

SUPPORTING OUR SCHOOLS

A Study of New York State Foundation Aid

and Recommendations for
Legislative Action for School Year 2017-18



Presented by a NYSASBO Task Force on Foundation Aid



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SUPPORTING OUR SCHOOLS

This study was commissioned by the New York State Association of School Business Officials as part of its mission to maximize the use of school resources to improve meaningful educational opportunities for all students.

Since the economic downturn that began in 2008, New York State has substituted federal stimulus dollars for state funds, frozen state aid, and then cut aid to school districts. This occurred despite state lawmakers acknowledging in 2007 that increased funds were critical to meeting the constitutional mandate of providing the opportunity for a sound basic education to all students. As New York State weathered the Great Recession, educators repeatedly referred to the importance of fully phasing in the Foundation Formula to provide general support to schools. The 2016 State budget finally removed reductions in aid to school districts (i.e., Gap Elimination Adjustment) that had been in place for seven years, although the money already lost to these cuts will likely never be paid back. It also made a substantial \$1.4 billion increase in aid to school districts. Now with the economy largely restored, we ask: *What should the state do with Foundation Aid?*

To this end, NYSASBO has created a Foundation Aid Task Force to examine the opportunities, challenges and solutions for providing basic support to New York's public schools. The Task Force has examined in depth New York's Foundation Aid formula—its goals, its major components, what it was intended to accomplish, what it should accomplish, and how to realize the maximum potential of a state school funding system that provides the opportunity for all of the state's children to receive a meaningful high school education.

Topics include determining the cost of providing a sound basic education, appropriate weightings for students that need extra time and help, equalizing aid for the ability to raise revenues locally, accountability, regional cost differences, local share, and phasing in the formula including sustaining the formula in future years. This Task Force report concludes with recommendations for the 2017 legislative session.

Foundation Aid Task Force members are practicing school business officials who work in New York State school districts or BOCES. Care was taken to ensure that Task Force members represent all types, sizes and regions of the state's school districts. Seven members are from high need school districts, five from average need school districts, two from low need school districts, and three from BOCES. All Task Force members have an interest in assuming a statewide perspective to create a strong and effective school finance system and most are in the practice of providing a leadership role in their region or the state.

WHY RE-EXAMINE FOUNDATION AID? OUR FUTURE DEPENDS ON IT

The New York State Constitution education clause, Article XI, says, "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." Recent court decisions have interpreted this constitutional mandate to mean that all students are entitled to receive the opportunity for a *meaningful high school education*. This promise is the cornerstone of our democracy whereby all of our children will have the opportunity to receive an education that prepares them to be successful following high school. The public makes this investment and receives in return the benefits of an educated workforce: increased earnings, civic engagement, and decreased costs for public assistance.

Foundation Aid was first enacted in 2007-08 after the *Campaign for Fiscal Equity vs. State* court decision led to an overhaul of our funding system. It is the largest unrestricted aid category supporting public school districts in New York State, representing approximately 69 percent of total school aid statewide.

The formula calculates a "foundation amount" per student, weighted for students with extraordinary needs and regional cost differences, minus the amount that a district is expected to raise in local taxes, to determine how much state aid should be provided to school districts. The Foundation Aid formula was a tremendous accomplishment in New York State school finance but since it has never been fully phased in, it is not possible to evaluate its full effectiveness.

However, data are available, and they show both important gains and some alarming trends that adversely threaten continued education success in New York State. The overall graduation rate for students who entered high school in 2011 was 78 percent. For economically disadvantaged students, this number was 70 percent. For black and Hispanic students, it was 65 percent, and for English language learners, it was a mere 34 percent. For students with disabilities it was 50 percent.

These data show important gains since 2007, when the four-year graduation rate was 69 percent overall, 51 percent for African American students, and 47 percent for Hispanic students. We must work hard to continue this growth and that will involve addressing conditions related to education that are getting worse.

For example, for those that do graduate, the Board of Regents reports that 50 percent of students enrolled in two-year community colleges need at least one remediation course in college, suggesting that the elementary and secondary education they received did not adequately prepare them for the rigor of college.

In addition, poverty is on the rise. Figure 1 shows that over the past five years, student poverty grew almost three percent statewide and even more in rural high need school districts (6.1 percent), average need districts (7.3 percent) and high need urban and suburban school districts (8.1 percent). Students living in poverty experience enormous mental, physical, and emotional disadvantages and trauma compared with their peers, and these significantly impact their performance in school. It is widely documented that students in poverty require additional time, resources, and effort on part of all those involved in order to meet the same standards as their peers.

