thereafter.

In New York City, the Personal Income Tax Credit for City taxpayers will also be increased substantially for middle class taxpayers. Generally, the New York City personal income tax credit for married individuals filing joint returns and surviving spouses will be increased from $230 to $300 for 2007, to $320 for 2008, and to $340 for tax years after 2008. For all other taxpayers, the credit will be increased from $115 to $150 for 2007, to $160 for 2008, and to $170 for tax years after 2008. However, for married individuals filing joint returns and surviving spouses with income of more than $235,000 (adjusted for inflation), the New York City personal

income tax credit shall be limited to $230, and for all other taxpayers with income in excess of $235,000 the credit shall be limited to $115.

In terms of administration, the increases to the Enhanced STAR exemption provided under Middle Class STAR are self-executing. To take advantage of these increases, qualifying senior citizens who are already receiving the exemption and who are participating in the Income Verification Program (IVP) need do nothing further. Those who are receiving the exemption but are not participating in the IVP will only need to submit proof of their incomes to their local assessors annually, just as they must currently provide.

The increases to the Basic STAR exemption provided under Middle Class STAR cannot be self-executing because local assessors do not already possess the information needed to determine how much any given parcel's exemption should be increased. Thus, to take advantage of these increases in 2007-08, Basic STAR recipients will need to file an application with the Department of Taxation and Finance by May 15, 2007 or, if filing electronically, by May 25, 2007. The Department of Taxation and Finance will mail informational notices to STAR-eligible property owners who received a 2006 local real property tax rebate check.

After receiving these applications, the Department of Taxation and Finance will determine which parcels are eligible for Basic STAR increases. Eligibility will be based upon the income of the primary owners, and of any primary owners' spouses. The Department of Taxation and Finance will determine the extent to which these parcels are eligible for Basic STAR exemption increases, and will report these "benefit levels" to the Office of Real Property Services (ORPS). ORPS will relay the information it receives to the appropriate assessors, who will increase each Basic STAR exemption on the assessment roll to the extent indicated by the report, and the school tax bills of qualifying parcels will be lowered as a result. Optimally, this will all be accomplished before the 2007 assessment rolls are finalized, or at least before the 2007-08 school tax bills are issued, but where a parcel is entitled to a reduction which does not appear on the tax bill, the school district would be authorized to grant a refund or reduce any pending installment payments.

The determination of the income associated with each parcel will be performed only by the Department of Taxation and Finance. Assessors would not be empowered to make their own independent determinations for this purpose. Property owners who believe an unfavorable benefit level was assigned to them by the Department of Taxation and Finance would have the option of applying to the Department of Taxation and Finance for reconsideration. Property owners who fail or decline to file timely applications with the Department will not be entitled to increases in their Basic STAR exemptions.

To protect against the possibility that third parties might try to estimate the income of a property owner by observing how much of a Middle Class STAR exemption his or her home has been granted, the bill directs that this information shall be kept confidential, shall not appear on assessment rolls, and shall not be subject to disclosure under the Freedom of Information Law.

School districts would be compensated in full for the cost of the increased exemptions as they are now, through the existing STAR reimbursement mechanism, and New York City would be compensated in full for the cost of the increased Personal Income Tax Credit, through an amendment to State Finance Law §54-f.

The local real property tax rebate/credit program that was enacted in 2006 is rendered obsolete by this bill and is repealed.

Part E – Modify the Tuition Assistance Program (TAP) to reform eligibility criteria

This bill amends Tuition Assistance Program (TAP) eligibility requirements to promote improved academic performance and protect the investment of taxpayer funds in TAP.

Effective April 1, 2007, this bill:

- removes provisions otherwise allowing first time aid recipients without a high school diploma or its equivalent to receive aid in the 2007-08 academic year and thereafter through an ability to benefit (ATB) examination.
- requires that students receiving aid for the first time in the 2007-08 academic year, or thereafter, possess a high school diploma or its equivalent, or meet other academic standards or requirements, as determined by the Commissioner of Education.
- continues academic progress standards enacted in the 2006-07 budget and incorporates equivalent standards for institutions with trimester scheduling.

Effective July 1, 2007, this bill:

- requires that to be eligible for participation in State student financial aid programs, institutions must be approved for participation in federal student financial aid programs under Title IV of the Higher Education Act of 1965, as amended.
- maintains student eligibility for State student financial aid programs through the 2009-10 academic year for students matriculated at an institution that, on the date the bill becomes law, was operating in this State, but was not approved for participation in Title IV student financial aid programs.

