

NEW YORK STATE EDUCATIONAL CONFERENCE BOARD



Turning the corner: With an improved fiscal condition, New York can lead the way for sustainable educational progress

New York's schools have experienced an unprecedented pace and scale of change in recent years. As the state and nation answered the call to raise standards to better prepare a new generation for the future, the international economy collapsed. Schools adapted to a series of education reforms with diminished resources. The state has failed to follow through on commitments made to provide students the sound basic education required by the constitution. The lack of coordination among new initiatives has produced unsatisfactory results. Yet today, New York and its schools are at a turning point.

New York's fiscal condition has improved significantly, aided by a strengthening economy and recent financial settlements. Schools now have a growing body of experience with education change initiatives. The upcoming state budget process provides the opportunity to turn the corner from the toughest fiscal challenges of the recent past, and fund education in a manner that is adequate, equitable and stable so that schools may make sustainable progress. The ability to do this is in sight – more so than at any other time in recent years.

The New York State Educational Conference Board – comprised of the seven leading educational organizations representing parents, classroom teachers, school-related professionals, school business officials, building administrators, superintendents and school boards – is issuing this statement outlining the need for the state to increase school funding in 2015-16 and commit to a long-term plan to meet its obligation to students. This is the strongest investment that can be made to build a vibrant, sustainable economy.

School Aid Recommendations

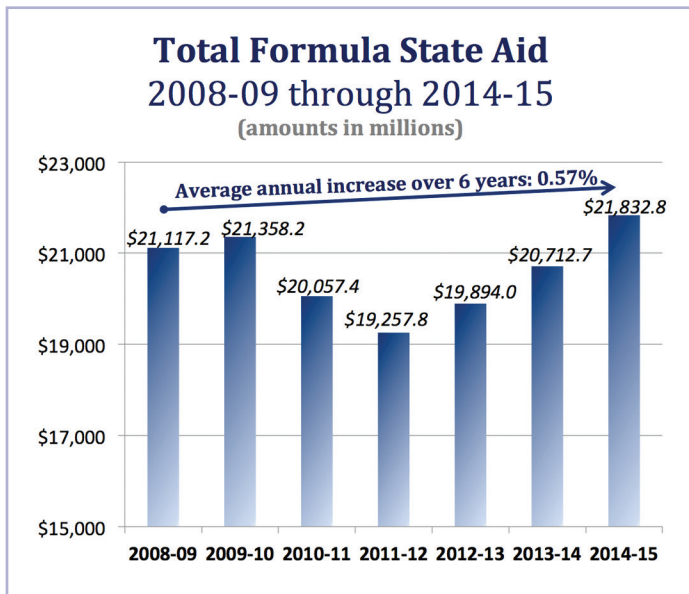
The Educational Conference Board projects that a \$1.9 billion increase in total aid will be needed for 2015-16 in order for New York's schools to:

- **Maintain all current programs and services for students for the 2015-16 school year:** This alone would require an estimated \$1.2 billion increase in state aid.
- **Accelerate a plan to end the Gap Elimination Adjustment and return to a functioning Foundation Aid formula:** Any formula used for general operating aid must be based on sound principles that include adequacy, equity, predictability, flexibility, and transparency.
- **Make progress on new initiatives critical to the success of our students and our state:** These include building capacity to meet state-of-the-art academic standards, expanding access to Career and Technical Education and full-day prekindergarten.

The Great Recession, Lost Ground, New Opportunities

After years of flat or declining funding, total aid to schools surpassed 2008-09 levels for the first time in 2014-15. Yet, many schools are still behind by even that measure: 343 districts, 51 percent of the state's school systems, are not receiving the level of aid this year that they did six years ago. For context, a student who will graduate this coming June was in 6th grade in 2008-09.

In 2009-10, the state instituted the Deficit Reduction Assessment to address its own fiscal challenges. It was renamed the "Gap Elimination Adjustment" (GEA) a year later. The



outstanding GEA balance still being diverted from schools is \$1.036 billion. Additionally, the Foundation Aid formula that arrived with so much promise in 2007 was frozen after just two years. Current Foundation Aid to schools is \$4.7 billion below the full phase-in of the formula.

The loss of funding has had a real and lasting impact on opportunities for children. Since the recession began, the education workforce has shrunk by 30,000, including classroom teachers and those who provided essential support services and building and district level leadership. The result has been increased class sizes, a narrowing of opportunities, and reduced support services and extra help. During this time, districts were forced to place a higher priority on mere survival than essential change and improvement.

Today, New York's fiscal outlook has improved substantially. The state's recent financial plan shows a \$4.2 billion surplus in the current year, boosted by settlement funds from banks and insurance companies.

