



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

TO: The Honorable the Members of the Board of Regents
FROM: James A. Kadamus *James A. Kadamus*
COMMITTEE: Subcommittee on State Aid and Full Board
TITLE OF ITEM: Regents Proposal on State Aid to School Districts for 2004-05
DATE OF SUBMISSION: December 10, 2003
PROPOSED HANDLING: Action
RATIONALE FOR ITEM: Policy Action
STRATEGIC GOAL: Goals 2 and 5
AUTHORIZATION(S): *Richard P. Mills*

SUMMARY: The Regents State Aid proposal for 2004-05 implements a new, multi-year approach to State and local funding of public schools designed to close the student achievement gap. It proposes a Foundation Formula for the distribution of State Aid that assists school districts with the costs of general education instruction, to be phased in over a seven-year period.

This new approach to State Aid has four basic components:

District's State Aid = [Foundation Cost X Pupil Need Index X Regional Cost Index] - Expected Local Contribution

- **The Foundation Cost** is the cost of providing general education services in New York schools, measured by determining the instructional costs of districts that are performing well.
- **The Pupil Needs Index** recognizes the added costs of providing extra time and extra help for students to succeed in school. It is measured by the number of students eligible for free and reduced price lunch and students living in geographically sparse areas of the State.
- **The Regional Cost Index** is an adjustment that recognizes regional variations in purchasing power around the State. It is measured based on wages of non-school professionals in each region of the State.
- **The Expected Local Contribution** is an amount school districts are expected to spend as their fair share of the total cost of general education. It is measured by multiplying the district tax base by an expected tax rate adjusted by district income per child. The Expected Local Contribution is not a mandated tax rate, but a way of

determining a local share in order to calculate State Aid.

Each of these components of the formula is described in more detail in Attachment A. That attachment also provides information on other components of the proposal including expense-based aids (Building and Transportation). Aid for Pupils with Disabilities, Regional Services Aid for the Big 5 districts, aid for career and technical education and categorical aids are not included in the Foundation Formula approach (e.g., Universal Pre-K, BOCES Aid, Bilingual Grants/Limited English Proficient Student Aid, Textbook Aid, Library Materials Aid, and other programs).

In the first year of the seven-year period, Exhibit A shows that \$880 million is proposed, with \$508 million of this for Foundation Aid. Exhibit B shows that when the proposal is fully implemented, it will provide \$14.35 billion in Foundation Aid compared with corresponding aid provided in 2003-04 of \$8.37 billion. Over time, this flow of aid to high need districts will have a significant impact in closing the student achievement gap.

Exhibit C shows that in 2004-05, the first year of the Regents proposal, that 84 percent of the increase in school aid would go to high need school districts to close the achievement gap.

Exhibits D and E show the share of Foundation Aid for school districts grouped by Need-Resource Capacity category in the first year of the proposal and with full implementation.

VOTED that the Board of Regents adopt the proposal as represented in Attachment A and Exhibits A, B, C, D and E as its State Aid proposal for school year 2004-05.

Attachments

Exhibit A
2004-05 State Aid Proposal
New York State
(all figures in millions)

Program	2003-04 School Year	2004-05 Regents Proposal	Change from Base
Foundation Aid	<u>\$8,370</u>	<u>\$8,878</u>	<u>\$508</u>
Comprehensive Operating Aid	\$6,841	\$0	
Extraordinary Needs Aid	\$703	\$0	
All Other Programs	\$827	\$0	
Support for Pupils with Disabilities	<u>\$2,386</u>	<u>\$2,366</u>	<u>(\$20)</u>
Public Excess Cost Aid	\$2,199	\$2,162	(\$37)
Private Excess Cost Aid	\$187	\$204	\$17
BOCES\Career and Technical Education	<u>\$637</u>	<u>\$681</u>	<u>\$44</u>
BOCES Aid	\$505	\$520	\$15
Special Services - Career Education Aid	\$94	\$120	\$26
Special Services - Computer Admin. Aid	\$38	\$41	\$3
Instructional Materials Aids	<u>\$254</u>	<u>\$255</u>	<u>\$1</u>
Textbook Aid	\$189	\$189	\$0
Computer Software Aid	\$46	\$46	\$0
Library Materials Aid	\$19	\$20	\$1
Expense-Based Aids	<u>\$2,296</u>	<u>\$2,587</u>	<u>\$291</u>
Building Aid	\$1,206	\$1,348	\$142
Building Reorganization Incentive Aid	\$13	\$1	(\$12)
Transportation Aid	\$1,072	\$1,227	\$155
Summer Transportation Aid	\$5	\$11	\$6
Other Computerized Aids	<u>\$279</u>	<u>\$366</u>	<u>\$87</u>
Grants for Overcrowded Schools	\$0	\$31	\$31
All Other Aids	\$279	\$335	\$56
Computerized Aids Subtotal	<u>\$14,223</u>	<u>\$15,133</u>	<u>\$910</u>
All Other Aids	\$284	\$254	(\$30)
Total General Support for Public Schools	<u>\$14,507</u>	<u>\$15,387</u> *	<u>\$880</u>