Part F – Modify the notification requirement for closing youth facilities

This bill promotes fiscal and program efficiency by reducing excess capacity in youth facilities operated by the Office of Children and Family Services (OCFS).

This bill authorizes OCFS to close three community residential homes and one non-secure residential facility as of October 1, 2007. These facilities serve juvenile delinquents committed to the care and custody of OCFS by the family courts. OCFS would not be required to adhere to the existing statute's closure notice requirement, which was increased from nine months to twelve months in 2006.

Community residential homes offer the least restrictive level of care for juvenile delinquents and primarily serve as a step-down before youth transition back into the community. The three homes proposed for closing are located in Gloversville, Mount Vernon and Brooklyn. The Gloversville home is vacant and the Mount Vernon and Brooklyn homes are underutilized, allowing their current population to be transferred, based on the program and security needs of each youth, into community-based programs or to non-secure facilities with available capacity. The Great Valley facility, a 25-bed non-secure facility, is recommended for closing because its location in Cattaraugus County is a long distance from the home community of most OCFS youth. Youth at Great Valley would be transferred, based on program and security needs, to other non-secure facilities or community-based programs. OCFS operates eighteen non-secure facilities that generally operate at about 80 percent of capacity. Therefore, sufficient capacity would remain to accommodate youth from Great Valley.

Community residential homes and 25-bed non-secure facilities are not major employers. Their closure will not have an adverse impact on local economies, and it is expected that many of the impacted employees will be eligible for transfer to other facilities.

Part G – Convert an Office of Children and Family Services' (OCFS) internal account to a Special Revenue account to improve transparency

This bill fosters transparency in government operations by requiring that revenue from per diem billings to local governments for their share of the cost of Office of Children and Family Services (OCFS) youth facilities be deposited into a newly created account whose activity will be visible to the Executive, the Legislature, and the Comptroller.

This bill establishes a new Youth Facility Per Diem Special Revenue Other account for the receipt of per diem revenue from local governments.

Per diem revenues are currently deposited into an internal OCFS sole purpose account whose receipt and disbursement transactions are not visible to the Legislature or Executive staff outside of OCFS. The activity of the new special revenue account will be visible through the Office of the State Comptroller accounting system reports, allowing the Executive and Legislature to more effectively monitor account activity and make informed budget decisions about the account and per diem revenue.

Part H – Mandate performance-based contracting for preventive services

This bill promotes fiscal and program efficacy in preventive services by requiring local districts to implement performance or outcome provisions.

New York has a State-supervised, locally-administered social service system. Preventive child welfare services are provided to the most vulnerable residents and include an array of services to meet the unique needs of each child and family and to prevent out-of-home placement of children. Beginning with the enactment of Child Welfare Financing Reform in 2002 the State has reimbursed localities 65 percent of the costs of providing these services after Federal funding is

applied. Although foster care placements have declined since this funding was put in place, the efficacy of these services, which are provided directly by localities or are contracted out to provider agencies, is, in many instances, unknown.

This bill requires local districts to implement performance or outcome based provisions, as outlined in subsequent regulations, for preventive services beginning January 1, 2008.

This bill is designed to require that local investments in this sensitive area positively impact the lives of those they serve. With total investments in this area eclipsing an estimated $400 million in the current year, there is also significant fiscal incentive to see that services achieve beneficial outcomes.

Part I – Permanently extend Child Welfare Financing Reform provisions set to expire on June 30, 2007

This bill makes permanent certain provisions related to funding for children and family services that are designed to keep families intact while encouraging expedited permanency for children in foster care.

Child Welfare Financing Reform, enacted in 2002, created three notable General Fund supported funding streams to support at-risk children and their families: (1) the Foster Care Block Grant; (2) an open-ended funding stream for preventive, protective and other child welfare services whereby the State pays 65 percent of all costs, net of Federal Assistance, with local social services districts paying the remaining 35 percent; and (3) a Child Welfare Quality Enhancement Fund.

Current Child Welfare Financing Reform provisions promote community-based services to keep families intact as well as to establish permanent placements for foster children as quickly as possible. The system provides for 65 percent open-ended State reimbursement to social services districts for the non-Federal share of child preventive, child protective, after care, independent living and adoption services and administrative costs, while capping reimbursement for foster care services. It also includes a Children and Family Services Quality Enhancement Fund to increase the availability and quality of children and family services programs through the testing of special initiatives and innovative models of service delivery.