In addition, New York's economy continues to improve. State budget surpluses are projected through 2018. To help further the conversation about the investments that need to be made in schools, ECB offers the following recommendations to support its projections that an increase of \$1.9 billion in state school aid is needed for 2015-16. This includes \$1.2 billion to continue all current services and an additional \$700 million to move forward on critical initiatives.

2015-16 State Aid Needs

The Educational Conference Board's estimate of the total school district spending needed to continue current programs is based on the following moderate assumptions about costs:

- First, employee salaries are estimated to increase by 3 percent, consistent with projections of 2015 salary growth for all workers, nationwide, by leading authorities such as the consulting firm Mercer LLC and the Society for Human Resource Management.
- Second, employee health care benefit costs are expected to rise by 5.7 percent, based on the state-approved increase in health insurance premiums. Contributions for the Teachers' Retirement System (TRS) are estimated to increase by 3 percent, consistent with the growth in salaries for 2015-16, as the employer contribution rate for TRS is assumed to remain constant.
- Lastly, the State Financial Plan forecasts a 2.2 percent growth in the CPI; this rate is applied to all other school district costs.

The average allowable tax levy increase for districts in 2015-16 without exceeding their statutory limits is expected to be consistent with 2014-15 tax cap limits, which averaged about 2 percent. This is based on the current inflation rate and stable pension contribution rates that will not result in a tax cap exemption.

Based on the cost factors outlined above, total school district spending is projected to increase 3.1 percent, or \$1.89 billion, for 2015-16. Given the pressure to limit local tax increases to the cap, it's not possible to maintain current school services without the state taking on a greater share of the cost increase. After accounting for the funds that might be raised locally, a \$1.2 billion state aid increase is needed for schools to just maintain current services.

Assumed in this figure is continued funding for expense-based formula growth in Building Aid, Transportation Aid, BOCES Aid, and special education aids. The ECB expects that expense-based aids will increase about \$200 million, or 3 percent, consistent with the growth in the past three years. We recommend full funding for these formulas that reimburse districts for approved expenditures schools have already made to meet student needs.

With costs increasing at the historically moderate rate of 3.1 percent, a 2 percent limit on local taxes means that the state must pay more to continue programs that students and families count on every day.

Beyond Current Services: Time to Move Forward

Schools, families, and communities count on current services every day. Yet, much more progress must occur if schools are to provide the opportunity for college and career readiness for all. For these reasons, the ECB projects the need for an overall \$1.9 billion state aid increase – including the \$1.2 billion for current services. This figure reflects the fiscal year 2016 school aid projection as part of the 2015 enacted budget, plus the responsible use of settlement funds called for by the ECB earlier this summer. These funds would be used to:

Accelerate the end of the GEA and increase Foundation Aid

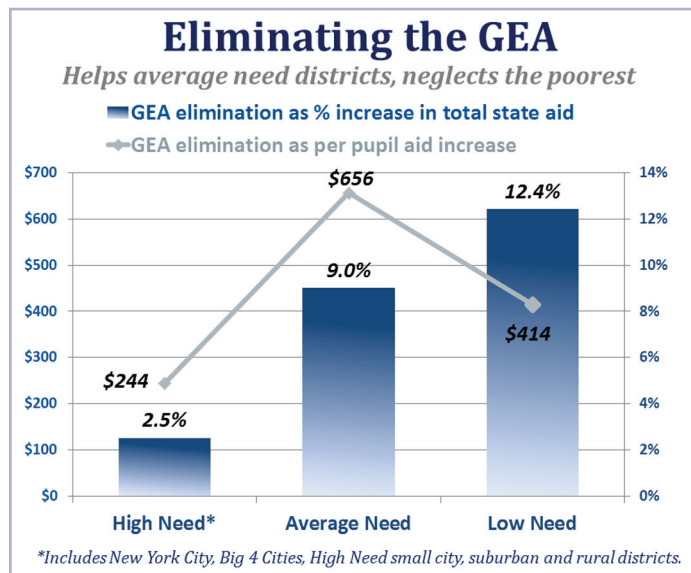
The state must meet its obligation to fund public schools by accelerating the end of the GEA and assuring adequate aid for all districts. With the emergence of state budget surpluses, ECB members see it as impossible to justify continuation of the GEA and failure to execute a plan to assure all students our state constitution's promise of a sound basic education. Much of the remaining GEA is taken from more affluent school districts, but measured as loss in aid per pupil, it falls most heavily on districts in the middle range of ability to fund education from local sources. At the same time, efforts focused solely on ending the GEA risk neglecting the very poorest school districts, who rely most on state aid, have the least local wealth to draw upon, and commonly offer students the most limited opportunities. The ECB's total aid increase need estimate of \$1.9 billion would support a plan to end the GEA and rebuild a functioning operating aid system.