* This total does not include a Department request for the Teachers for Tomorrow Program.

Exhibit B

Regents Foundation Aid Proposal

New York State

(all figures in millions)

	Base Year Funding	Regents Foundation Aid	Change from Base
2003-04 School Year	\$8,370	—	—
2004-05 School Year	—	\$8,878	\$508
2010-11 School Year	—	\$14,350	\$5,980

Exhibit C

Computerized State Aid Increases

How They Are Distributed in 2004-05

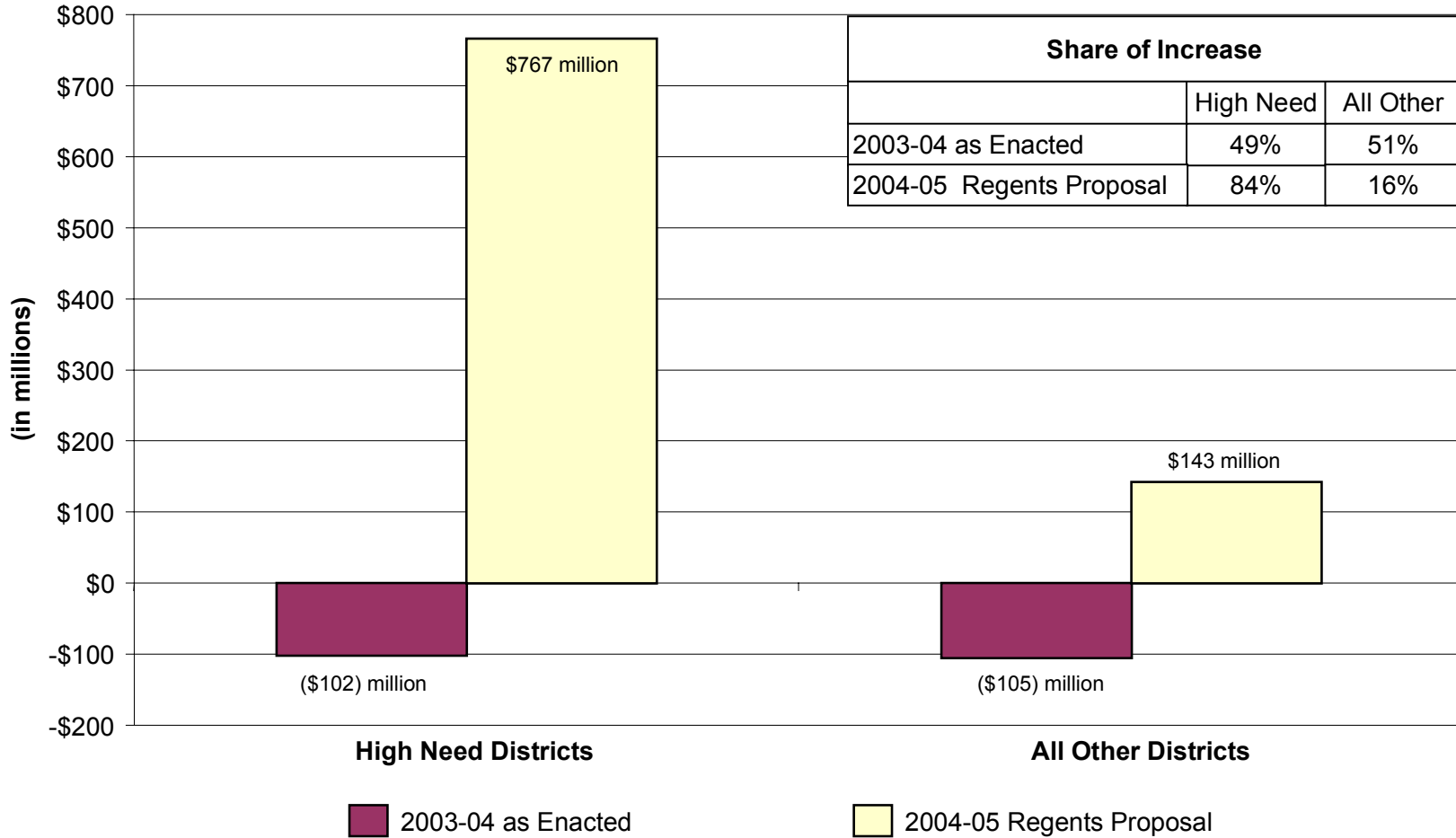


Exhibit D
2004-05 Regents State Aid Proposal

Share of Overall Increase

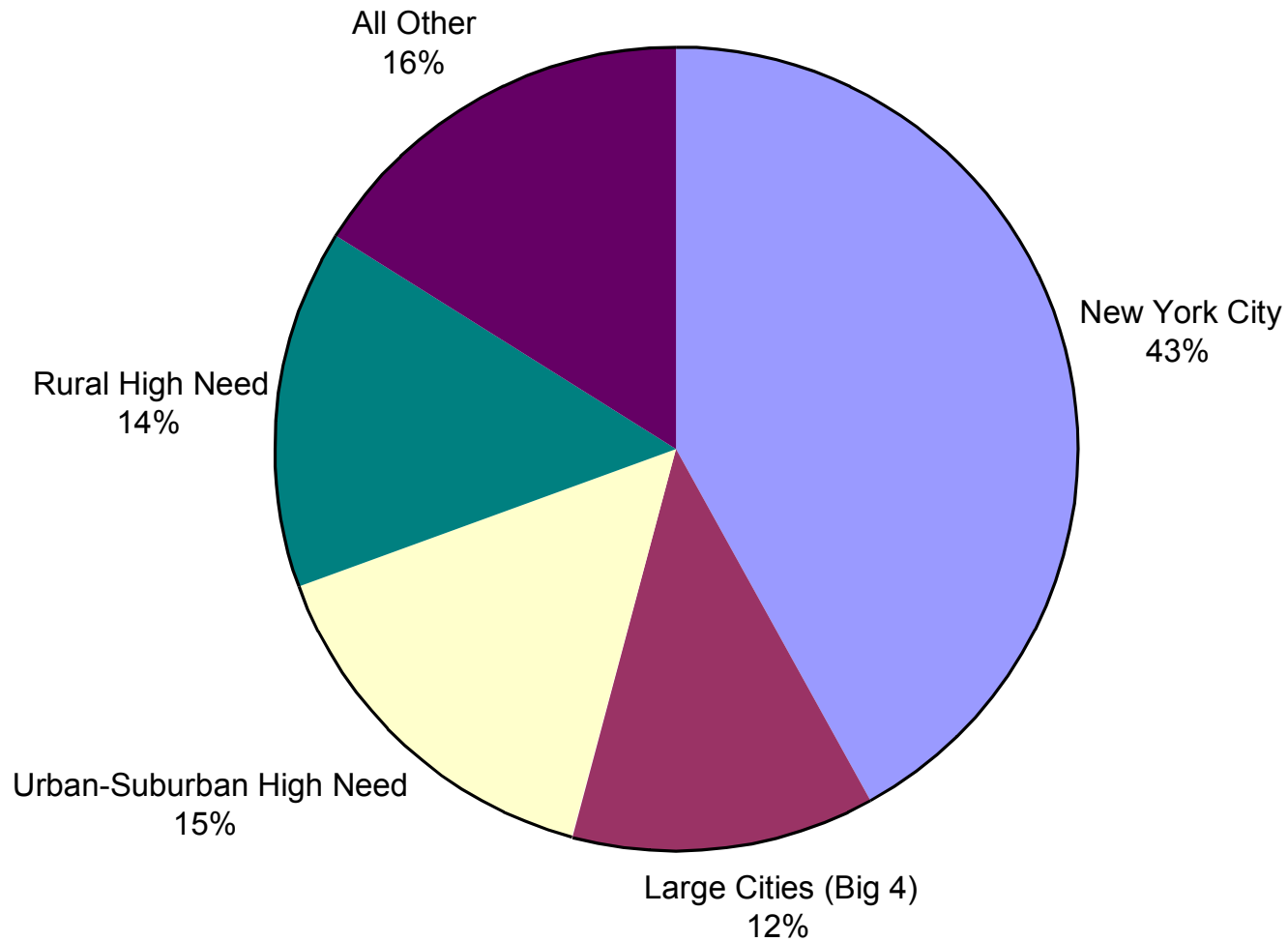
