

# **Funding For Achievement:**

## **JANUARY 2004**

A Report for the New York State Association of Small City School Districts  
Regarding State Aid Reform

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## ACKNOWLEDGEMENTS

The Association wishes to thank Charles Winters, Association State Aid consultant and Chair of the Association's State Aid committee. Members of this committee are also to be thanked for their dedication to the research and writing of this report. The committee consists of; Margaret Boice, Assistant Superintendent, Norwich CSD, James Chadwick, Business Manager, Ogdensburg CSD, Thomas Fitzgerald, Board Member, Newburgh CSD, Bob Gosden, Assistant Superintendent for Management Services, Elmira CSD, Lynn Hill, Assistant Superintendent, Canandaigua CSD, Judith Johnson, Superintendent, Peekskill CSD, Bob Libby, Business Official, Cohoes CSD, Daniel Lowengard, Superintendent, Utica CSD, Thomas McGowan, Superintendent, Glens Falls CSD, Marianne O'Connor, Business Executive, Auburn CSD, Mike Pacella, Business Official, Newburgh CSD, Joan Purtell, Board Member, Binghamton CSD, Michael SanAngelo, Superintendent of Business, Schenectady CSD, Sue Skidmore, Board Member, Elmira CSD, Mark Ward, Superintendent, Salamanca CSD, Fred Watchmeister, Board Member, Plattsburgh CSD, William Winans, Board Member, Norwich CSD, John Zappia, Assistant Superintendent, Canandaigua CSD, and Robert Biggerstaff, NYSASCSD Counsel.

Special thanks are also to be given to Professor William Duncombe, Syracuse University for his role as valued advisor to the Association.

# EXECUTIVE SUMMARY

## WHAT IS FUNDING FOR ACHIEVEMENT?

Following the Court of Appeals' final decision in the Campaign for Fiscal Equity's (CFE) case, which found that funding for education failed to meet the State constitutional mandate to provide for a sound basic education for all, the Association of Small City School Districts realized that the CFE court order is likely to be only the beginning of an arduous process to determine the financial meaning of an "adequate education" through the political arena. Many now speculate that, rather than comprehensive reform, we may see only incomplete solutions and temporary band-aids. While the small city schools hoped it might not be so, they felt that they must be prepared for that eventuality.

Therefore, the small city school districts of the state undertook a study to create a concrete model of comprehensive reform. **They determined to base this reform, not on wishful thinking, but on the actual test results of students and on the actual standards by which they are now judged.** While many very specific decisions need to be made in order to calculate results for individual districts, the Association endorses this as a broad conceptual proposal.

## THE FFA FORMULA AND METHODOLOGY - SIX STEPS

1. DETERMINE THE COST OF ACHIEVEMENT
2. DETERMINE PER PUPIL SPENDING TARGET
3. USE REGIONAL COST FACTOR TO ACCOUNT FOR DIFFERING "COSTS OF DOING BUSINESS"
4. PHASE IN REFORM OVER 6 YEARS
5. FOR THOSE NOT UP TO STANDARDS, AMEND AUSTERITY BUDGET PROVISIONS
6. CONTINUE TO MONITOR FUNDING REFORM PROGRESS ANNUALLY

## FINDINGS OF STUDY

- Relationship between local wealth and test-based success in schools was pervasive and overwhelming
- Community wealth and student poverty alone predicted over 70% of the variation in the average test scores among school districts
- Vast majority of schools listed as being "in need of improvement" served a high percentage of children from poverty.

- The cost of achievement in the highest poverty districts was more than twice that of the lowest poverty districts
- There was a strong and directly proportional relationship between the cost of achievement and the level of poverty in districts.

These findings are **not** isolated to New York City, **nor** only to city schools, but included many rural and suburban schools as well

**THE RESULTS ARE CONSISTANT AND CLEAR: Many urban and rural schools did not have the funds necessary to reach the average level of achievement.**

### **CURRENT FUNDING**

- Three-quarters of the state’s urban and rural schools are inadequately funded
- A substantial number of school districts are funded over what is necessary to achieve to Regents standards.
- •Some districts currently taxed themselves much harder than should be necessary to raise the desired funding
- Other districts do not devote enough local revenue to their schools
- •A considerable number of districts encompassed so much taxable property that they raised an excessive amount from very small tax effort
- •Some of the wealthiest citizens of the state pay a minimal school tax while others bear a heavy tax burden, yet derived a spending level that is visibly inadequate

### **ACCOUNTABILITY AND FUNDING TARGET**

The amount of change needed is so large that it would be inconceivable for it to take place in one year or even a couple of years We believe that this long-term transition to a fairer and more efficient distribution of school aid will take place only if there is clear, timely and public measurement of the efficiency of each year’s legislative session. Each legislature must be held firmly to making “Adequate Yearly Progress” toward fairer and more effective funding. Thus, we plan to create and maintain a funding target for each school district and measure the state’s progress toward that target. Just as the schools need to be accountable for their results, the state must also be held accountable for the resources necessary to achieve those results.

These shifts are too dramatic to be accomplished rapidly. Yet within this framework, it is possible to determine whether adequate progress is being made in the proper direction every year. If a six-year transition timetable were adopted, for example, it is reasonable to expect that both the efficiency and adequacy of state aid would rise by 1/6th each year. Under-funded districts receive increases equal to 1/6th of the difference between the target aid and the base aid. As long as the base cost were updated for general school costs, these increases would be substantially above the rate of inflation, up to some absolute percentage cap. Even with a full save-harmless for existing aid, funding gaps would decrease and efficiency and adequacy would improve over time.

