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

TO: Subcommittee on State Aid

FROM: Ken Slentz

SUBJECT: 2013-14 Regents State Aid Conceptual Proposal

DATE: November 8, 2012

AUTHORIZATION(S):

SUMMARY

Issue for Discussion

The Regents 2013-14 State Aid Conceptual Proposal as approved by the Regents Subcommittee on State Aid on behalf of the Regents.

Reason(s) for Consideration

Development of policy.

Proposed Handling

The Conceptual Proposal will come before the Subcommittee at their November meeting and the detailed State Aid proposal will be presented at the December meeting with the Subcommittee making a recommendation to the full Board to approve.

Procedural History

The State Aid Committee of the Board of Regents reviewed program information and proposed future directions on prekindergarten at its February 2012 meeting; examined a legislative proposal concerning regional high schools in March; and discussed legislative action on State Aid to school districts at their April meeting. In September the Regents and Department sponsored a School Finance Symposium on *Improving Student Learning in Fiscally Challenging Times* with a statewide representation of educators, researchers, policymakers and other school finance stakeholders. At the full Board's October meeting, Regent Tallon presented on the fiscal challenges confronting school districts and options for supporting achievement with constrained spending and the State Aid Subcommittee considered program and policy directions for the 2013-14 Conceptual Proposal. The Education Finance Advisory

Group, a representative group of statewide membership organizations and other school aid stakeholders, also met in October to discuss options for the 2013-14 Regents State Aid Proposal.

Background Information

Each year the Board of Regents through its Committee on State Aid develops a proposal on State Aid to school districts. The Regents advocate for its enactment to educators and policy makers through a series of papers including a review of legislative action for the coming year, a review of the needs of school districts and an examination of various program directions and State Aid solutions. The proposed 2013-14 Regents State Aid Conceptual Proposal is attached.

Recommendation

Not applicable.

Timetable for Implementation

This discussion will inform the final stages of the development of the Regents State Aid proposal which will be presented to the Regents for approval at their December meeting.

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Regents Proposal on State Aid to School Districts for School Year 2013-14

Introduction

Consequences of the economic recession continue to exacerbate the fiscal pressures on school districts across New York State and nationally. Major changes in Statewide school finance have occurred over the past couple of years with caps placed on both State Aid and local Property Tax Levies. State Aid represents about 40 percent of district revenue across the State but varies greatly depending on district wealth and student need. Local Property Taxes represent about 52 percent of district revenue statewide. Further, while district expenditures have been increasing at significantly lower annual rates than occurred when revenues were greater, cost drivers such as health care, retirement costs and energy, continue to strain school district budgets. The challenge we must address is how can the school districts with the highest needs function within revenue constraints and prepare all students to be college and career ready?

Bold, systemic changes are needed to help all students graduate from high school ready for college and careers and Board of Regents education reforms are essential. While New York State has some of the very best schools, teachers and school leaders in the nation, we are falling short of the goal of ensuring that all children graduate from high school ready for college and careers. There is no simple path to improve student achievement and educator effectiveness but the reforms being implemented, including, teacher and principal evaluations, rigorous Common Core standards with aligned assessments and instruction and professional development informed by careful analysis of student data, will yield better results for all students.

Though many students currently meet criteria for success, others do not as recent graduation data reveal. Only 74 percent of all students who started ninth grade in 2007 graduated four years later. And, while the four-year graduation rate represents a slow but steady improvement from prior years, achievement gaps between student subgroups persist. When measures of college and career readiness are factored in the results are even more challenging, as shown in Figure 1.[1]

[1] NYSED Office of Information and Reporting Services, 2011

Figure 1
June 2011 Graduation Rate (2007 Cohort)

Graduation under Current Requirements		Calculated College and Career Ready*	
	% Graduating		% Graduating
All Students	74.0	All Students	34.7
American Indian	59.6	American Indian	16.8
Asian/Pacific Islander	82.4	Asian/Pacific Islander	55.9
Black	58.4	Black	11.5
Hispanic	58.0	Hispanic	14.5
White	85.1	White	48.1
English Language Learners	38.2	English Language Learners	6.5
Students with Disabilities	44.6	Students with Disabilities	4.4

*Students graduating with at least a score of 75 on Regents English and 80 on Math Regents, which correlates with success in first-year college courses.