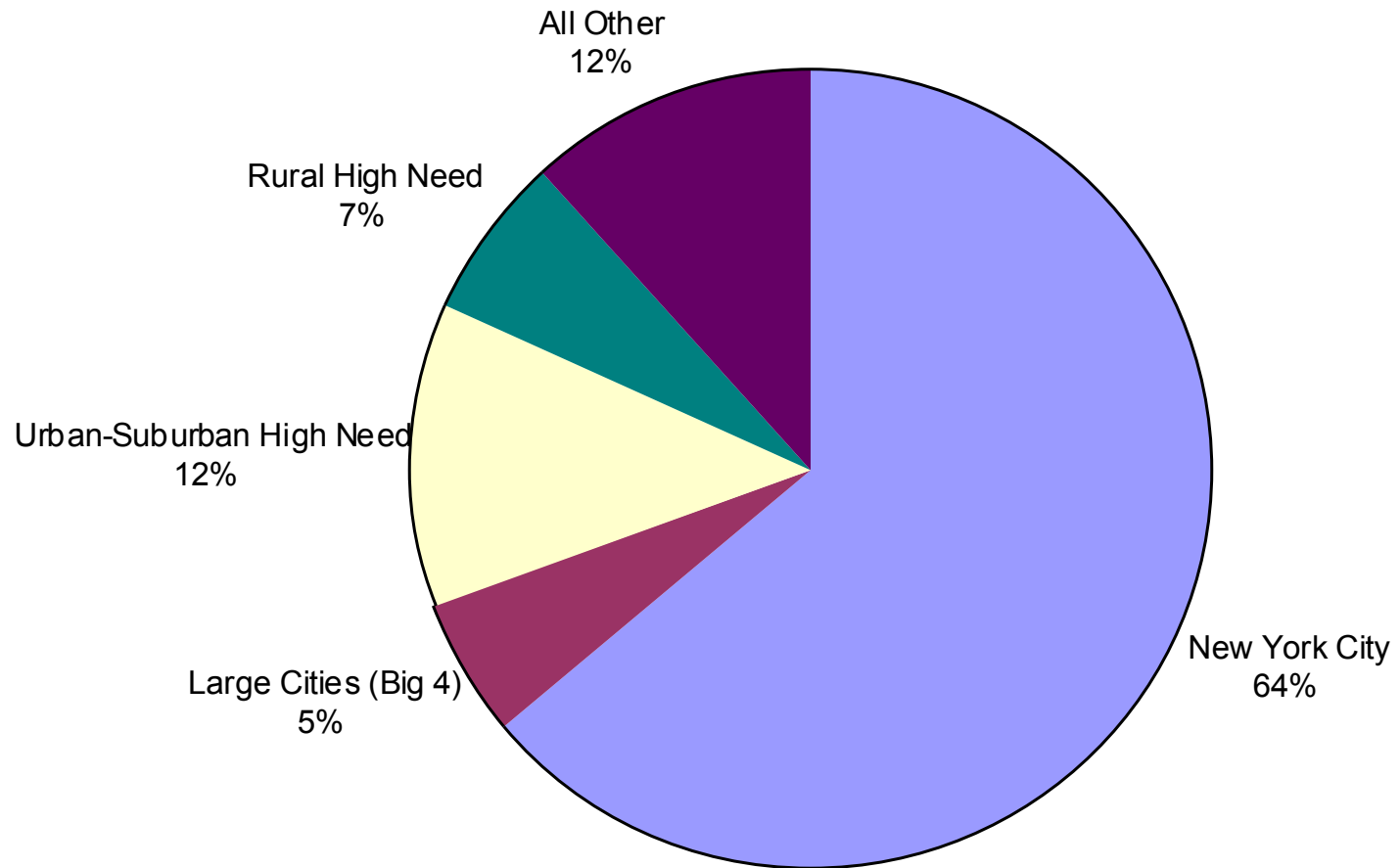


Exhibit E
Fully Implemented Regents State Aid Proposal
Share of Overall Increase



Regents 2004-05 State Aid Proposal

Introduction

As the movement towards higher standards for all students evolves, many successes are apparent.