### **STATE EXPECTATIONS REQUIRE FINANCIAL SUPPORT**

Under the FFA formula, 61.6% of all districts, representing over 74.9% of students, would see aid increases.

All of the largest five cities would see aid increases. Yet all of the Big-5 except Rochester would also need to raise their local taxes substantially.

Over 80% of small city schools and upstate rural schools would see aid increases, and many of them would see lower taxes.

# **FUNDING FOR ACHIEVEMENT**

## **(A comprehensive proposal for education funding reform)**

Approved Jan. 11, 2004 NYSASCSD board of directors

The Court of Appeals' decision in the CFE case established a new footing for children from poverty in New York. Until now, many have held that the education clause in the state constitution guaranteed children little more than a free seat in some public school, no matter how shabby or inadequate. Finally, after years of litigation and hundreds of hours of testimony, the state's highest court found that the word "educated" in this clause had a much broader meaning than that of merely being "schooled". It has further determined this meaning evolves with the growing expectations of society and must result in imparting the skills necessary to participate meaningfully in society. It has held that "local control" does not excuse inadequacy, nor does poverty justify ignorance. This is in itself a monumental victory on behalf of all children who, every year, grow up poor in New York.

The Board of Directors of the New York State Association of Small City School Districts had supported the litigation with friend of the court briefs at every level. The Association recognized that many small city schools dealt with challenges very similar to those in New York City. The state's inability to deal with these challenges had short-changed the education of children in many small city schools in the same way, if not to the same extent, as those of New York City.

Following the court's final decision, the Association realized that the court order is likely to be only the beginning of an arduous process to determine the financial meaning of an "adequate education" through the political arena. Many now speculate that, rather than step up to its duty, the state may test the brink of inadequacy year after year and deadlocked session after deadlocked session. Rather than a comprehensive reform, we may see temporary band-aids. While the small city schools hoped it might not be so, they felt that they must be prepared for that eventuality.

Therefore the small city school districts of the state undertook a study to create a concrete model of comprehensive reform. They determined to base this reform, not on wishful thinking, but on the actual test results of students and on the actual standards by which they are now judged. This report is the result of that effort. While many very specific decisions needed to be made in order to calculate results for individual districts, the Association endorses this as a broad conceptual proposal rather than a finished product in all of its details.

As a threshold matter, the committee first needed to determine whether the inadequacy found in the New York City schools was an isolated occurrence or whether it was symptomatic of a pervasive problem. What we found was that the relationship between local wealth and test-based success in schools was pervasive and overwhelming. Community wealth and student poverty alone predicted over 70% of the variation in the average test scores among school districts. The vast majority of schools listed as being "in need of improvement" served a high percentage of children from poverty.

Next, we looked at the actual cost of attaining a given level of school achievement, after eliminating regional cost differences and diseconomies of small and sparse districts. What we found here was that the cost of achievement in the highest poverty districts was more than twice that of the lowest poverty districts. This relationship was strong and directly proportional to the level of poverty in districts. It was not isolated in New York City, nor only in city schools, but included many rural and suburban schools as well.

Next, we used this data to determine the level of funding that would be necessary for all schools to achieve the performance level that is now being achieved by the average school district in New York. We used the observed relationship between cost and poverty, between cost and sparsity, and between cost and location around the state to determine the desired level of spending in each school district within the state to enable each district to reach the same achievement level as the average district. Again, the results were consistent and clear. Many urban and rural schools did not have the funds necessary to reach the average level of achievement.

Finally, we used this data, along with local income and property wealth, to determine how much state and federal funding each district would need to supplement its local tax effort. What we found was

that a large number of districts were currently funded at a level much higher than is necessary to achieve at the average while a large number of districts were substantially under-funded. We found that some districts currently taxed themselves much harder than should be necessary to raise the desired funding, but that others did not devote enough local revenue to their schools. We also found a considerable number of districts that encompassed so much taxable property that they raised an excessive amount from very small tax effort. This situation resulted in some of the wealthiest citizens of the state paying a minimal school tax while others bore a heavy tax burden, yet derived a spending level that is visibly inadequate.

In an era that insists on accountability in education, that same accountability system is just as appropriately applied to the state’s finance system as it is to the state’s schools. If a testing system is accurate and robust enough to withhold graduation from a student, is it not also accurate enough to drive state funding? We proceeded on that belief. We have used the current cost of producing current achievement to calculate the necessary cost to derive desired achievement. From this it can be shown that over three-quarters of the state’s urban and rural schools are inadequately funded, and that a substantial number of school districts are funded over what is necessary to achieve to Regents standards.

Many groups have already issued statements flatly rejecting a “Robin Hood” approach to state aid reform, yet none of them has even hinted at the current cost to the state of preserving the current state aid level in all districts. We have calculated that cost. If the state feels it cannot afford to pay extra to raise the level of achievement where it is now lacking, can it also assert that schools that are funded in excess of what is needed to achieve the Regents standards have a more fundamental right to existing funds than the children in districts that are clearly under-funded? We believe it cannot. The reality is that a Robin Hood approach cannot be taken off the table unless a very substantial amount of additional money is put on the table.

The amount of change needed is so large that it would be inconceivable for it to take place in one year or even a couple of years. However, politics in New York has a notoriously short attention span. We believe that this long-term transition to a fairer and more efficient distribution of school aid will take place only if there is clear, timely and public measurement of the efficiency of each year’s legislative session. Each legislature must be held firmly to making “Adequate Yearly Progress” toward fairer and more effective funding. Thus, we plan to create and maintain a funding target for each school district and measure the state’s progress toward that target. Just as the schools need to be accountable for their results, the state must also be held accountable for the resources necessary to achieve those results.