In 2003, the Committee on Special Education (CSE) Reform was enacted to provide for enhanced school district responsibility in educational placements for children by shifting maintenance (i.e. room and board) cost shares from 50 percent State and 50 percent local to 40 percent State, 40 percent local, and 20 percent local school district. These amendments gave school districts a greater financial role in ensuring the appropriate placement of special education children.

Both the Child Welfare Financing Reform and CSE statutes are scheduled to sunset on June 30, 2007.

Effective April 1, 2007, this bill amends Social Services Law and State Finance Law to make Child Welfare Financing Reform and the CSE statute permanent.

If this bill is not enacted, foster care reimbursement would return to open-ended 50/50 State/local shares and preventive services delivered by counties would no longer be eligible for State reimbursement. Fiscal incentives to provide services to keep a family intact would shift to encouraging unnecessary out-of-home foster placements for children. School districts would no longer have a financial stake in the residential placement of their special education children.

Part J – Create a new, independent Office for the Blind and eliminate OCFS's Commission for the Blind and Visually Handicapped

This bill is intended to better serve the interests of the blind. It enacts a new article 14-A of the Executive Law, which establishes a new Office for the Blind, under the guidance of an advisory executive board, and authorizes it to perform existing governmental functions associated with serving the blind.

This bill enacts a new Article 14-A in the Executive Law to establish a new Office for the Blind, which would seek to improve and develop services and programs for the blind. The functions of the Office for the Blind would be discharged by the Executive Director and a new fifteen member unsalaried executive board would be created to advise the Office. The members of the executive board would be appointed by the Governor and legislative leaders for five year terms.

The functions of the new Office for the Blind would include functions currently performed by the Commission for the Blind and Visually Handicapped (Unconsolidated Law section 8701 et seq.), which is currently under the jurisdiction of the Office of Children and Family Services (OCFS). The Office for the Blind would continue operating a program which licenses blind individuals as vendors on State property and would also oversee an existing loan program which loans money to people with disabilities for the purchase of assistive devices. Appropriations currently made within OCFS for the operation of the Commission for the Blind and Visually Handicapped would be transferred to the Office for the Blind. The bill ensures that employees of the Commission for the Blind and Visually Handicapped would be transferred to the new office.

Part K – Provide for performance measurements in Temporary Assistance for Needy Families (TANF) funded programs, and establish an allocation methodology for the TANF Flexible Fund for Family Service (FFFS)

This bill authorizes allocation of the Federal Temporary Assistance for Needy Families (TANF) block grant by delineating funding appropriated for the Flexible Fund for Family Services (FFFS).

The TANF Program was enacted as part of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193). The enactment of TANF ended the previously existing entitlement welfare programs and instead provided states with block grants and the opportunity to implement their own public assistance programs through use of

supportive services intended to help recipients make the transition off public assistance. Beginning in SFY 2005-06, TANF funding typically allocated to local social services districts was consolidated into a single FFFS appropriation enacted as part of the Education, Labor and Family Assistance (ELFA) budget bill. This bill sets forth the specific allowed purposes of the TANF FFFS funds.

BUDGET IMPLICATIONS:

Part A – Strengthen educational accountability by establishing measurable performance targets, promoting strong educational leadership, and raising standards

Enactment of this bill is necessary to implement the 2007-08 Executive Budget, which includes an increase in aid to schools that will, over the next four years, total over $7 billion. This bill establishes mandates and measures of accountability that are essential to ensure that those funds are used effectively.

Part B – Reform the State's education finance system through the establishment of a Foundation Aid formula, expansion of pre-kindergarten and other changes necessary to implement the four-year Educational Investment Plan

Enactment of this bill is necessary to implement the 2007-08 Executive Budget by establishing Foundation Aid and other provisions required in the Governor's Four-Year Educational Investment Plan.

Part C – Ensure that the mayors of Syracuse, Rochester and Buffalo are represented on their local school boards

Enactment of this bill is necessary to implement the 2007-08 Executive Budget because it is expected to achieve greater local accountability in the use of public funds.

