
MEMORANDUM

TO: MaryEllen Elia, New York State Commissioner of Education
FROM: Ronald Mak
SUBJECT: Reexamining New York State Education Finance Reform
DATE: Friday, May 5, 2017

Executive Summary

Funding disparities and educational attainment gaps persist throughout New York State. The State should provide school districts with the additional resources needed for students to meet established education performance standards. Inequity persists due to a lack of resources to finance an adequate education for numerous districts. This calls for a new state aid formula that adjusts for variations in per pupil costs and factors that are outside of the students' control, especially since high-need school districts rely disproportionately on more state aid. The New York State Education Department must adopt state aid reform that is financially solvent, equitable in redistribution, and maximizes educational opportunity. Reforming state aid will guarantee students their constitutional right to a sound, basic education across New York State.

Background and Context

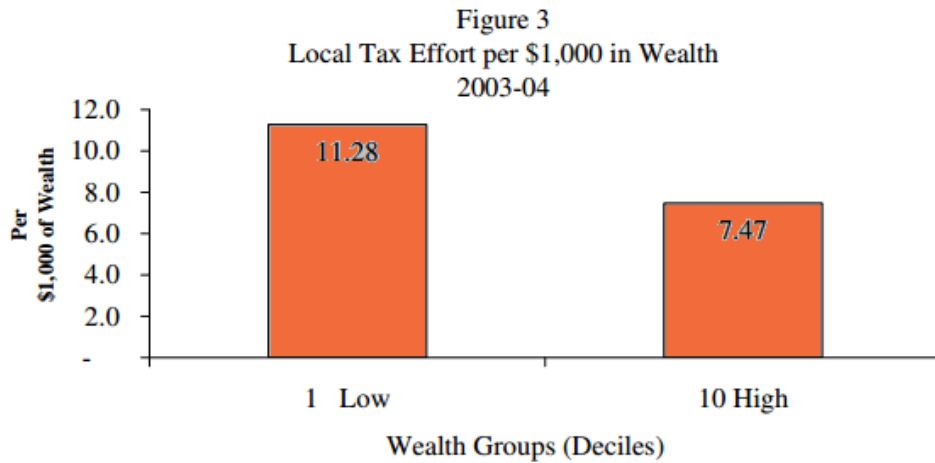
New York State's school aid formulas are insufficient in counteracting variations in local wealth, relying mainly on local finances for their schools. These resources come primarily from local property wealth, which vary across the State. It is easier to raise revenue from school districts that have high wealth (Citizens Budget Commission, 2006). Wealthy communities within New York State spend a disproportionate amount of money on their schools. Their high-spending districts lead to an inequitable distribution of state aid. This limits the State's ability to compensate for the differential in per pupil spending (Citizens Budget Commission, 2006). The State's school aid formulas attempt to equalize schools' revenues by inversely providing aid based on their ability to raise local revenues for education (Citizens Budget Commission, 2006).

However, each school district has different funding needs based on their students. External factors such as high poverty rates, the number of students with limited English proficiency, and the number of students with disabilities vary across the State, all affecting the cost functions of educational attainment (Duncombe, Lukemeyer, and Yinger, 2004). New York City, Yonkers, Buffalo, Rochester, and Syracuse all have large shares of these high-need students (Yinger, 2006).

State aid programs are meant to generate equity in funding across school districts. The foundation amount is a minimum expenditure amount per pupil, used to determine the value of an adequate education (Duncombe and Yinger, 2005). To meet this foundation aid requirement, the minimum expected contribution (which is based on the locality's property tax) is subtracted from the minimum expenditure per pupil amount (Duncombe and Yinger, 2005). The difference is the expected funding from New York State. Ultimately, the goal is to equitably redistribute resources to districts with higher need.