***Outcomes of the Formula***

The formula (detailed in Attachment A) was applied to the 2001-2002 data for each of 680 schools receiving formula aid. For each district, the formula calculated the target total operating resources, the local share and tax rate needed to fund the local share, and the amount of state and federal support needed to reach the target after the local share has been raised. These results are compared with current spending, current tax rates and current aid. Gains and losses in spending, taxing and state aid are calculated for each district. Summary totals were calculated for the entire state and for separate sub-groups within the state.

These results are then used to calculate by how much the current state system falls short of funding each district at reasonable level to reach the achievement target with a reasonable tax rate, as follows:

	<b>Spending</b>	<b>Taxing</b>	<b>State Aid</b>
Current Amount	32,676,387,665	17,366,498,278	14,769,248,861
Target Amount	37,795,676,670	17,366,498,278	19,562,921,788
Net Change	5,119,289,005	0	4,793,672,927
Sum of Reductions	(2,121,552,957)	(1,810,392,869)	(2,178,891,824)
Sum of Additions	7,240,841,962	1,810,392,869	6,972,564,751
Net Increase %	15.7%	0.0%	32.5%

Efficiency =			
1-(Reductions/Current)	93.5%	89.6%	85.2%
Adequacy =			
1-(Gains/Current)	77.8%	89.6%	52.8%
Percent Increase W/O Redistribution	22.2%	10.4%	47.2%

Savings if Aid Increase is Capped At 15% (5,235,530,284)

Thus, by comparing the current distribution of funding to this achievement-based distribution, it can be said that current spending is higher than necessary in some districts, thus it is not perfectly efficient, and lower than necessary in others, thus not fully adequate. Similarly, some districts are taxing harder than they should need to, while others are not taxing enough. Since the model was calibrated on leaving the average tax effort alone, these amounts roughly balance. Finally, some districts are receiving more state and federal funding than they would need to accomplish the desired achievement with a fair tax rate, thus aid is inefficiently allocated, while other districts do not receive enough aid, thus aid is not fully adequate.

**Phased Implementation**

These shifts are too dramatic to be accomplished rapidly. Yet within this framework, it is possible to determine whether adequate progress is being made in the proper direction every year. If a five-year transition timetable were adopted, for example, it is reasonable to expect that both the efficiency and adequacy of state aid would rise by 1/5<sup>th</sup> each year. Under-funded districts receive increases equal to 1/5<sup>th</sup> of the difference between the target aid and the base aid. As long as the base cost were updated for general school costs, these increases would be substantially above the rate of inflation, up to some absolute percentage cap. Even with a full save-harmless for existing aid, funding gaps would decrease and efficiency and adequacy would improve over time. Currently, when aid increases in the needy districts are frozen or held below the rate of inflation, efficiency and adequacy drop. Similarly, when aid increases go to over-funded districts, efficiency drops and, over time, the continued ability of these districts to out-bid needy districts for teachers only raises the cost of adequacy for all. The court could well employ a standard such as this one in holding the state accountable for complying with its order.

Both the State government, under its System to Account for Student Success (SASS), and the Federal government under No Child Left Behind (NCLB) attempt to hold all districts to achieving high standards of performance without ensuring that all districts have the means to succeed. Neither system even attempts to assess whether schools may be inadequately funded or over-funded. There are negative consequences for students who fail and for the schools that allow them to fail, but as yet no consequences for communities that fail to make a reasonable tax effort, or for states that fail to allocate funding efficiently so as to deny students a reasonable opportunity to learn, and schools a reasonable opportunity to succeed. This formula is an attempt to close some of these glaring gaps in the overall accountability framework. However, it is also necessary to reform contingency budget laws for school districts that are not meeting state standards. Under the current system, funds intended to improve student achievement can be diverted to local tax relief. We believe that the CFE ruling makes it clear that a student’s constitutional right to an adequate education must prevail over a tradition of local control. Thus, state aid and local effort that is targeted to assist schools that are both under-funded and under-performing must be used improve the school system, not diverted to other purposes.

Under this formula, 61.6% of all districts, representing over 74.9% of students, would see aid increases. All of the largest five cities would see aid increases, ranging from \$57.6 million in Syracuse to over \$5 billion in New York City. Yet all of the Big-5 except Rochester would also need to raise their local taxes substantially. Over 80% of small city schools and upstate rural schools would also see aid increases, and many of them would see lower taxes. Even though the formula contains a substantial regional cost weighting, fewer than 25% of the downstate suburbs would see aid increases. However, some of the most disadvantaged districts fall in this region, and these districts would see very substantial increases. This overall disparity in results between upstate and downstate is the primary reason why maintaining “regional balance” may be incompatible with school finance reform (unless New York City is included in the downstate share, in which case the downstate share actually increases).

Due to difficulties in accounting for tuition students and in accurately deducting state and federal aid that would fall outside of this formula (true grants, building aid, and pre-kindergarten aid, for example) individual district results may well be inaccurate, but it is our belief that the overall result correctly approximates the impact of aid reform.

After decades of substandard funding and frustration, it is unrealistic to expect that sudden and dramatic increases in achievement will occur immediately as soon as resource levels begin to improve. Yet if the state commits itself to funding adequate resource levels over a multi-year time frame, it is reasonable to expect that local districts will plan to expand and intensify their services to needy students and begin a visible and steady reduction in their current rates of failure.

I would like to acknowledge the valuable insights and assistance of Professor William Duncombe of Syracuse University, Mr. Robert Biggerstaff and the members of the Association's State Aid Committee. The Association welcomes further suggestions and feedback on its state aid reform position.