Part D – Enhance the School Tax Relief (STAR) Program by increasing funding and targeting the benefits to low and middle class homeowners

Enactment of this bill is necessary to implement the 2007-08 Executive Budget, which includes an increase of $1.5 billion for the Middle Class STAR program.

Part E – Modify the Tuition Assistance Program (TAP) to reform eligibility criteria

Enactment of this bill is necessary to implement the 2007-08 Executive Budget, and will result in TAP savings of $30 million on an academic year basis.

Part F – Modify the notification requirement for closing youth facilities

Enactment of this bill is necessary to implement the 2007-08 Executive Budget. It is estimated that closing the three community residential homes and one non-secure facility in October, 2007 will generate $1.2 million in 2007-08 savings, consistent with the Financial Plan. These 2007-08

savings could not be achieved with the current twelve month notice requirement because the current requirement would not allow the facilities to close until February, 2008, or just two months before the end of the 2007-08 State Fiscal Year.

Part G – Convert an Office of Children and Family Services' (OCFS) internal account to a Special Revenue account to improve transparency

Enactment of this bill is necessary to implement the 2007-08 Executive Budget because it establishes a special revenue other account for the receipt of per diem revenue assumed in the Financial Plan. It is assumed that $96 million in revenues deposited in the account will be transferred to the General Fund.

Part H – Mandate performance-based contracting for preventive services

Enactment of this bill is necessary to implement the SFY 2007-08 Executive Budget. Since this bill requires local districts to implement performance or outcome based provisions, it is assumed that their program assessments will culminate in improved performance, and will generate an estimated $10 million in SFY 2007-08 State savings.

Part I – Permanently extend Child Welfare Financing Reform provisions set to expire on June 30, 2007

The 2007-08 Executive Budget assumes that current provisions remain in place. If provisions were to sunset, local governments would be forced to choose between supporting $200 million in unbudgeted costs and discontinuing vital preventive services, while the State would face over $100 million in unbudgeted costs from changes in foster care and CSE reimbursement.

Part J – Create a new, independent Office for the Blind and eliminate OCFs' Commission for the Blind and Visually Handicapped

This bill would be fiscally neutral in SFY 2007-08, as all existing appropriations for OCFs' Commission for the Blind and Visually Handicapped would be transferable to the new Office for the Blind. Modest cost increases may be possible in future years as the Office develops its agenda.

Part K – Provide for performance measurements in Temporary Assistance for Needy Families (TANF) funded programs, and establish an allocation methodology for the TANF Flexible Fund for Family Service (FFFS)

Enactment of this bill is necessary to implement the 2007-2008 Executive Budget because it provides the spending authority for $1 billion in TANF funds - approximately 42 percent of the total Federal block grant.

EFFECTIVE DATE:

Part A – Strengthen educational accountability by establishing measurable performance targets, promoting strong educational leadership, and raising standards

The bill is effective immediately.

Part B – Reform the State's education finance system through the establishment of a Foundation Aid formula, expansion of pre-kindergarten and other changes necessary to implement the four-year Educational Investment Plan

This bill takes effect April 1, 2007, except that selected provisions take effect immediately or on other specified dates.

Part C – Ensure that the mayors of Syracuse, Rochester and Buffalo are represented on their local school boards

The bill is effective immediately.

Part D – Enhance the School Tax Relief (STAR) Program by increasing funding and targeting the benefits to low and middle class homeowners

The bill takes effect immediately.

Part E – Modify the Tuition Assistance Program (TAP) to reform eligibility criteria

Section 1 of the bill takes effect July 1, 2007 and sections 2 and 3 of the bill take effect on April 1, 2007.

Part F – Modify the notification requirement for closing youth facilities

This bill takes effect immediately.

Part G – Convert an Office of Children and Family Services' (OCFS) internal account to a Special Revenue account to improve transparency

This bill takes effect immediately except that section 2 takes effect April 1, 2007.

Part H – Mandate performance-based contracting for preventive services

This bill takes effect immediately.

Part I – Permanently extend Child Welfare Financing Reform provisions set to expire on June 30, 2007

This bill takes effect April 1, 2007.

Part J – Create a new, independent Office for the Blind and eliminate OCFs' Commission for the Blind and Visually Handicapped

The bill is effective 180 days after enactment.

Part K – Provide for performance measurements in Temporary Assistance for Needy Families (TANF) funded programs, and establish an allocation methodology for the TANF Flexible Fund for Family Service (FFFS)

This bill takes effect on April 1, 2007.