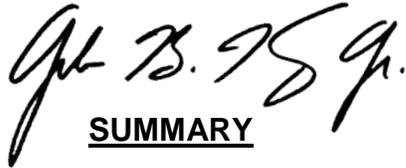




TO: Subcommittee on State Aid
FROM: Ken Slentz 
SUBJECT: Framing the 2014-15 Regents State Aid Proposal
DATE: November 13, 2013
AUTHORIZATION(S): 
SUMMARY

Issue for Discussion

The Regents 2014-15 State Aid Proposal will be presented at the December Meeting. Several important questions need to be discussed in advance of the proposal:

- Given the challenges faced by school districts, what level of support should be included in the State Aid proposal?
- How should additional operating aid be distributed among school districts?
- Are there additional investments beyond formula operating aid that should be made over an extended time period?

Reason(s) for Consideration

Development of policy.

Proposed Handling

This item will frame the detailed State Aid proposal that will be presented at the December meeting.

Procedural History

The Regents reviewed the 2013-14 legislative action on State Aid to school districts in April of 2013. In June of 2013 the Regents reviewed the results of school budget votes and school district fiscal condition information from the Property Tax

Report Card. In the September meeting, the Regents considered the principles of State Aid and opportunities for strategic investments to support college and career readiness. In October the Regents sponsored a School Finance Symposium titled *Focusing on Strategic Priorities: Allocating Resources for Improved Student Achievement* with a statewide representation of educators, researchers, policymakers, and other school finance stakeholders. The Education Finance Advisory Group, which represents statewide membership organizations and other school aid stakeholders, will meet on the afternoon of November 19. The 2014-15 State Aid Proposal will be presented to the Regents for approval at the December meeting. The Governor will submit his Executive budget recommendation in January and the Legislature will work to enact a budget by April 1.

Background Information

Each year the Board of Regents through its Subcommittee on State Aid develops a proposal on State Aid to support public education. The Regents advocate for its enactment to educators and policy makers.

Attachment 1 describes investment options for the 2014-15 Regents State Aid Proposal.

Timetable for Implementation

This discussion will help identify areas of interest to the Regents and give direction for additional work related to the State Aid Proposal.

Options for structuring the 2014-15 State Aid proposal

The 2014-15 Regents State Aid proposal will be introduced during a period of transition for the State's education finance system. The 2013-14 Enacted Budget State Aid was impacted by a number of factors and ultimately showed a willingness to increase State Aid above the levels of the personal income cap. Even with this increase, a \$1.6 billion Gap Elimination Adjustment (GEA) reduction remains. Other considerations include the balance between expanding prekindergarten opportunities and funding the existing K-12 systems and encouraging regionalization and greater efficiency and effectiveness.

2013-14 Recap

The 2013-14 Enacted Budget included a \$942 million increase in General Support for Public Schools (GSPS) funding, an additional \$50 million in Performance Improvement and Management Efficiency Grants, and \$75 million in Education Commission initiative grants for a total increase of \$1.067 billion.

Increase	Dollars (in millions)	Percent
General Support For Public Schools (GSPS)	\$942	4.7%
GSPS and Management Efficiency	\$992	4.9%
GSPS, Management Efficiency, and Commission Grants	\$1,067	5.3%

The Enacted Budget exceeded the 3 percent personal income cap by \$381 million.

2014-15 Options

GSPS funding

As the Board considers its recommendations for 2014-15 State Aid, there are several options for the rate of growth in formula-based state aid. The most recent Division of Budget financial plan update forecasted the personal income cap at 3.4 percent. The Bureau of Economic Analysis recently released final personal income numbers for the 2014-15 cap which yielded 3.1 percent. The 2013-14 formula-based increase was 4.7 percent.

	2014-15 Calculated Personal Income Growth Index	2014-15 Division of Budget Forecast	2013-14 GSPS	2013-14 GSPS and Management Efficiency	2013-14 GSPS, Management, Commission Grants
Percent Increase	3.1%	3.4%	4.7%	4.9%	5.3%

Distribution Options

For the last two years the Board of Regents has proposed distributing operating funds through Foundation Aid by reducing each district's Foundation Aid base by their remaining GEA and adding funds through the Foundation Aid formula. By contrast, the Executive and Legislative budgets have focused on adding operating funds through GEA restorations, with small, across the board Foundation Aid increases.

Option 1: Continue with the Board's past practice of recommending that the GEA and Foundation Aid be combined and that funds be added through the Foundation Aid formula.

Advantage:

- Maintains the commitment to the Foundation Aid formula, a transparent funding mechanism designed to distribute funds equitably.

Disadvantages:

- School administrators lose the ability to point to the GEA reduction in funding in their efforts to secure additional funds when it is combined in the Foundation Aid base.
- Districts that received larger GEA reductions (particularly low and average need districts) may prefer to see the GEA restored before adding funding to Foundation Aid.

Option 2: Distribute funds through a GEA restoration.

Advantage:

- Addresses the desire of some school administrators to continue to show the GEA reduction.

Disadvantages:

- Past GEA restorations have included factors based on district need, so that the distribution of the remaining GEA is weighted toward low and average need districts. It may be difficult to get to a progressive distribution of resources using a GEA restoration without another funding mechanism.
- Past GEA restorations have been complicated and difficult to articulate.

Option 3: Create a new “transition operating formula” that would first be applied to the GEA and, to the extent funds are leftover, would then be applied to the Foundation Aid base.

Advantages:

- Combines Options 1 and 2 to allow for a progressive distribution while continuing to show the remaining impact of the GEA.
- Could be structured using some of the Foundation Aid formula elements

Disadvantage:

- Requires the creation of a new formula for operating aid.

Targeted Funding

Similar to the 2013-14 Enacted Budget proposal, this year’s proposal could include additional funding beyond formula increases to support initiatives like high quality professional development (with a particular focus on the Common Core), prekindergarten, regionalization, and career and technical education and other rigorous learning opportunities for students which have evidence of a positive impact on student achievement.