**Attachment A**

*Funding For Achievement: A Formula to Target Public Resources on Educational Priorities*

This is a comprehensive operating formula. It accounts for all aid formulas except building aid. It replaces all general purpose aid, including categorical aids such as BOCES, Transportation, Textbook and entitlements such as IDEA and NCLB, and general purpose legislative grants included in the Special Aid fund. Only Building Aid, Prekindergarten funds, 4408, and truly competitive grants would be outside of this formula. The Association recognizes that there is also a need to reform building aid and provide some immediate emergency assistance to targeted districts that would need additional classrooms in order to utilize new operating funds. This might be achieved under the oversight of the dormitory authority.

**Formula:**

**Target Expense = Base Cost \* Performance Target \* Total Weighted Enrollment**

**State Aid = Target Expense \* State Share (even if negative)**

**State Share = 1 - (.4828 \* CWR)**

**CWR = (local Property / Wtd. Pupil / State Average + local Income / Wtd. Pupil / State Average)/2**

**Recapture = The sum of negative aid.**

**Save-Harmless = The total amount of aid paid to prevent an aid loss in any district.**

**Efficiency = 1 - (Total Aid Paid Above The Amount Needed To Reach Performance Targets / Total Aid Paid)**

**Adequacy = Current Aid / (Current Aid + Amount Needed To Reach Target)**

Definitions:

**Base Cost (BC):** The Base Cost is the 2001-2002 actual average cost of raising student performance by one level, in regionally adjusted dollars, for districts testing at least 100 students on ELA 4<sup>th</sup> and 8<sup>th</sup> and Math 4<sup>th</sup> and 8<sup>th</sup> grade exams. This was calculated at \$4,007 per pupil. This number may be updated after several years based upon actual test results and spending, but must be increased annually based on school cost inflation.

**Performance Target (PT):** The Performance Target is set at the actual average performance level of these districts: level 2.8 (or 1.8 levels above level one). This is the rough equivalent of the state's SASS score of 165. Unlike the SED system, this measurement counts every level above level 1 equally (see Appendix B). This achievement target could be set either higher or lower. However, the state's minimum level of performance for an individual school to avoid sanctions (currently 150) is far too low a target to set for achievement statewide.

**Aid Ceiling:** This is the product of the base cost and the performance target, (\$4,007 X 1.8 or \$7,211.70).

**Adjusted Enrollment:** This is the districts BEDS enrollment less .5 of any half-day kindergarten students. This formula is based on enrollment. Basing the aid formula on attendance rather than enrollment would also require both a higher base and a higher poverty weight.

**Poverty Weight:** This is the 2001-2002 statistical relationship between the cost per level achieved above level 1 and the district's K-6 free and reduced price eligibility percent. This was calculated at 1.0905. As with the aid ceiling, this number could be reviewed periodically and altered if the relationship between cost and poverty had changed substantially. It is important in response to the CFE decision that the aid ceiling and the poverty weight not be calculated to fit state budgetary constraints or to produce regional balance, as has often been done in the past. The local share variable, below, is the appropriate vehicle for balancing the state's finances, while still impacting individual districts equitably.

**Regional Cost Weight:** The NCES regional cost factor based on 1.00 for the lowest cost region. By subtracting 1.00, the added weight is derived. Other regional cost factors could be developed, but it is important for credibility that this statistic be developed by disinterested parties.

**Sparsity Weight:** For districts with fewer than 25 students per square mile, this is set at .5 times the positive difference, if any, between 1,500 students and the district's actual enrollment, divided by 1,500.

**Limited English Weight:** This was set at current law, or .199.

**Total Weighted Enrollment (TWE):** This is the sum of the base enrollment plus the base enrollment multiplied by each of the weights for each of the districts.

**Target Expense (TE):** This is the product of the aid ceiling times the total weighted enrollment for each district. This represents the resources necessary to reach the achievement target considering the cost factors represented by the pupil weights. At this point, the formula has approximated the amount of resources that should be available to children in each district, but has not calculated the share of these resources to be provided locally or through state and federal funds.

**Total Weighted Enrollment for Property Wealth:** This would be the same as the above, but adjusted downward for non-resident students and upward for resident students educated in other settings at district expense. (This adjustment has *not* been made in the current model, thus results for districts with a significant imbalance between students tuitioned in and out are not accurate).

**Total Weighted Enrollment for Income Wealth:** This is the same as for property wealth, except the enrollment in nonpublic schools is also added.

**State Average Wealth (SA):** These are calculated for the entire state based on the same weighted pupils in the individual districts.

**Combined Wealth Ratio (CWR):** This is the average of the local property wealth ratio to the state and the local income wealth ratio to the state. This is the same as current law except that the pupil weightings are now data-based.

**Local Share (LS):** This has been set experimentally to derive the same statewide average tax rate as existed in the 2001-2002 data. In this run the local share is set at 48.28% of the target expense. This means that a district of average wealth would be responsible for raising 48.28% of the target expense through taxes or other local revenues. Wealthier districts raise more funds locally, and poorer districts proportionately less.

**Calculated State Share (SS):** This is the product of the local share and the combined wealth ratio subtracted from 1.  $1 - (.4828 * CWR)$ . With this local share, a district's state aid ratio falls below zero when the district's wealth exceeds 2.071 times the state average wealth, indicating a district that would be subject to recapture. In this way the cost to the public of rejecting recapture proposals, such as consolidations, tax base sharing or county wide tax rates, can be calculated.