Strategic investments in New York State's P-12 education, especially in those areas where student outcomes are in need of the greatest improvement, are critical to the State's future economic vitality. The Regents Reform Agenda seeks to increase educational productivity by focusing on improving the quality of teaching and learning and providing a clear path to college and career readiness. Since receiving the Race to the Top award of approximately $696 million in 2010, the Regents Reform Agenda has been accelerated in school districts across New York State. Over 1,200 educators have received intensive training on the Common Core Curriculum, Data Driven Instruction and teacher evaluation. These educators in turn provide direction and support for the Reform Agenda within school districts, engaging additional teachers and principals in this effort. Prioritizing the reallocation of limited school resources toward achieving the greatest performance gains for all students is fundamental to accomplishing the goals of the Reform Agenda.

A diverse group of State and local leaders has been discussing alternatives for containing costs while ensuring that students have access to learning opportunities that lead to college and career readiness. The Board of Regents and the Department conducted a school finance symposium, *Improving Learning in Fiscally Challenging Times*, in September 2012 for a broad based group of educators, academics, and other stakeholders and school finance policymakers. This Regents State Aid proposal describes the very serious fiscal environment confronting New York State school districts and outlines proposed options for addressing fiscal and educational challenges.

State financial support for public schools has changed dramatically. In 2007, the State enacted a new Foundation Aid formula which consolidated approximately 30 categories of aid into a single formula and provided for a more equitable approach to distributing State Aid. Under Foundation Aid, more than $5 billion in new operating aid was to be phased in over a four year period. Beginning with the 2009-10 school year, increases in Foundation Aid were frozen. In addition to eliminating planned increases to Foundation Aid, enacted state budgets further reduced state funding through Gap Elimination

Adjustments (GEA). American Recovery and Reinvestment Act (ARRA) funds were available to reduce the GEA but have now essentially been exhausted. Taken together, for the 2012-13 school year these actions resulted in:

- State support for public schools below 2008-09 levels;
- A $2.2 billion Gap Elimination Adjustment; and
- Foundation Aid $5.5 billion below the full implementation target.

Based on projected State Aid increases, as limited by the Personal Income Growth Cap, restoring the GEA and fully implementing the original Foundation Aid formula are many years away.

Fiscal Challenges for New York State School Districts

The current fiscal environment imposes substantial challenges for school districts. In addition, Chapter 97 of the Laws of 2011 placed a cap on local revenues for education and the 2011-12 enacted State budget capped the State's General Support to Public Schools (GSPS). In contrast to historical trends, school districts are now required to operate within revenue constraints at or below the rate of inflation. Prioritizing educational goals and examining options for reallocating resources to address student learning needs presents tough choices.

Limited Options for Increasing Rate of Revenue Growth

Cap on General Support for Public Schools

The 2011-12 Enacted State Budget included a permanent cap on the growth of General Support for Public Schools (GSPS) linked to State personal income. Personal Income is often used as a measure of the tax base and the broader affordability of public education.

The 2012-13 Personal Growth Income Index (PIGI) was based on a five year average of personal income. The cap is structured differently for the 2013-14 school year and is based on one year of personal income growth. The volatility of a year-to-year index will make it difficult to plan at both the State and local levels and may require adjustments in future years. Options for modifying the single year PIGI are discussed in the recommendation section of this proposal, under *Adjust the Personal Income Growth Index*.

Formula-driven aids for school construction, transportation and shared services continue to grow as costs increase and the consequent increases are funded within the overall cap. If growth in formula-driven aids and the grant set aside exceed the allowable increase, the GEA will provide the mechanism to contain GSPS within the State revenues available. Similarly, if the allowable increase exceeds the growth in formula-driven aids and grants, under the current provisions of law, the Legislature and Executive have the discretion of restoring prior year GEA losses and/or further implementing the phase-in of Foundation Aid.