Invest in teachers, prepare students to meet world-class standards

New York has an exceptional school workforce, but our teachers and school leaders need both training and time to develop curriculum and new instructional strategies if our schools are to successfully meet the challenges of essential education reforms. The transition to new standards and classroom practices needed to prepare students for the future is not a subtle shift; it is a sea change. Funding is needed to help schools build capacity to take significant steps forward.

Achieve expanded student access to critical Career and Technical Education programs

Planned investments are needed to open new pathways to graduation based on a wide range of student abilities and interests. For many students, Career and Technical Education offers the most promising pathway to career success. Funding and reimbursement structures, particularly BOCES and Special Services Aids, need to be



improved to expand programs and student access, and to facilitate broader investments and public-private partnerships in these areas.

Streamline prekindergarten funding and continue to work toward broader access

ECB applauds action taken in the 2014 state budget to allow school districts to increase access to prekindergarten. This investment offers the potential to avoid greater costs down the road. Important next steps include simplification and streamlining of the disparate sources of prekindergarten funding and to more fully integrate pre-K programs with ongoing early childhood efforts at kindergarten through grade two. The ultimate goal is to allow districts to continue expansion of program access and consistency – particularly for those students who need it the most.

Assist districts with populations of English language learners

School districts across the state have seen a large increase in English language learners, including the recent influx of unaccompanied minors. However, state aid aid has not kept pace to assure districts additional resources to meet the needs of these children. The state should modify its operating aid formula to better recognize the numbers and unique needs of all English language learners.

Fully reimburse districts for valid prior year aid claims

The state owes school districts \$253 million in prior year aid claims, which have been deemed valid by the State Education Department. Some of these claims go back to 2009 or before. The state now provides less than half of the annual funding for prior year aid claims than it did 15 years ago. The upcoming state budget is an opportunity to honor this obligation to schools.

The Long-Term Imperative: A Foundation Formula that Works

The Foundation Aid formula adopted by New York State in 2007 was a significant public policy achievement. Enacted in the wake of the Campaign for Fiscal Equity lawsuit, the formula made the critical connection between financial resources and student learning.

An initial costing out study used reasonable measures to determine the cost of providing a sound basic education to a student in New York. The Foundation Aid formula directly accounted for the needs of students, as well as school district fiscal capacity, to determine the state and local share of providing this education. Regional costs differences were also taken into account.

The formula targeted the greatest aid to districts with the least fiscal capacity and greatest student needs. However, all districts stood to benefit from the predictability and stability of school aid increases built into the law.

The Foundation Aid formula was to be phased in over a period of four years, but the priority to address economic challenges in recent budget cycles eclipsed all initial implementation plans. Formula increases were frozen for three years during the recession. Recent years have brought modest Foundation Aid increases, but the formula hasn't run as intended since 2008-09.

Instead, the state's schools have a fractured funding system that is largely divorced from what is truly required to meet student needs and adequately plan for longer-term programmatic changes.

In fact, for almost all of the last two decades, New York State has not had an operating formula without either artificial limits on increases, or freezes or reductions in aid. School districts deserve to have an unencumbered aid formula that operates as intended. Given the state's improved fiscal outlook, the upcoming state budget process provides an opportunity for New York to return its attention to such a formula.

Conclusion

Given New York's improved fiscal condition, the upcoming state budget can help schools turn the corner after a period of intense educational change and stubborn fiscal realities. This will require a recognition of how much progress remains to be made on funding issues – followed by action. It is essential that schools have the resources to take meaningful steps forward in preparing students to succeed and thrive in a global economy. Enacting the recommendations in this report – providing adequate and equitable aid and committing to a long-term funding system that provides schools needed stability and predictability – is the path to real and lasting progress. This is imperative for our children today, and will have a tremendous impact on their ability to successfully respond to the challenges they will face tomorrow.

School Finance Principles

The members of the Educational Conference Board reaffirm their support for an operating formula that functions as intended each year based on:

Adequacy: The state must ensure that all school districts have the resources needed to provide school children a sound basic education – in an age when expectations are now defined by preparation for real-world success in college and careers. A new costing out study is needed to determine the current cost of providing this education to every student in New York.

Equity: The state's school finance system must offset variations in the ability of a community to pay. This is particularly important with local taxes capped by law. Any formula must adjust basic funding by student need, including poverty, limited English proficiency, geographic sparsity and disability status.

Predictability: Schools need stability and predictability in funding in order to plan more effectively and meet current and future challenges. Formulas should be applied uniformly, each year. Further, the state should focus its efforts on broad-based formula allocations rather than in restricted competitive grants that do not provide the predictable, recurring operating funds that are needed.

Flexibility: Adequate and predictable general purpose aid is the best way to ensure that school leaders can implement lasting improvement efforts based on district needs and strengths.

Transparency: A state aid system based on factors that are reliable and understandable, which can be publicly debated, would help build the public confidence needed to move school improvement efforts forward.