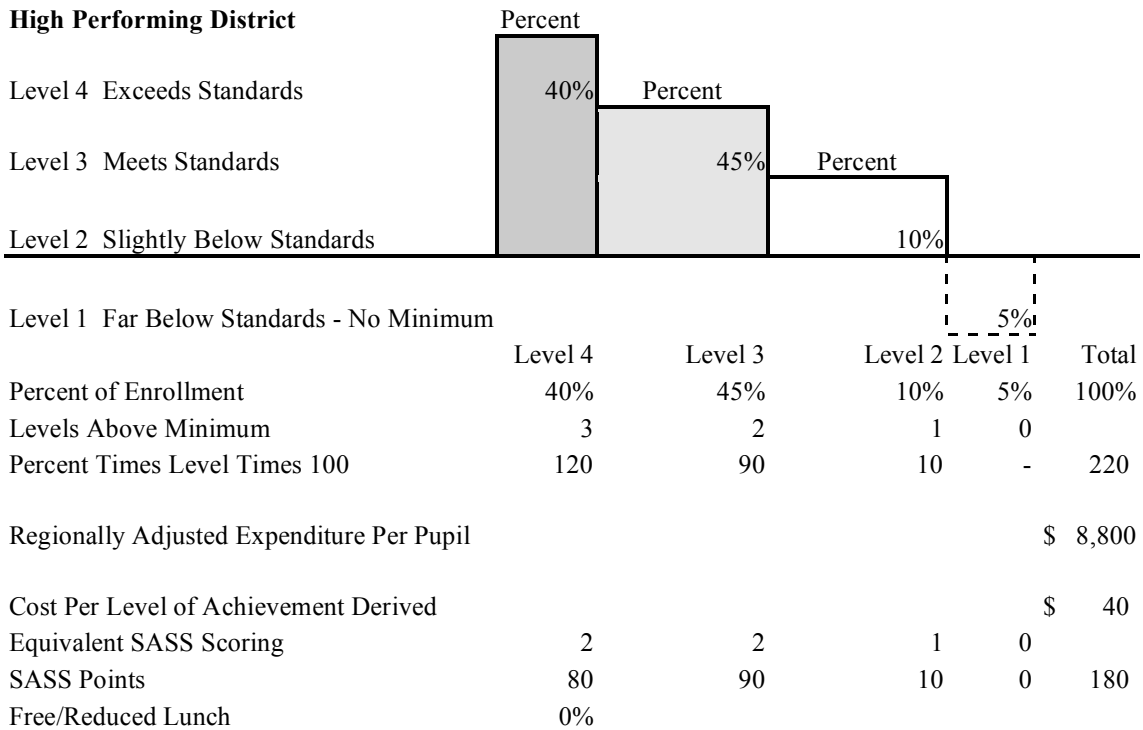
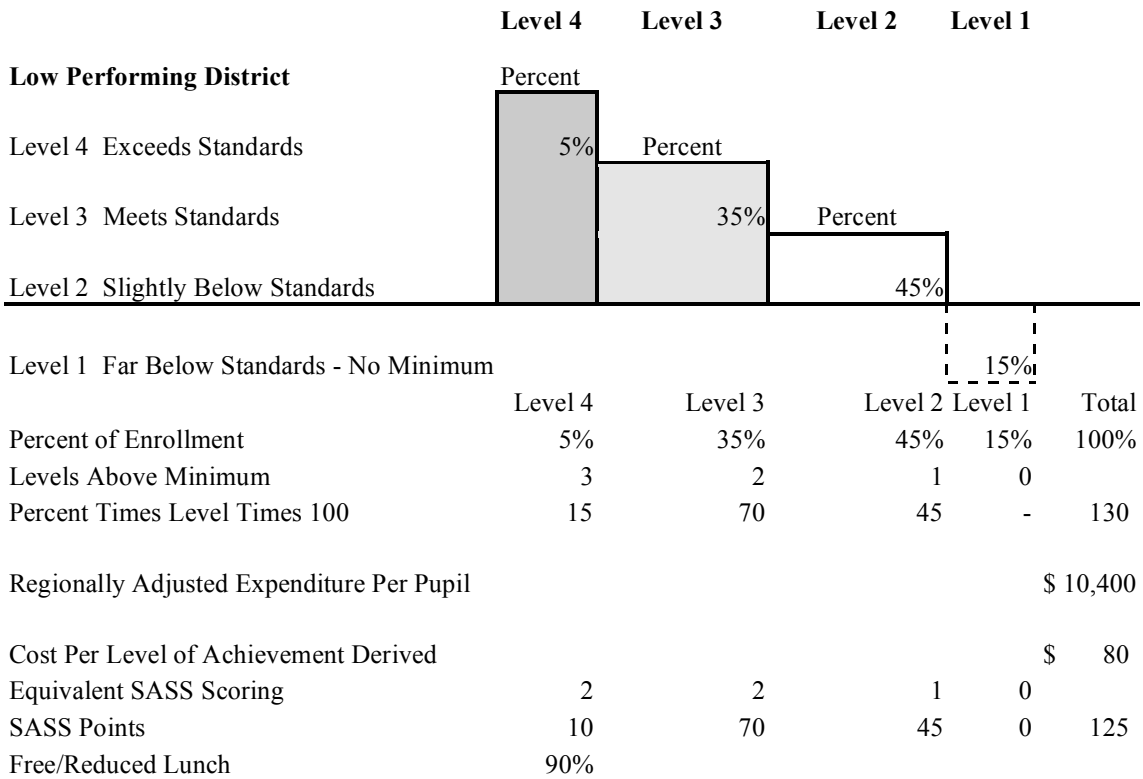
**State Aid:** This is the product of the state share, even if negative, and the target expense.

**Recapture:** This is the amount of money that a high wealth district may be capable of raising, in addition to its own cost of education, by exerting a normal tax effort.

**Save-Harmless:** This is the amount of money that a district would receive, not because of need, but only to maintain the amount of aid received prior to reform. It includes the recapture amount.