THE GROWTH OF STUDENT POVERTY IN NEW YORK STATE

Percent of K-6 Students Eligible for Reduced-Price School Meals

	Count	2011	2012	2013	2014	2015	2016	Change
State	674	49.4%	50.4%	51.3%	51.7%	52.0%	52.3%	2.9%
NYC	1	78.2%	78.4%	77.6%	76.1%	74.7%	73.3%	-4.9%
Big 4	4	80.6%	80.7%	81.0%	81.4%	80.9%	80.7%	0.1%
HN Urban-Sub	45	65.0%	66.1%	68.2%	70.7%	72.0%	73.1%	8.1%
HN Rural	153	52.0%	53.1%	55.2%	56.4%	57.1%	58.0%	6.1%
Average Need	336	27.5%	28.9%	30.8%	32.2%	33.4%	34.8%	7.3%
Low Need	135	6.9%	7.7%	8.4%	8.6%	9.9%	11.0%	4.1%

SOURCE: NYSED data provided for state aid purposes, 2016.

This Task Force notes the profound impact of poverty on educational opportunity and success. The degree of poverty and the concentration of it are important factors. A student whose family is slightly above the federal poverty line can qualify for reduced price meals and thus is counted as poor for school aid purposes. Compare that to the poorest student whose family income is well below the poverty line. Both students are treated the same in the school aid formula but their education costs are far from the same. And consider a school with 70, 80 or 90 percent of its student body living in poverty. Students in schools and neighborhoods with concentrations of poverty are also more costly to educate. Policymakers need to understand the nature of poverty and its impact on educational opportunity when crafting school aid formulas aimed at providing a level playing field for all of our students. While children do not choose to live in poverty, state policymakers can choose to implement policies that provide them the opportunities needed for success.

If this is not enough, the number of English language learners is growing in school districts around the state¹ and many of these are arriving at school with complex problems, including being unaccompanied by any parent. Often times English language learners are coming in large groups during the school year with no formal educational background needing additional support to assimilate to their community and school. At the same time, New York State educational standards have put an increasing emphasis on aspirational standards: achievement in elementary and secondary education that is strongly related to success after school. During this time, New York State has suffered a great recession that has resulted in stagnated wages, low inflation and an economy that is not vibrant. Since the enactment of the formula in 2007, a lot has changed, providing the opportunity and need to reexamine whether funding supports education in the best manner

possible. With the removal of the Gap Elimination Adjustment budget cut that impacted state aid for seven years, the state can finally turn its focus back to refining and implementing the Foundation Aid formula.

Funding matters in education. Research has shown that per-pupil spending is positively associated with higher student outcomes. Foundation Aid needs to be distributed fairly and sufficiently. The stakes are too high to let the formula go unexamined. The time is now for those who understand the formula's most complex details and the impact they have on opportunities for students to look at the formula and make recommendations. This team of school business professionals identifies in this report areas of the Foundation Aid formula that should be preserved, those that are ripe for change, areas that need to be studied further, and areas to be aware of for the future. This review is consistent with school business officials' mission to maximize the use of resources to improve student learning.

FOUNDATION AID GOALS

An effective education funding system should preserve and improve upon, as needed, key elements of equity, adequacy, and stability.

EQUITY

The aid formula should be fair in two ways. First, it should adjust for student need as measured by poverty, limited English proficiency, geographic sparsity and disability status to provide the extra time and help students need to be successful. Second, to this student-level equitable funding, state aid to school districts should adjust as well for the overall fiscal capacity of the school district—that is, the ability to raise revenues locally within the confines of the Tax Cap—so that students in all areas of the state have the combined state and local resources necessary to receive a sound basic education. Special state attention should be placed on equalizing educational opportunity for those districts with the least ability to pay.

ADEQUACY

Adequacy is defined as the level of funding required to provide all students the opportunity for success in meeting defined standards of performance. For example, in New York the aid formula should provide the opportunity for all students to meet Regents learning standards for college and career readiness. The level of aid is linked to a predominant likelihood of student success on state assessments, as determined by an educational cost study. An adequate school funding formula is also equitable, but an equitable funding formula need not necessarily also be adequate.

STABILITY

School funding should be stable and predictable to allow for long-term financial planning. The intent of this goal is to ensure that all school districts can continue programs and services on which their communities depend, while the state is pursuing the goal of adequate funding for all districts.