Foundation Aid and the Gap Elimination Adjustment

The Foundation Aid formula, enacted in 2007, had several goals including adequate funding for a sound basic education in response to the Campaign for Fiscal Equity decision; increased flexibility through the consolidation of about 30 existing aids; and transparency and predictability by reducing the number of formula components. The Foundation Formula has four basic components:

1) A per pupil base amount reflecting the cost of educating students, as determined by the amount spent by successful school districts;

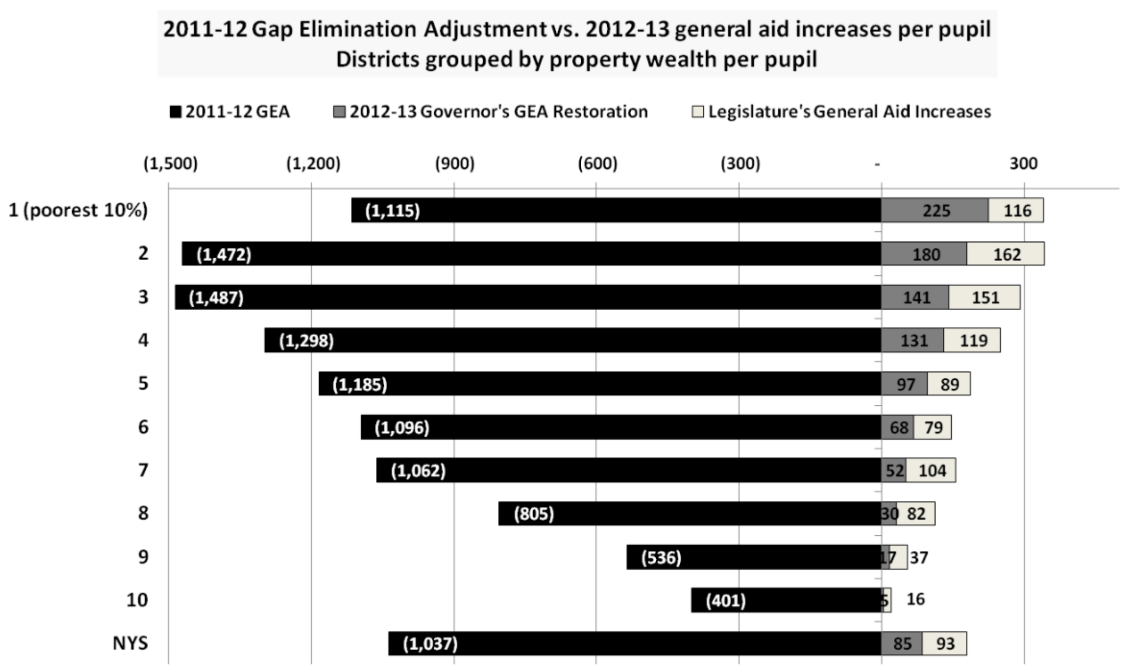
2) A regional cost index to ensure State Aid can buy a comparable level of goods and services around the State;

3) An expected minimum contribution by the local community; and

4) The pupil need index recognizing added costs for providing extra time and extra help for students with special circumstances.

At the same time Foundation Aid was frozen, a new formula construct was created to reduce State support to public schools. A Deficit Reduction Assessment (DRA) was enacted by the Legislature in 2009 and made a permanent section of law in 2011 as the Gap Elimination Adjustment (GEA). The GEA was designed to close the gap between school expenditures and available State revenues needed to help ensure a balanced budget. In 2009-10 the $1.5 billion Deficit Reduction Assessment (DRA) was offset with federal stimulus funds. The 2010-11 GEA reduced State Aid to school districts by $2.1 billion and while some federal stimulus funds continued to be available to offset the reductions the overall losses in State Aid largely eliminated the gains made during the initial two years of the Foundation Aid phase in. The 2011-12 GEA reduced aid by $2.6 billion in such a way that high need and average need school districts experienced the greatest per pupil cuts as evidenced in Figure 2.