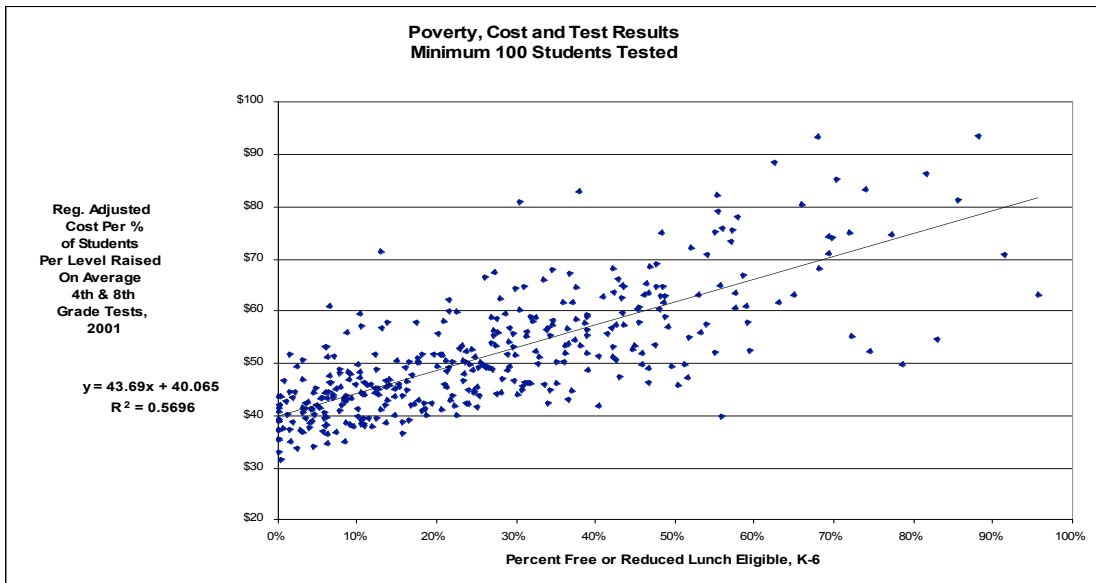
**Attachment B:**

**Calculating Cost per Level of Achievement**



*Attachment C:*

This is the regression equation that underlies the selected aid ceiling and poverty weight.



**Attachment D:**

The Problem of Very High Wealth Districts

In recent testimony before the Assembly Education Committee concerning the implementation of the court's order in CFE v New York, only the Small City Schools indicated that high wealth districts must be considered as a part of the potential solution to the state's need to reform school finance. Other statewide education associations urged the legislature to reject "Robin Hood" approaches. The New York State Association of School Superintendents added "if the state eliminated every single penny of state aid for the top 10 percent wealthiest school districts, it would generate only enough savings to increase New York City's total school spending by about 1 percent."

This statement is true, as far as it goes. The high wealth districts in New York are generally very small and receive a small amount of aid per pupil. There are 42 schools districts with property wealth that is at least three times the state average. They educate 43,486 students and receive \$68,314,338 in school aid, or \$1,571 per student. This is a tiny fraction of the amount that New York will need to raise to measurably improve the spending adequacy in high poverty districts.

However, these school districts also possess a very substantial tax bases and, despite spending \$18,391 per pupil, do not levy a property tax rate anywhere near that of the average taxpayer in New York. The total tax base of these districts in 1999 was \$66,429,806,262, or \$1,527,614 per student. This property was taxed at an average rate of \$11.10 per \$1,000 of value. Taxing these districts at the state average of about \$18.00 per \$1,000 would raise an additional \$458,516,756 for education. Reducing the spending in those 42 districts to the state average would save another \$297,646,889. In other words, if these high wealth districts were made average, over \$750,000,000 would be available to bring other districts closer to the average. Applied to New York City, this would add \$715 per student or 6.5% in additional spending to more than one million students.

These are not only wealthy school districts, they also represent some of the state's wealthiest taxpayers. It might be difficult for the court to comprehend why the state can afford to leave these tax shelters intact, yet can not afford to make substantial progress toward adequacy for New York City and similarly under-funded schools around the state.

What would the state need to do in order to bring this untaxed wealth into play? One possibility would be to consolidate these small schools with larger and poorer schools nearby. A second method might be to levy a county-wide property tax on certain high-value properties to be re-distributed within the counties that have such districts.

Consider the following comparison between the high wealth districts and small city schools:

	<b>High Wealth Districts</b>	<b>Small City Schools</b>
Districts	42	57
Enrollment	43,486	252,008
Average Enrollment	1,035	4,421
1999 Total Property Value	66,429,806,262	64,534,505,739
Property/Enrollment	1,527,614	256,081
Spending / Enrollment	18,391	11,284
Current Tax Effort per \$1,000	11.10	20.84
Additional Levy to Equal Small City Schools	646,892,131	
Decreased Spending to Equal Small City Schools	309,055,077	
Total Excess Funds Available Compared to Small City Schools	955,947,208	

Certainly there are serious political costs to shifting these funds, even over an extended period of time. Yet, considering the future of the state's poorest children, it is premature to reject this option out of hand without even measuring the amount of funding that is lost or misdirected under the present system.

As long as the state is making substantial progress toward adequacy for all students, a degree of inefficiency in the present system does not become a constitutional issue. However, if the state fails to make progress due to a claimed shortage of funds, then the continuation of the present system of save-harmless coupled with the exclusive use of extraordinary tax bases could be seen as a causative factor in the denial of an adequate education to poorer systems. The small city schools do not advocate for a "Robin Hood" approach at this time. However, the state aid committee felt it important for the aid formula to calculate the full degree to which funds are potentially available to fund adequacy from within the system.