Part of stability is sustainability. The state should commit to full phase-in of the formula within a defined period of time. Once the formula is fully phased in, cost study updates should update the formula at intervals such as every five years. That with annual inflationary increases provided in between studies, should sustain the funding formula into the future.

FOUNDATION AID TASK FORCE AREAS OF STUDY

The Foundation Aid Task Force studied the impact on school districts, research and a variety of alternatives for the following components of the foundation aid formula.

Costing Out a Sound Basic Education

The purpose of costing out is to identify the foundation amount for the state and local school districts to provide schools with the resources needed to provide a sound basic education to all students

Researchers generally agree that “costing-out” methods can be broken down into several categories:

1. Successful Schools (the method used for New York’s current formula)
2. The Cost Function method uses cost adjustments based on actual spending to show how much money it would take to bring a district up to an adequate funding level.
3. In the professional judgment method, practitioners such as educators and administrators are consulted regarding what resources are necessary for an adequate education and then researchers cost out those resources.
4. Evidence-Based Method collects evidence from “state of the art” research on education in order to determine what an adequate instructional program would be, for all students and students with high needs, and then determines what resources are necessary for that approach and adds those up.
5. Constitutional Cost Method (in development) would identify the resources needed to meet standards which the courts upheld in the CFE vs. State case (class size, qualified teachers, space, technology, etc.). The process involves a number of professional-judgment panels operating under the auspices of a standing commission that would promote the effective use of programmatic and cost-effectiveness research, as well as focused cost-function studies.

Pupil Weightings

Weightings are a mechanism to provide school districts with the resources needed to support the additional educational costs of groups of students that tend to require more time or support to succeed. Weightings reviewed included weightings for students from poverty backgrounds, English language learners, students with interrupted formal education (SIFE), unaccompanied minors, students with disabilities and secondary school students.

Accountability

Accountability in education is used to ensure that districts are using their resources effectively. Three methods are in current use: school accountability, Contracts for Excellence and the School Receivership Program.

The State school accountability system assesses all schools in relation to state standards and low-performing schools are subject to additional state oversight to improve their student performance. Such school accountability reviews do not systematically include an analysis of strategic resource use.

The Contracts for Excellence program initially required 39 low-performing school districts with large increases in Foundation Aid to set aside a portion of their Foundation Aid. The money set aside must go toward research-based programs that improve student achievement. Today 15 school districts continue as part of this program despite the fact that resources did not continue to increase, and districts did not meet the aid increase thresholds established for participation in the program.

The School Receivership Program began in 2015 and identified districts with schools with low student achievement for three or more years (failing schools) or ten or more years (persistently failing schools). The districts were given a defined period of time to make improvement and the authority to make sweeping changes. If the district does not improve an independent receiver will be put in place to manage the school. Additional resources were provided to support the efforts of persistently failing schools but not for failing schools.

Regional Cost Index

Use of a regional cost index in the school funding formula ensures that a dollar of state aid purchases the same level of goods and services around the state. The Foundation formula currently in law deploys a regional cost index that uses median salaries in professional occupations that typically require a bachelor’s degree for employment at the entry level. Although this adjustment was recommended by the Salerno legislative commission in the 1980’s, it was not enacted for general purpose school aid until the Foundation formula was enacted in 2007. The cost index was created from the wages of 61 professional, non-education occupations. Education-related titles were excluded to ensure that the index measured labor market costs and not the preferences of school districts.

Local Share

Foundation formulas and many other state school aid formulas are based on the premise that State Aid complements local support for education. To that end, the Foundation formula calculates an expected local contribution per pupil.

This expected local contribution is subtracted from a Foundation Amount (adjusted for student need and regional cost differences) to determine each district's amount of Foundation Aid. School districts receive the better of two aid ratios to determine their state share of aid: one based on a tax rate and the other based on a state sharing ratio, such as was used previously with Comprehensive Operating Aid in place. The state share based on tax rate is adjusted by an income wealth ratio which is capped at a minimum of .65 and a maximum of 2.0. For high need/resource-capacity districts, the Foundation Aid State Sharing Ratio is increased (multiplied by 1.05).

Phasing in the Foundation Formula

The Foundation Aid formula was enacted in 2007 with a legislative commitment to a four-year phase in to be completed by school year 2010-11. The formula was frozen and cut due to the economy beginning in 2009 and now remains \$3.8 billion short of full implementation, \$2.9 billion of which is due to those high need school districts that have greater student poverty and limited local resources. The Task Force deliberated on the balance of aid between districts that already have full Foundation formula funding and those that are lacking it and the pace at which the phase in should occur.