Problems with the Current System

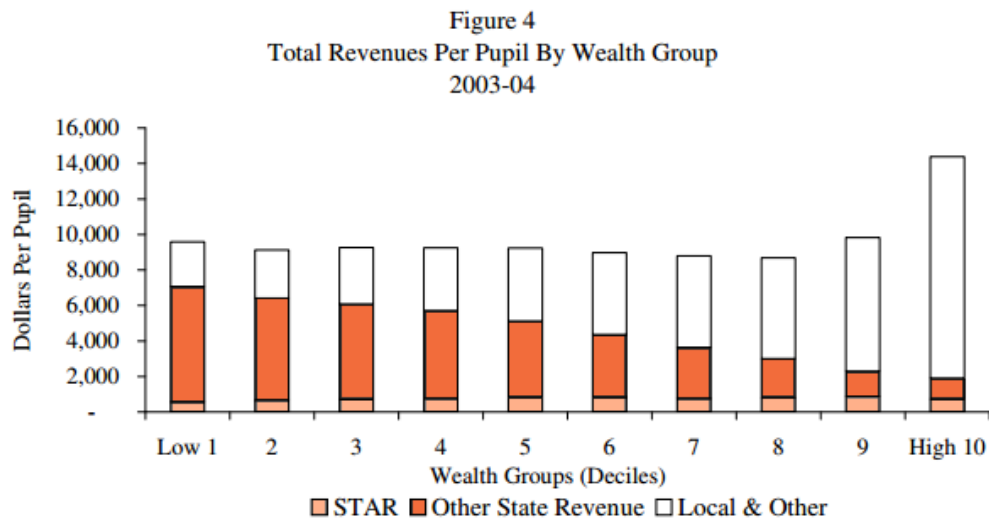
There are spending disparities between wealthy and impoverished school districts leading to inequitable tax burdens. New York State has historically relied on property taxes to fund their schools. A low tax rate in a wealthy district can produce larger tax revenues than a high tax rate in an impoverished district. Affluent districts in the State receive 14% of aid per pupil that a low wealth district would receive (Citizens Budget Commission, 2006). Between 2002 to 2004, the poorest decile (10%) of New York State taxpayers had local tax efforts of \$11.28 per \$1,000 of wealth. This contrasts with the wealthiest decile's \$7.47 per \$1,000 of wealth (Citizens Budget Commission, 2006). Inequity persists when the poorest school districts have larger tax burdens than the wealthiest school districts.



Source: New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 2003-04, <http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm> (August 20, 2006).

Source: Citizens Budget Commission, 2006.

There are high variations in per pupil spending resulting from inequitable tax burdens. The poorest decile spent approximately \$9,500 per pupil on average. The wealthiest decile spent between \$11,770 to \$38,554, spending over four times what the neediest districts spent (Citizens Budget Commission, 2006). Despite this, the wealthiest group still received \$1,198 in state resources per pupil. This results in little variation in state aid grants despite varying wealth groups.



Source: New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, Masterfile for 2003-04, <http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm> (August 20, 2006).

Source: Citizens Budget Commission, 2006.

The current inequitable system of financing public schools enables disparities in students' access resources. Revenues raised per pupil depend on the wealth of the students' locality. It is evident that students in wealthier districts emerge with greater opportunities and advantages. For example, Great Neck, New York collects \$19,149 per pupil in local revenue with a 7.3% tax rate, which is nearly four times the statewide average of \$5,437 (Citizens Budget Commission, 2006). In contrast, Binghamton can only collect \$3,999 per pupil in local revenue, with a tax rate greater than the statewide average at 12.7% (Citizens Budget Commission, 2006). Many of New York's public schools in urban and rural districts are inundated with tax rates higher than the statewide average but local revenue below the state's average. This ties a student's educational opportunity to their district's wealth. Although federal and state aid attempt to address this, significant inequities persist despite the school aid formulas (Citizens Budget Commission, 2006).