- *Elementary level.* The percent of fourth grade students meeting all standards since 1999 has increased 13 percentage points.
- *Middle level.* For the middle-level assessment in mathematics, 48 percent of eighth-graders met the standards in 2002, an increase of 10 percentage points since 1999.
- *Regents diplomas.* Since the implementation of higher graduation requirements in 1996, the percentage of public school graduates earning Regents diplomas increased from 42 to 55 percent.
- *Minority students* continued to make significant gains in elementary level English language arts; more than 48 percent of Black students met all standards in 2003 compared with 26 percent in 1999 and over 47 percent of Hispanic students did so, compared with 26 percent in 1999.
- *Students with disabilities* have shown improvement in elementary school English and middle school English and math.¹

These successes are happening all over the State, in poorer districts and wealthier districts, and with all groups of students.

Despite these many successes, a troubling resource and achievement gap persists. Students attending schools that have a high percentage of student poverty and limited local resources have a dual problem. First, they tend to have fewer resources. This is especially true in areas where high regional costs mean that a dollar for education buys fewer goods and services than in less costly areas of the State. Second, students attending such high need school districts consistently achieve at lower levels than students at schools with more affluent and less needy peers. These students are more likely to need extra instructional time, tutoring, and assistance from social service agencies, yet are less likely to receive those services. A review of data on school resources and student achievement will be included in a Technical Supplement to this proposal.

¹ New York State Board of Regents (June 2003). 2003 Chapter 655 Report: Annual Report to the Governor and the Legislature on the Educational Status of the State's Schools.

If the move to higher standards is to be successful, we must sustain the momentum of improvement exhibited around the State. We must facilitate success by all students regardless of the school they attend, family background, and educational needs. If we have the will to align our State resources to provide the financial support for all students to be successful, the entire State will reap the benefits in greater productivity and reduced costs for assistance. The State must maintain its focus on education and make sure enough resources go to the children who need them most.

Regents Goal

The State's system of funding for education should provide adequate resources through a State and local partnership so that all students have the opportunity to achieve the State's learning standards, including resources for extra time and help for students.

Enact a Foundation Formula to Target Aid to Educational Need

The Regents recommend a new multi-year approach to State Aid to school districts. It would replace a complex system of many formulas that are the result of years of statutory adjustments, and which in fact have not been used in State Aid distributions for the past three years. The Foundation Formula is much simpler. It calculates the cost of educating each student to the State's learning standards. Then this cost is divided between a State contribution and an expected local contribution.

The Foundation Formula is relatively simple:

District State Aid = [Foundation Cost x Pupil Need x Regional Cost Index] – Expected Local Contribution

Foundation Cost

The Foundation Cost is the cost of providing the average student with an education that meets State learning standards. It is measured by:

- Determining the instructional costs of districts that are performing well;
- Adjusting instructional costs so that all schools are comparable (*i.e.*, for regional cost and student poverty); and
- Adjusting for efficiency.

Pupil Need

A Pupil Need factor recognizes the added costs of providing extra time and help necessary for high-need students to succeed.

- Pupil Need is determined by combining two measures
 - The proportion of K-6 pupils eligible for free and reduced-price lunches, and

- An adjustment to reflect students living in geographically sparse areas.
- The additional cost of providing extra time and help varies with the concentration of needy pupils within the district.
 - Districts with very low concentrations of needy pupils have relatively few additional demands upon them. These districts would get an additional 50 percent of the basic per-pupil cost for each needy pupil.
 - Districts with high concentrations of needy pupils must provide a broader array of additional services in order to enable their students to succeed. These districts have a greater need to implement schoolwide school improvement programs. This is recognized initially by providing an additional 100 percent of the basic per-pupil cost for each needy pupil. After this initial investment, the need for such start-up funding will decline and the 100 percent adjustment will be transitioned downward to 80 percent to reflect the reduced need for extra services.

The number of pupils served by the district determines the overall amount of services provided. Because districts must staff and plan to serve all children enrolled in the district, the Regents proposal employs a pupil count that is based on the number of pupils enrolled (Average Daily Membership), rather than the more traditional use of average daily attendance.