RECOMMENDATIONS

The Foundation Aid Task Force makes the following recommendations with regard to the state's general support for public schools. They are organized according to the Foundation Aid goals promoted by the Task Force. In addition to operationalizing the goals of adequacy, equity and stability, many of these recommendations improve the accuracy and meaningfulness of measures used to determine school funding in New York State and some provide accountability for the use of school funding.

The Task Force recommends that the state continue the Foundation Aid formula with certain adjustments. The 2007 formula was a major accomplishment in New York State school funding and the basic formula and approach should be preserved. The formula links funding to student success and incorporates pupil need, regional costs and inflationary increases as factors in the calculation of aid. However, the formula is 10 years old and changes have occurred in education standards, assessments and the students schools serve. Critical adjustments to the formula will assist school districts to provide programs that give all students the opportunity for a meaningful education, as follows.

EQUITY RECOMMENDATIONS

Improve the measurement of student poverty

1. Poverty is assessed in the school aid formula using eligibility for free and reduced price lunch programs and data from the 2000 Census that is no longer collected. Both of these measures can be improved.² The Task Force recommends the use of Direct Certification data instead of Free and Reduced Price Lunch data and small area income and poverty data in place of census poverty data to measure poverty in Foundation Aid, and update this information annually. Direct Certification data is used to certify for free school meals all eligible students who reside in a household receiving Supplemental Nutrition Assistance Program (SNAP) or Medicaid benefits. This information is accurate and meaningful, as it does not rely on parent applications.
 2. Adjust the measurement of poverty used for Foundation Aid to reflect costs around the state.³ A family that lives on \$20,000 per year of income in a high cost area is poorer than a family that lives on \$20,000 in a low cost area. The measurement of poverty should capture these differences.
 3. Provide greater aid for districts with higher concentrations of poverty. Research⁴ has shown that districts with concentrations of poverty face greater challenges. We believe that while one student living in poverty does require increased resources for an adequate education, that requirement is even higher when there is a concentration of students living in poverty.
 4. Don't limit aid for student poverty with maximums or caps. For example, the maximum of 2.0 in the calculation of the Pupil Need Index prevents the formula from recognizing the highest levels of poverty. This maximum number limits the extent to which the formula accounts for true student needs.
 5. Fairness in funding requires accurate and current data. The Foundation Aid formula should use the most recent data
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available. This includes spending and performance data used in the Successful School District cost study, data on classification of students with disabilities, data on the fiscal capacity of school districts and the needs of students including data necessary to assess school districts' need-resource capacity status.

6. Continue use of a three-year rolling average of students eligible for free and reduced-priced meals (or Direct Certification data) to provide stability in the measurement of student poverty.

Adjust aid fully for ability to pay

7. Remove the .65 Income Wealth Index floor which reduces aid to the neediest districts. The Income Wealth Index is supposed to represent a district's capacity to pay for its schools, but this floor limits aid to school districts that have the least ability to support education.⁵
8. Eliminate the 2.0 income wealth index maximum which increases aid to the wealthiest school districts.

Keep Foundation Aid unrestricted

9. Fund Community Schools Aid as either unrestricted aid or a categorical aid rather than as a Foundation Aid set-aside. Foundation Aid is unrestricted aid, and districts rely on its unrestrictive nature in order to fund their schools appropriately.

Provide urgently needed categorical aid for the education of ELLs and unaccompanied minors

10. School districts have experienced large numbers of students enrolling in school with limited English proficiency. Many of these and other students may be unaccompanied by a parent, resulting in a host of needs that affect their ability to benefit from a public education. The Foundation Formula should incorporate an updated study of the costs of educating such students, to be reflected in an appropriate weighting in the Pupil Needs Index. Until the formula is fully phased in, however, the needs are immediate and a categorical aid to assist school districts with the additional costs of educating English language learners and unaccompanied minors should be funded to meet these urgent needs.