*Attachment E:*

**Methods Used to Establish the Current Cost of Educational Achievement in New York State and Its Relationship to Student Poverty**

Charles Winters  
December 3, 2003

1. **Per Pupil Cost Data:** Expenditure and revenue data were compiled for all operating districts from the local financial reports (ST-3) for 2001-2002. Expenditures were included from both the General Fund and from the Special Aid Fund. Construction costs, pre-kindergarten costs, inter-fund transfers and summer youth employment costs were *not* included. Costs funded by NCLB and IDEA (K-12) and grants such as magnet schools were included. These Special Aid fund expenditures make up over 20% of instructional costs for some urban schools. Per pupil costs were derived by dividing the cost by the K-12 enrollment, less .5 for half-day kindergarten programs.
2. **Regional Adjustment:** Per pupil costs were regionally adjusted using the NCES index relationship with the lowest county represented by an index of 1.0 with all other counties indexed to that county. This reduces all district per-pupil costs to the equivalent of those in the lowest county for all districts.
3. **Eliminate Size Factors:** Only districts that tested a minimum of 100 students on both Math and ELA in both 4<sup>th</sup> and 8<sup>th</sup> grade were included. This eliminated small districts and K-6 districts.
4. **Calculate the Achievement Measure:** The percentage of students achieving each of the four performance levels on each of the four tests in each district was calculated. This percentage was multiplied by the number of levels above the base level (one). Thus, the percentage in level two was multiplied by one; the percentage in level three was multiplied by two; and the percentage in level four was multiplied by three. When aggregated, this represents the total levels that students were raised above the base. For example, if all students (100%) scored in level four, the aggregate would be 300 (100 X 3), meaning that the entire student body had achieved three levels above basic. The scores for the four tests were then averaged to yield an aggregate measure of 4<sup>th</sup> and 8<sup>th</sup> grade achievement.
5. **Calculate the Per-Pupil Cost of Achievement:** For each district, the regionally adjusted per-pupil cost was divided by the average achievement score. This represents the regionally adjusted cost of raising one percent of the students by one level on average for four tests in each district testing at least 100 students.
6. **Calculate the Relationship Between the Achievement Cost and Student Poverty:** A best fit linear regression calculation and scatter-plot was done using the K-6 Free and Reduced Price Lunch (FRPL) percent as the independent variable and the regionally adjusted cost per level achieved as the dependent variable. This calculation helps determine three critical issues:
  - **Is the relationship a strong, consistent and linear one?** Yes, the free lunch rate predicts almost 57% of the deviation in cost.
  - **What is the cost of achievement at the zero-poverty level?** \$40.065 per percent of students per level raised, or \$4,006.50 to raise all students one level.
  - **What is the relationship between cost and poverty?** For every increase of 10% in the student poverty, the cost to raise all students one level increases by \$436.90, or slightly more than ten percent. At 100% poverty, this cost would rise by \$4,369 to be slightly more than double the cost for the zero-poverty district. This equates to a poverty weighting of 1.0905. This mathematical formula best predicts the actual costs and performance reported in these districts for 2001-2002. While the exact numbers will change somewhat based on the cost indexing method, the number of districts included and other factors, this overall relationship is very durable.

*Attachment F:*

**Method Used to Calculate the Expenditure Level Needed in Each District from the Cost/Performance Formula**

1. *Establish the level of performance expected:* Using the same scoring method described above, the average district achieved a score of 180, which represents raising all students 1.8 levels, or an average district achievement of level 2.8 across all four tests. While this is slightly lower than the Regents standard of level three, it represents existing performance and existing state policy in terms of overall funding.
2. *Establish the Base Foundation Amount:* Since the cost data per unit of performance, the base level is simply the product of the base cost per level times the performance target:  $\$4,006.50 \times 1.8 = \$7,211.70$
3. *Establish the Base Pupil Count:* This is the same enrollment figure less .5 for half-day kindergarten.
4. *Establish the Equivalent Cost of Poverty Students:* This is the district enrollment times the poverty rate times the poverty weighting. A 1,000 student district with a 20% poverty rate would represent 200 poverty students times the established rate of 1.0905.
5. *Establish Regional Cost Enrollment:* This is the district enrollment times the amount by which the cost index exceeds 1.00. For example, a 1,000 student in a county with an index of 1.3 would have a cost level equivalent to 1,000 times .3, or 300 additional students.
6. *Establish a District Funding Level:* The total of the weighted students times the base foundation amount produces the total funding needed by the district to achieve the performance target.

This total level of funding, however it is raised, should satisfy the court's definition of adequacy at the district level. The state's system of oversight and accountability would need to insure that the funding is used fairly and effectively to raise student achievement.

*Attachment G:*

**Draft Bill Language**

**Definitions, Part 1 – District Funding Target**

**Base Cost (BC):** The Base Cost is the 2001-2002 actual average cost of raising student performance by one level, in regionally adjusted dollars, for districts testing at least 100 students on ELA 4<sup>th</sup> and 8<sup>th</sup> and Math 4<sup>th</sup> and 8<sup>th</sup> grade exams. This was calculated at \$4,007 per pupil. This amount, or another amount established by the Commissioner of Education by February 15<sup>th</sup> of any year using a similar method must be indexed annually based on school cost inflation to represent the cost level of the aid year.

**Lag Adjustment:** This is the inflationary adjustment in NYS education costs between the last base cost and the aid year to be established annually by the Commissioner of Education. A three-year adjustment is necessary between the \$4,007 from 2001-02 to 2004-05. An annual inflation of 4% would result in a lag adjustment of 1.1249.