Table 4
Fiscal Characteristics of 11 Selected School Districts
School Year 2003-04

District	Pupils	Local Tax Base per Pupil*	Local School Tax Effort (in mills)	Local Revenue per Pupil	Total Revenue per Pupil	Local School and Medicaid Tax Effort (in mills)
NEW YORK CITY	1,056,806	\$630,284	10.4	\$6,569	\$13,640	15.5
Big 4						
BUFFALO	43,604	195,690	11.9	2,327	14,678	14.8
ROCHESTER	37,320	191,184	18.8	3,601	14,594	21.5
SYRACUSE	23,175	216,343	13.5	2,923	13,121	17.4
YONKERS	25,067	779,595	6.9	5,352	16,922	7.6
Other Upstate Urban						
BINGHAMTON	6,328	313,646	12.7	3,999	11,479	15.5
UTICA	9,213	185,572	12.2	2,272	11,204	18.5
Upstate Rural						
MASSENA	2,848	335,188	13.6	4,559	12,024	17.3
Wealthy Suburban						
GREAT NECK	6,200	2,616,074	7.3	19,149	21,816	7.7
SCARSDALE	4,714	2,658,833	6.3	16,703	19,353	7.0
Poor Suburban						
ROOSEVELT	2,925	432,863	10.0	4,311	18,020	10.4
Statewide Median w/o NYC	1,673	\$419,540	11.5	\$5,437	\$13,480	13.3

Sources: New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit, *School District Fiscal Profiles, Masterfile for 2003-04*, <http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm> (August 20, 2006); Medicaid expenditures by county are from the New York State Department of Health, *Medicaid Expenditures and Eligibles by County, Calendar Year 2003*, <www.health.state.ny.us/nysdoh/medstat/medicaid> (August 20, 2006)

Notes: Tax base is an equally weighted average of personal income and real property values. Medicaid data is for calendar year 2003. Medicaid expenses are allocated to school districts based on the district's share of its county's tax base.

Source: Citizens Budget Commission, 2006.

Current state aid programs contain loopholes such as the “hold harmless” provision. This loophole perpetuates inequity as wealthy school districts receive state funding that otherwise would have gone to disadvantaged and needy schools. The maintenance of these provisions costs approximately \$750 million per year for 189 districts (Citizens Budget Commission, 2006). Of these school districts, 91

districts were able to raise that amount of money through local revenues themselves. State aid formulas are unnecessarily complicated and outdated, having been subjected to tinkering from politicians who change the formula language. When politicians politicize state aid that either intentionally or unintentionally amplifies inequity, it comes at the expense of students' educational opportunity.

The School Tax Relief (STAR) program is a form of school aid that was created as a tax rebate program. It comes in two forms: Basic STAR and Enhanced STAR. STAR reduces New York State residents' property tax liability. The program exempts homeowners from paying school taxes. STAR's minimum exemption is \$30,000, while the value of the STAR exemption varies by the county and home value. For example, residents in Westchester, New York would qualify for a tax exemption of almost \$90,000, which is almost three times the size of Basic STAR. Enhanced STAR is a program for seniors over 65, and works by exempting up to \$50,000 in school taxes (Citizens Budget Commission, 2006).

The major flaw with STAR is that it exacerbates funding inequity. It is not well-targeted to provide aid where it is needed. STAR works against school aid formulas' redistributive goals. The program disproportionately benefits the wealthiest school districts. STAR is an ineffective tax relief program as it substitutes locally raised revenues and increases school expenditures by 10% (Citizens Budget Commission, 2006). Basic STAR does not factor in a household's amount of taxes paid, household income level, or the ratio between the two. STAR's guise of tax relief has led to increases in school spending as well as widened the gap between affluent and needy districts (Citizens Budget Commission, 2006).

Figure 5
Per Pupil STAR Aid By Wealth Group
2003-04



Source: New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit, School District Fiscal Profiles, *Masterfile for 2003-04*, <http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm> (August 20, 2006).

Source: Citizens Budget Commission, 2006.

Reform Recommendations

Determine Adequate Funding

The foundation aid formula ensures all New York State students access to their constitutional right to a sound, basic education (Alliance for Quality Education, 2017). The formula calculates the amount of foundation aid that the State is required to provide to each school district. It creates a fair method of distributing funds using a series of factors, including funding weights. This formula would ensure predictable and transparent funding. Calculating this amount requires determining the cost per pupil distribution. This formula should be based on the middle 90% of successful school districts, in order to account for efficiency. Using the middle distribution in comparison to the bottom 50% is a more accurate representation of all schools (Kadamus, 2004).