Regional Cost

Some school districts are in areas of the State where costs are higher. A regional cost adjustment provides comparable purchasing power around the State. The regional cost adjustment should reflect the actual, regional variations in the costs associated with providing an adequate education rather than the cost of additional services that districts elect to provide.

- This Regional Cost Index assesses the labor market for professions that require Masters degrees.
- Teachers are not included to make the data independent of school districts.
- The result is a measure of economic forces beyond the control of school boards and something to recognize in State Aid.

Expected Local Contribution

The expected local contribution is the amount school districts are expected to spend as their fair share of the cost of general education. On average, localities should pay slightly less than half of the overall cost of general education services. Lower wealth communities would pay much less. Higher wealth communities would pay more.

The expected local contribution is not mandatory. The Regents acknowledge that local effort in support of schools is a considerable challenge especially for city school districts which are fiscally dependent on their municipalities. Contributing to this phenomenon are the many costs that cities incur to serve large percentages of their

population who are economically disadvantaged. For example, New York City, as both a city and a county, must provide public assistance and Medicaid to its residents. Some districts may find they can provide the services needed to succeed at a lower cost to local taxpayers than is anticipated in this proposal.

The expected local contribution is based on two measures:

- **The district tax base** is the total taxable property of the district at full value, as determined by the Office of Real Property Tax Services. In order to mitigate the impact of short-term real estate fluctuations, districts may select the more favorable of either the most recent full value assessment or a two-year average.
- **The expected local tax rate** is based on a statewide standard rate of \$15 per thousand. This standard rate is then adjusted to reflect local ability to pay, as measured by district income per child. The lower the income per child, the lower the expected tax rate. This establishes a reasonable level of taxation.
 - Most states use a relatively low tax rate.
 - The expected rate cannot be too low or expectations will be diminished in districts already above that rate.

Transition

The proposed Foundation Formula represents a funding system focused on student achievement. This is proposed following three years in which Operating Aid has been paid based primarily on 2000-01 data. As in earlier years, equalization will occur based on district fiscal capacity and pupil need, but pupil need will be recognized to a greater extent than previously in order to ensure adequate support for programs and services that provide students with extra time and help to meet State learning standards. For these two reasons, some disruption in funding is expected to occur between 2003-04 and 2004-05. In order to provide school districts with time to adjust to the new funding system, the Regents propose a transition adjustment that limits aid increases and losses for a reasonable, short-term period. Over time, these transition adjustments should be eliminated and the Foundation Formula allowed to operate.

Accountability

The Regents propose that accountability focus on school districts with schools that fail to meet adequate yearly progress goals. These schools are required to develop a plan that shows how the school is allocating resources to improve student achievement.

What's Included in the Foundation Formula?

The proposed Foundation Formula provides funding for the general instructional program. It replaces a number of aids and grants, as shown in Table 1.

**Table 1.
Aids and Grants Replaced by the
Proposed Regents Foundation Formula**

2003-04 Aids and Grants

Computerized Aids

Comprehensive Operating Aid
 Operating Aid
 Tax Effort Aid
 Tax Equalization Aid
 Transition Adjustment/Adj. Factor
 Academic Support Aid
 Computer Hardware Aid
 Early Grade Class Size Reduction
 Educationally Related Support Services Aid
 Extraordinary Needs Aid
 Full Day Kindergarten Conversion Aid
 Gifted and Talented Aid
 Minor Maintenance and Repair Aid
 Operating Growth Aid
 Operating Standards Aid
 Small City Aid
 Summer School Aid
 Tax Limitation Aid
 Teacher Support Aid

Other Aids

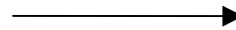
Categorical Reading Programs
 CVEEB
 Fort Drum Aid
 Improving Pupil Performance Grants
 Learning Technology Grants
 Magnet Schools Aid
 Shared Services Savings Incentive
 Tuition Adjustment Aid
 Urban-Suburban Transfer Aid

Regents Proposal for 2004-05

Foundation

Grant

(Replaces all aids to the left)



Other Components

A number of other costs should be aided in the following manner.

