New York State Educational Conference Board

Comprehensive state action needed to support schools

A $2.2 billion aid increase for 2016-17 is required to meet needs and support priorities

New York's schools are moving forward with the most significant increases in academic standards and student expectations in the history of our state. They are doing so amid a rapidly changing society, from the increasing numbers of English language learners to the intense competition of a global economy. The skills, knowledge and school programs that defined a quality education a generation ago are inadequate today. Preparing all students to succeed in the world that they will enter when they finish school remains the essential mission of education, and the promise of our state constitution.

New York has a long and proud tradition of public school excellence, and has been a leader in the more recent movement to higher standards. However, this effort has yet to gain the necessary traction: Our state began this ambitious improvement process during a time of reduced school funding, drastic program cuts, a complex and potentially destabilizing tax cap, and abrupt changes in regulations and the cost pressures that go with them. The world has changed, and schools are eager to rise to the challenge. Yet, they need a responsive and reliable state partner that recognizes the realities they face and makes the commitment needed to address them and move forward.

The New York State Educational Conference Board – comprised of seven leading educational organizations representing parents, classroom teachers, school-related professionals, school business officials, building administrators, superintendents and school boards – is issuing this set of comprehensive school finance recommendations that provide a roadmap for how the state can be this partner. If enacted, these recommendations would help our schools and our state get back on track in the effort to help all students reach higher standards and success in college and careers. There are two components to the recommended $2.2 billion state aid increase: $1.7 billion needed to continue current school services and $500 million in targeted funding to advance priority initiatives that have a broad base of support among state leaders, schools, businesses and citizens. The increase would also help schools deal with an unprecedented challenge in 2016-17, the prospect that they will face a zero percent limit on the increase in local revenue due to the way the state's tax cap is constructed.

Through forward-looking, comprehensive action on school funding, the state can play a powerful – and pivotal – role in preparing today's students to shape their own futures and contribute to an economically prosperous New York.

Educational Conference Board School Finance Recommendations

1. Provide an increase of $2.2 billion in state aid for 2016-17 to continue current school services, meet critical needs and strengthen improvement initiatives;
2. End the Gap Elimination Adjustment (GEA) that reduces aid to school districts;
3. Establish – and commit to – a plan to fully fund the Foundation Aid formula;
4. Fix the Property Tax Cap law for schools to address its most damaging shortcomings, especially the use of the Consumer Price Index;
5. Provide state aid runs and distribution formulas with the Executive Budget Proposal, and disconnect specific policy initiatives from eligibility for general purpose aid; and
6. Pay schools for state reimbursements they are owed for approved prior year aid claims. The state should meet this outstanding obligation separate from 2016-17 school aid, and has settlement funds available for this one-time expense.

NEW YORK STATE EDUCATIONAL CONFERENCE BOARD • John Yagielski, Chair
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Preserve Current Services and Support Progress in 2016-17

In the depths of the Great Recession, the school workforce was reduced by 30,000 due to significant cuts in state aid. The economy is in better condition today and, in fact, the state aid increases of the last couple years have helped restore some services lost during that time. Yet, 31 percent of districts are still receiving less aid than in 2009-10 – and few, if any, are back to full strength. In the coming state budget, ECB projects the need for a $1.7 billion school aid increase simply to continue current educational programs and services.

However, this is far from a status quo request. As higher standards take hold, state aid is needed to support schools as they introduce new programs and interventions, provide vital training to staff and strengthen supports so that students enter the classroom ready to learn. Our schools and our state have no interest in going backwards. Schools must be able to advance this work.

The $1.7 billion figure is based on the most recent cost estimates produced, including:

- A 2.7 percent increase in salaries, consistent with an estimate for private sector workers in 2016 from the Society for Human Resources Management;
- A 6.6 percent increase in health insurance costs, in line with projections for the state workforce from the Division of Budget;
- A decrease in Teachers Retirement System (TRS) pension contributions, reflecting the most recent estimates for 2016-17 from the TRS Board of Directors;
- An across-the-board 2.3 percent inflationary measure applied to all other costs, based on the Consumer Price Index (CPI) projected for the coming year by the Division of Budget.

Based on these factors, total school spending would grow by 2.7 percent, or $1.7 billion, for 2016-17. In a typical year, local taxpayers would pay a share of this increase. However, schools may be facing an average tax cap close to zero percent next year due to the calculation required by the state's tax cap law. The "allowable levy growth factor" in the tax cap formula is based on the change in the Consumer Price Index (CPI), and average monthly CPI has remained essentially unchanged through the first nine months of this year.

The recommended increase would be sufficient to end the GEA ($434 million), fully-fund expense-based reimbursements (estimated at $200 million) and provide a significant Foundation Aid increase.