Dollars for education should result in increased numbers of students that are college and career ready

11. Continue the School Receivership program which provides both greater authority for school districts to make change and consequences for continued low performance. We recommend this program be continued with changes suggested by the Education Conference Board to provide more time and additional resources to support improvement in low performing schools. This program should be adapted to support districtwide efforts to address systemic poverty throughout the district.
12. Provide seed money to assist high need school districts to engage in strategic resource planning and use to help them create and implement long term plans to reallocate resources for improved student achievement. Use the State Education Department's pilot project with Education Resource Strategies as a model for this work and engage professional development organizations such as NYSASBO to help reduce costs and expand outreach for the delivery of services to school districts.
13. Eliminate Contracts for Excellence. This program was originally intended to provide accountability for increases in Foundation Aid, but with the recession has turned into little more than an accounting headache for business staff with little connection to increasing opportunities for students.

ADEQUACY RECOMMENDATIONS

The cost study should examine the cost of success with at risk students

14. The Successful School District cost study should look at spending in districts with schools that achieve success in the face of challenges, including a high incidence of student poverty, English language learners, and special education students. The study should be updated at least every three years to reflect current circumstances.
 15. The threshold for "success" should use meaningful measures, including graduation rate, and assessment goals related to college and career readiness. Graduation rate should take into account those who graduate in four or
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more years. Measures of growth and improvement in schools that have a long way to go to reach college and career readiness should also be incorporated.

16. Conduct a new cost study to calculate the true cost of educating English language learners. In addition to a surge in enrollment, the education needs of these students have become increasingly complex as unaccompanied immigrant students have moved into New York school districts. It is increasingly important that districts receive sufficient funding to provide these students with meaningful educational opportunities.

STABILITY RECOMMENDATIONS

17. Solving our most difficult education problems will take a sustained commitment of resources. The Task Force recommends the state phase in the Foundation formula within three years and commit to that in law so that school districts can count on and plan for these aid increases.

CONCLUSION

The economy of our state and nation depends on the success of our schools to educate children capable of successfully performing the jobs of tomorrow. The education system requires resources, high standards and accountability systems that support learning for all students. This report, offered to contribute to the discussion of school aid in New York State for the 2017-18 school year, recommends a funding system that is equitable, adequate and stable. As such it will support improvement in a diverse group of school districts for a diverse group of students. NYSASBO welcomes ongoing dialogue and constructive ideas related to improving the use of resources to support a meaningful education for all students.

END NOTES

Additional references in support of the work of the NYSASBO Foundation Aid Task Force are provided in the Annotated Bibliography (www.nysasbo.org/FATF) prepared by NYSASBO staff and reviewed by the Task Force.

¹ See for example http://www.syracuse.com/schools/index.ssf/2016/09/syracuse_schools_open_to_surge_of_500_students_who_dont_speak_fluent_english.html

² See: Alternative Indicators of Low-Income Students, School Funding Formulas and the Community Eligibility Provision of the Healthy, Hungry-Free Kids Act By Robert G. Croninger, Jennifer King Rice, and Laura Checovich, University of Maryland, College Park. Paper prepared for the annual meeting of the Association for Education Finance and Policy, Denver, CO, March 17-19, 2016. This paper is an extension of a report developed by the authors and the Maryland Equity Project for the Maryland Department of Education, and

Chapter 54 Report to the Legislature and Governor Recommending Changes to Measures of Poverty in the Foundation Aid Formula, New York State Education Department, Albany, New York, September 12, 2016.

³ Bruce Baker, Lori Taylor, Jesse Levin, Jay Chambers and Charles Blankenship. ADJUSTED POVERTY MEASURES AND THE DISTRIBUTION OF TITLE I AID: DOES TITLE I REALLY MAKE THE RICH STATES RICHER? Journal of Education Finance and Policy, 2013.

⁴ See for example: A Report to the Governor and the Legislature on the Educational Status of the State's Schools, 2008. New York State Education Department, Albany, New York. <http://www.p12.nysed.gov/irs/chapter655/>; and

Richard Glasheen, New York State Education Department. Towards an Understanding of the Relationships among Expenditures, District Need, and Academic Performance, MAY, 2002 available at <http://www.oms.nysed.gov/faru/articles.html>.

⁵ Initial estimates show that school districts which do better with the expected local contribution calculated using an adjusted tax rate rather than the State Sharing Ratio, would receive an additional \$24.0 million in Foundation Aid if their actual income wealth was used instead of the .65 minimum. This amounts to an average of \$441 in additional state aid for each of 54,419 students for a total of \$24 million. Note that the actual impact is expected to be larger as it is expected that a lot of districts which select the Foundation Aid State Sharing Ratio option with the .65 minimum, would change to select the adjusted tax rate option if the Income Wealth Index minimum was eliminated.