Apply Education Cost Functions

Education cost functions should be applied to the foundation amount in order to equitably provide additional funding for students who have higher costs. Currently, the State Education Department uses weighted funding to direct more resources to students with higher education costs. These education cost functions quantify how much each school needs to spend to meet a statewide educational attainment level (Duncombe and Yinger, 2005). This would provide additional funding to students with higher needs. These weights would aid children in poverty, students with limited English speaking proficiency, and students with disabilities. High-need districts would in return receive the funding needed to provide a sound, basic education. This system of accountability would increase educational equity.

Impose a Minimum Property Tax Rate

New York State should implement a minimum statewide property tax rate of 1.5%. Currently there is no statewide minimum property tax rate. This guarantees that districts and localities meet their minimum contribution, and ensures all students access to a sound, basic education. All districts within the State would share the burden of financing public education. Funds should be equitably distributed to school districts dependent on need. In addition, the property tax cap should be abolished, as it is a major constraint on poor districts with high-need students. By ensuring that all districts share the burden of funding education across the State, the responsibility falls primarily on the New York State Education Department, rather than struggling cities such as New York City, Yonkers, Buffalo, Rochester, and Syracuse. Students who have high potential but are limited by restrained financial resources should be guaranteed equitable educational opportunity.

Raise Revenues through Non-Tax Sources

New York State could raise revenues from non-tax sources such as gambling. This could be implemented by authorizing new gambling and taxing the gross receipts of lottery games. In 2000, New York State raised approximately \$176 per person. Although New York State's gambling revenues are greater than the nationwide average, the State is ranked seventeenth in its revenue-collecting abilities (Citizens Budget Commission, 2006). States such as Rhode Island collect \$713 per person on average. There is potential to generate significant amount of revenues and redistribute them to education. Critics may argue that gambling is regressive in that it has a larger tax burden for low-income households. However, New York State could attract casinos in high-

income areas. In addition, this revenue-raising mechanism could be limited to destination-based areas where there are high amounts of tourists and out-of-state visitors. Opening up online gambling could generate even more revenue. The goal of this proposal is not to enable gambling, but to explore revenue-raising options that could be earmarked for education aid.

Adopt Education Surcharge on Nonessential Education Spending

Surcharges on nonessential education spending should be imposed. In addition, there should be a provision to earmark revenues for school districts with higher need. This surcharge would be an effective form of revenue collection, savings induction, and resource redistribution. Education surcharges would not discourage or affect consumption of basic educational necessities. Whereas changing income tax rates or sales taxes may be regressive, this “luxury tax” would only apply to wealthy districts’ nonessential education spending. This option would require the State to establish a threshold for excess education spending. This option would not only change resources to adequately level the playing field for students’ educational opportunity, it could curb the wealthy districts’ excessive spending that burdens the rest of the State. Wisconsin and Texas are examples of states that effectively adopted education surcharges and imposed them in the wealthiest districts.

Eliminate Hold Harmless Provisions

New York State should eliminate hold harmless provisions in state education aid. Hold harmless provisions allow school districts to maintain the same amount of state aid despite decreases in enrollment. They were implemented with the intention to help schools avoid funding reductions. However, these provisions have perpetuated inequity. These school districts receive a disproportionate amount of arguably unneeded aid. Eliminating hold harmless could free up approximately \$2 billion, which could be redirected to low-performing schools (Yinger, 2004).

Establish a Minimum Per-Pupil Aid

Establishing a guaranteed minimum per-pupil aid amount would ensure that every student is afforded the opportunity to a sound, basic education. Eliminating hold harmless provisions would reduce funding to certain school districts. This minimum per-pupil aid guarantees that each student receives a minimum amount of state aid to account for their education costs. Providing aid to wealthy districts would establish political buy-in for their contributions to the state education aid system.

Conclusion

It is of utmost importance to address New York State’s funding disparities that perpetuate educational attainment gaps. The proposed education reform plan tackles inequity by raising revenues that are earmarked for education, redistributing funds to students based on need, and paving the road for educational opportunity. Reforming state aid will guarantee students their constitutional right to a sound, basic education across New York State.

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