It's Not a 2% Tax Cap

Year	Allowable Levy Growth Factor
2012-13	2.00%
2013-14	2.00%
2014-15:	1.46%
2015-16	1.62%
2016-17	0.00% Projected[1]

[1] Average monthly change in Consumer Price Index, Jan.-Sept. 2014 versus Jan.-Sept. 2015

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

With a tax cap of zero percent, schools would have little ability to raise new local revenue to offset increased school costs. If current school tax levies grew by the 2 percent that matches the rhetoric of the tax cap, local funds would provide a $700 million increase in school revenues. We believe the state has a constitutional obligation to make up this difference and fund the entire $1.7 billion needed to continue current services.

The use of the CPI is a fundamental flaw with the current tax cap formula: The CPI figure looks back, but in developing budgets, schools look to the future. The state should remove the volatility of CPI from the formula and allow schools to count on a consistent allowable levy growth factor of 2 percent. In fact, this change was included in a series of recommendations that ECB issued last year to address shortcomings with the tax cap and provide schools with more stability than they have under the current law. The full list of ECB tax cap recommendations can be found at http://tinyurl.com/ECBtaxcapFeb2015.

End the Gap Elimination Adjustment

A portion of the recommended 2016-17 state aid increase should be used to finally end the Gap Elimination Adjustment (GEA), which has diverted promised funding from schools for six years. The total outstanding GEA still owed to schools is $434 million. The state's finances have rebounded since the GEA was introduced and its continuance has forestalled a fair, adequate and functioning state aid system long enough. In 2016-17, the state should fully restore outstanding GEA amounts owed to districts.

Phase-in Foundation Aid on a set timeline

Schools need stable funding that they can rely on year-after-year to address student needs and make long-term plans. The Foundation Aid formula enacted in 2007 provided the most

promising approach to doing so in the state's recent history. The formula was based on the important school funding principles of adequacy, equity, predictability, transparency, stability and flexibility. It simplified disparate school funding streams; accounted directly for the needs of students; acknowledged regional cost differences, and took into consideration school district fiscal capacity. The Foundation Aid formula was accompanied by a detailed, four-year phase-in schedule.

However, two years after it was enacted, The Great Recession hit and the formula was frozen. Despite modest Foundation Aid increases in more recent years, the state is $4.4 billion behind the original phase-in schedule. Further, with no formula running, changes in student needs – from those in poverty to an increase in English language learners – are not being recorded and schools are not receiving funding needed to provide critical services.

ECB recommends three actions related to Foundation Aid:

(1) Restart the Foundation Aid formula and provide a significant increase in 2016-17: This can be accomplished within the $1.7 billion aid increase recommended by ECB. It is essential to note that the remaining GEA is primarily owed to low- and average-need districts, while more than 75 percent of the Foundation Aid shortfall is owed to high-need districts. Thus, a significant Foundation Aid increase is needed to treat high-need districts equitably and begin moving them toward the adequate funding they have been promised. After ending the GEA ($434 million) and funding expense-based aids (estimated at $200 million), the remainder of the increase in unrestricted aid should be distributed through Foundation Aid.

(2) Establish a concrete timeline for full phase-in: The state's fiscal condition has improved to the point where school funding can be provided on a regular, predictable schedule as promised by the 2007 formula. With the state currently $4.4 billion behind on full-funding of Foundation Aid, a three-year phase-in schedule is reasonable – especially considering that GEA restoration should no longer be consuming state aid increases after 2016-17.

(3) Revisit some of the underlying assumptions that drive the formula: Conditions have changed since the Foundation Aid formula was drafted almost a decade ago. The worthy effort to increase standards means that students need more time and help to achieve them. More is known about the effects of poverty on student performance. Many communities are seeing an increase in students from disadvantaged backgrounds and English language learners. Policymakers have an obligation to ensure that the weightings built into the formula reflect what is needed for student success.

Fund Improvement Initiatives and Meet Critical Needs

ECB recommends additional targeted state funding totaling $500 million to further educational initiatives that have broad-based support and meet critical needs. Over the long-term, a fully-funded Foundation Aid formula that accounts for these needs and priorities is preferable to reliance on short-term funding. For 2016-17, however, targeted aid is recommended for the following areas:

- **Expanding prekindergarten access:** The initiative to provide more students with a quality, full-day prekindergarten experience is laudable. The next steps include expanding access, consolidating and streamlining funding sources, and ensuring program consistency and sustainability.
- **Sufficient support for "struggling" schools:** The state's receivership model warrants continued scrutiny and debate. In the meantime, state assistance for targeted schools needs to be strengthened. The state now provides dedicated funds only for the 20 persistently struggling schools. The 124 schools identified as struggling need an infusion of state support as well.
- **Assisting districts with populations of English language learners:** Schools have seen unprecedented increases in English language learners in recent years as well as an increase in state requirements that, in some cases, have caused staffing to double in this area. Schools must have more financial support if they are to meet the needs of English language learners, particularly in the absence of a well-funded Foundation Aid formula that accounts for the true cost of providing these vital services.