**Adjusted Base Cost (ABC):** This is the product of the Base Cost times the Lag Adjustment. ( $\$4,007 \times 1.1249 = \$4,507$ )

**Performance Target:** This is the average level of achievement desired minus one. To achieve an average level of 2.8 a gain of 1.8 levels is needed over level one.

**Foundation Level (Aid Ceiling):** This is the product of the Performance Target times the Adjusted Base Cost. ( $\$4,507 \times 1.8 = \$8,113$ )

**Adjusted Enrollment:** This is the K-12 BEDS enrollment for the year prior to the aid year less, one-half of the half-day Kindergarten enrollment for the year prior to the base year. This basis might be adjusted upward for growth or stabilized by a two-year average for districts with declining enrollment.

**Poverty Weighted Pupils:** This is the product of the K-6 free and reduced lunch percent for the year prior to the aid year times the Adjusted Enrollment times the poverty weight of 1.0905.

**Regional Cost Factor:** This is the ratio of the cost levels within each region to the cost level of the lowest cost region in the state, as established by the Commissioner of Education.

**Regional Cost Weighted Pupils:** This is the product of the Adjusted Enrollment and the district's regional cost factor minus 1.00.

**Size Correction (Sparsity) Weighted Pupils:** For districts with fewer than 25 pupils per square mile, this is .5 times the positive difference, if any, calculated by subtracting the greater of 500 or the district adjusted enrollment from 1,500.

**Limited English Weighted Pupils:** This is the product of .199 times the number of such pupils in the year prior to the base year.

**Total Weighted Enrollment:** This is the sum of the Adjusted Enrollment plus the Poverty Weighted Pupils plus the Regional Cost Weighted Pupils plus the Sparsity Weighted Pupils plus the Limited English Weighted Pupils.

**District Funding Target:** This is the product of each district's Total Weighted Enrollment times the Foundation Level (Aid Ceiling).

**Definitions, Part 2 – Local and Non-Local Shares of Funding Target**

**Total Property Wealth Pupils:** This is the Total Weighted Enrollment less nonresident enrollment plus resident students educated in other school districts.

**Property Wealth per Pupil:** This is the total actual value of property from two years prior to the aid year divided by the Total Property Wealth Pupils.

**District Property Wealth Ratio:** This is the ratio of the district Property Wealth per Pupil to the state average property wealth per pupil established by the Commissioner of Education using the sum values of all districts.

**Total Income Wealth Pupils:** This is the sum of the total Property Wealth Pupils plus the resident nonpublic enrollment of the district.

**Income Wealth per Pupil:** This is the total adjusted gross income from two years prior to the aid year divided by the Total Property Wealth Pupils.

**District Income Wealth Ratio:** This is the ratio of the district Income Wealth per Pupil to the state average income wealth per pupil established by the Commissioner of Education using the sum values of all districts.

**Combined Wealth Ratio:** This is the average of the Property Wealth Ratio and the Income Wealth Ratio.

**Local Share of Education Costs:** This is the product of .4828 times the local district combined wealth ratio. For districts with a combined wealth ratio greater than 2.072, this will generate a local share greater than 1.000 indicating that the local wealth is sufficient to fund more than the District Funding Target solely from local resources.

**State and Federal (Non-Local) Share of Education Costs:** This is the local share subtracted from 1.000. For districts with a combined wealth ratio greater than 2.072, this will generate a Non-Local share less than zero, indicating that the local wealth is sufficient to fund more than the District Funding Target solely from local resources.

### **Definitions, Part 3 – State Aids**

**Other Resources:** This is the sum of non-competitive local allocations provided under Federal Statutes to improve K-12 education, such as NCLB and IDEA and non-competitive local allocations provided under state statutes to improve K-12 education, such as state Magnet Schools, Improving Pupil Performance, Class Size Reduction, and others. Funds provided under competitive grants, funds for pre-kindergarten education and funds provided for non-educational purposes as determined by the Commissioner of Education are not included as Other Resources.

**Base Year State Aid:** This is the sum of all 2003-2004 general fund computerized aids EXCEPT Building Aid, Reorganization Incentive Aids and Growth Aid.

**State Aid Adequacy Level:** This is the positive or negative difference obtained by subtracting the Local Share and the Other Resources from the District Target Funding.

**Minimum Aid:** This is the positive difference, if any, derived from subtracting the State Aid Adequacy Level from zero.

**Save-Harmless Aid:** This is the positive difference, if any, derived from subtracting the Local Share, Other Resources and Minimum Aid from the Base Year Aid Level.

**Funding Gap:** This is the positive difference, if any, derived from subtracting the Base Year Aid from the State Aid Adequacy Level.

**State Aid Payable:** This is the greater of 1): lesser of a) Base-Year Aid times 1.15 or b) the Funding Gap divided by 5; or 2): the sum of minimum aid plus save-harmless aid.

### **Changes in Provisions for Budget Adoption**

For all school districts containing schools designated as being under registration review (SURRE), or containing schools designated as being in need of improvement (SINI), either for the current year or for the prior year, the proposed annual school budget or, in the case of cities exceeding 125,000 residents, the approved budget, must at least equal the lesser of the following:

- 1) The District Funding Target for the aid year less the current year Other Resources as established by the Commissioner of Education, or
- 2) The current year budget, plus the increase in state aid provided above divided by the State Share

A board of education failing to adopt a budget meeting the above requirements will be subject to removal by the Commissioner of Education.

Should the voters fail to approve such budget two times, in a district requiring voter approval, the total amount calculated above shall constitute the minimum amount of a contingency budget to be adopted by the board of Education unless the district would be eligible for a higher amount under existing law, in which case the board of Education may adopt either method of determining the annual budget.