Expense-Based Aids

State Support for School Construction

The recommendations concerning Building Aid and other State support for school construction will help overcome barriers to instructional improvement posed by inadequate school facilities. Early grade class size reduction, pre-kindergarten programs and science

laboratories are examples of instructional programs that are dependent on the availability and quality of school space. While capital improvements often take a period of years to implement, their funding can be spread across the useful life of buildings, and with favorable interest rates, can be affordable for districts and the State. The recommendations will help solve severe over-crowding and improve the capacity of school buildings to support educational programs that are key to closing the student achievement gap. Recommendations include:

- Allow school districts to use the Dormitory Authority of the State of New York to finance and manage school construction projects;
- Provide a supplemental cost allowance for school site acquisition and demolition in New York City;
- Provide *Grants for Overcrowded Schools* to relieve severe overcrowding in New York City and identify strategies for reducing school construction costs. Limit grants for building new space to relieve overcrowding in schools that currently provide less than 100 square feet per child.
- Amend the laws for Hardware Aid to provide the flexibility needed to improve bandwidth and on-line capacity of schools, in order to allow for high speed internet access.

In addition to the changes noted above, the Regents recommend reducing local costs for school construction through mandate relief. State Law, known as the Wicks Law, requires school districts to employ four separate contractors for school construction projects of \$50,000 or more. For all but the largest of projects, a general contractor can effectively manage these separate functions. Although estimates vary, this change is expected to result in considerable savings in building costs for school districts.

The Regents recommend the State encourage 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.

Transportation Aid

Consolidate Transportation Aid with Summer Transportation Aid and continue this as a separate aid.

Aid for Pupils with Disabilities

In its theoretical form, the Foundation Formula is constructed to address spending for all instruction, both in general and special education. The Regents propose enacting the formula in its first year focused on general education only. This would provide time over the coming year for discussions with the public about raising achievement of students with disabilities in high need school districts and State Aid

goals for special education funding. It would also provide time for needed reforms in general education to take hold. Analysis of data on the achievement of pupils with disabilities shows a strong relationship between special and general education programs: students with disabilities achieve significantly better in schools whose general education students also perform well. Understanding the implications of the Foundation Formula for both general and special education may provide new opportunities for closing the achievement gap of students with disabilities. For 2004-05, changes are proposed to Public Excess Cost Aid to help districts with the excess costs of educating students with disabilities by focusing resources on districts with the greatest educational need. In the second year of the proposal, the Regents will consider incorporating aid for students with disabilities (regular Public Excess Cost Aid) in the Foundation Formula.

Categorical Aid Programs

The Regents recommend that categorical aid programs for Universal Pre-Kindergarten education and Limited English Proficient Students, as well as Bilingual Education Grants, be maintained separately in the first year of the new funding system. In the second year of the proposal, the Regents will consider incorporating aid for pre-kindergarten students in the Foundation Formula.

Aid for Regional Shared Services

The State should 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:

- Provide comparability between Special Services Aid for shared services for noncomponent school districts, including the Big Five City School Districts, and BOCES Aid for shared services among districts in the rest of 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 city.

Programs Maintained Separately

A number of aid programs should be maintained separately. These are for programs that for a number of reasons are separate from the regular K-12 instructional program. These include the following aids:

Other Aids and Grants

BOCES Aid
Building Aid
Grants for Overcrowded Schools
Building Reorganization Incentive Aid
Limited English Proficiency Aid
Operating Reorganization Incentive Aid
Private Excess Cost Aid
Public Excess Cost Aid
Textbook Aid
Library Materials Aid
Computer Software Aid
Special Services – Career Education
Special Services – Computer Administration
Universal Pre-Kindergarten Aid
Bilingual Education Grants
BOCES Spec Act, <8, Contract Aid
Transportation Aid
Bus Driver Safety Training Grants
Chargebacks
Comptroller Audits
Division for Youth Transportation
Education of OMH/OMR
Education of Homeless Youth
Employment Preparation Education Aid
Incarcerated Youth
Native American Building Aid
Prior Year Adjustments
Roosevelt
Special Districts Aid
Teacher Centers
Teacher-Mentor Intern
Teachers of Tomorrow

Following adoption of the Regents State Aid proposal, the State Education Department will issue a Technical Supplement with the following elements.

1. The Resource and Achievement Gap
2. Selected Bibliography
3. Need/Resource Capacity Definitions
4. Aids and Grants to Be Consolidated Under the Regents Proposal
5. Formula Components
6. Description of Regents Cost Study