- **Expanding access to college and career pathways:** ECB applauds last year's action to open up new graduation pathways, particularly in career and technical education. This reflects best educational practices and our modern economy. The next step is to invest in programs and partnerships that will make these pathways a reality for more students, including revising reimbursement structures such as the caps on BOCES salaries and Special Services aid.
- **Teacher support and training:** The transition to higher standards has been an important, but difficult shift. New York has a world-class teaching force, but these professionals need time, training and the right resources to help students rise to increased expectations.

A state budget process that treats schools as a partner

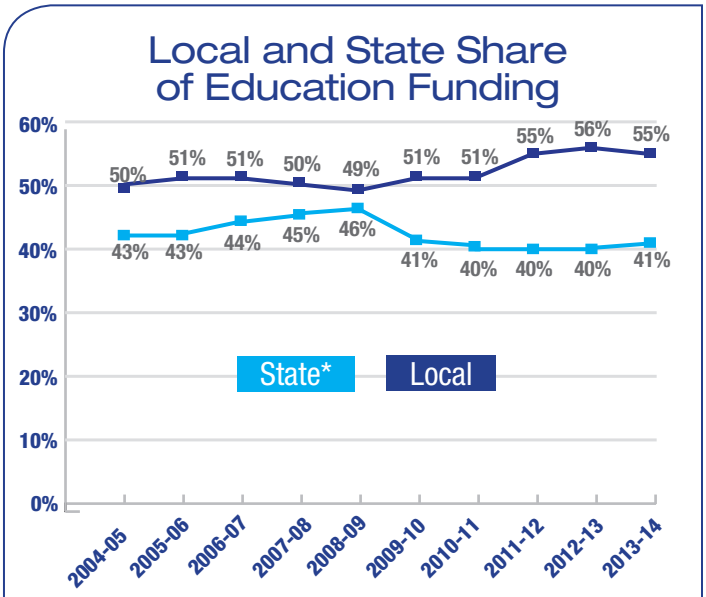
In order for school districts to adequately plan, the Executive Budget Proposal in January must be accompanied by proposed aid formulas and "state aid runs" that project how much each district would receive under the proposal." The local school district budget development process is exemplary in its degree of public engagement. The withholding of state aid data a year ago denied the public from having information that is essential to thoughtful discussion and decision-making.

Additionally, districts should not have their total state aid increase contingent on complying with specific policy initiatives. General purpose state aid supports a broad range of school services, many of which are mandated. Connecting it to compliance with specific policies undermines the ability of schools to make solid plans, fund improvements and meet needs.

Make outstanding payments for approved prior year aid claims

The overall increase recommended herein does not include more than $330 million that is owed to schools for prior year aid claims that have been approved by the State Education Department. This money should be paid sooner, and separately from 2016-17 school aid. The state has more than $1.5 billion in uncommitted financial settlements from which to cover this one-time expense, and last year $250 million was provided to non-public schools for similar aid claims.

In addition, the state should extend the moratorium on recalculating interest rates for the purposes of building aid. Recalculating rates would result in the loss of $46 million for schools.



* Includes STAR **Figures do not add to 100%; Difference is federal funding.

Source: NYSED, "Analysis of School Funding in New York State School Districts," Jan. 2015

Conclusion

The $2.2 billion state aid increase recommended by ECB for 2016-17 would provide funding to support school programs for the coming year and make progress in areas that are widely viewed as priorities for our state and nation. Continuing current services, supporting improvement efforts and ending the GEA are important steps to take – but they are only the first steps in raising the level of student opportunity and securing long-term sustainability for our public school system. The next step – also within reach – is a return to a functioning operating aid formula based on the solid school funding principles espoused by ECB and enshrined in the Foundation Aid formula. The policy changes needed to fix flaws with the tax cap also remain essential.

The state, its schools and its citizens desire significant gains for our students and our educational system. They are right to do so – successful schools are the underpinning of a prosperous economy and healthy communities. Yet, meeting higher expectations, improving and transforming programs and increasing achievement requires a long-term outlook and a sustained commitment. Schools need to be able to rely on regular, sufficient financial resources year-after-year to make the progress that is required, desired and urgently needed.

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