Figure 2



SOURCE: NYS Council of School Superintendents analysis of NYSED School Aid data

Figure 2 shows Foundation Aid increases were small when compared with the GEA. The Regents have raised concerns about the transparency of continuing to use this two formula approach to General Support for Public Schools (GSPS) and its potential to undermine the reforms enacted in 2007. Under the current State Aid cap, it is estimated that it would take at least five years to fully eliminate reductions attributable to the GEA and 15-20 years to fully phase in Foundation Aid. Recommendations in support of the Foundation Aid formula and adjusting GEA cuts are included later in this proposal in the section on *Support Foundation Aid and Modify the Gap Elimination Adjustment.*

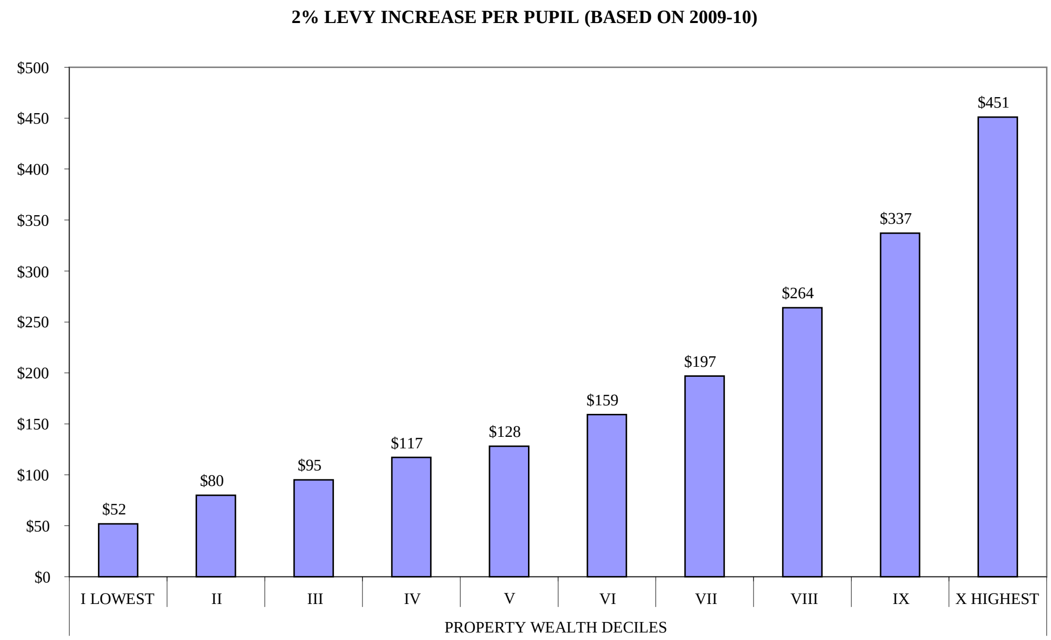
Property Tax Levy Cap

Beginning in the 2012-13 school year, districts are constrained in their ability to increase property tax levies. The Property Tax Levy Cap law (Chapter 97 of the Laws of 2011) restricts tax levy increases for local governments, school districts and other smaller independent entities, such as library, fire or water districts. While the Big Four city school districts are not specifically subject to the school district property tax cap, they are nonetheless impacted because of their localities, and consequently their localities school expenditures, are subject to the tax cap imposed on municipalities. New York City is fully exempted from the cap on local expenditures.

Under the Property Tax Levy Cap school districts may not increase their tax levy by more than the rate of inflation, as measured by the consumer price index (CPI) or 2 percent, whichever is less, plus an allowance for certain increases in pension costs, tort actions and capital costs. A super majority vote of sixty percent is required to exceed the cap. In cases where the district does not have a budget approved by the voters and adopts a contingency budget, the tax levy is frozen to the prior year's amount.

The Property Tax Levy Cap also heightens the need for the equitable distribution of State funding. A percentage cap is affected by the size of the previous year's levy which varies considerably among districts. The Property Tax Levy Cap is especially restrictive for low property wealth districts that are significantly limited in the amount of revenue that they can raise. Figure 3 shows the levy increase per pupil that would be allowed under the Property Tax Levy Cap for school districts ranked by property wealth. The wealthiest districts would be allowed a levy increase that is approximately nine times greater than the poorest districts.

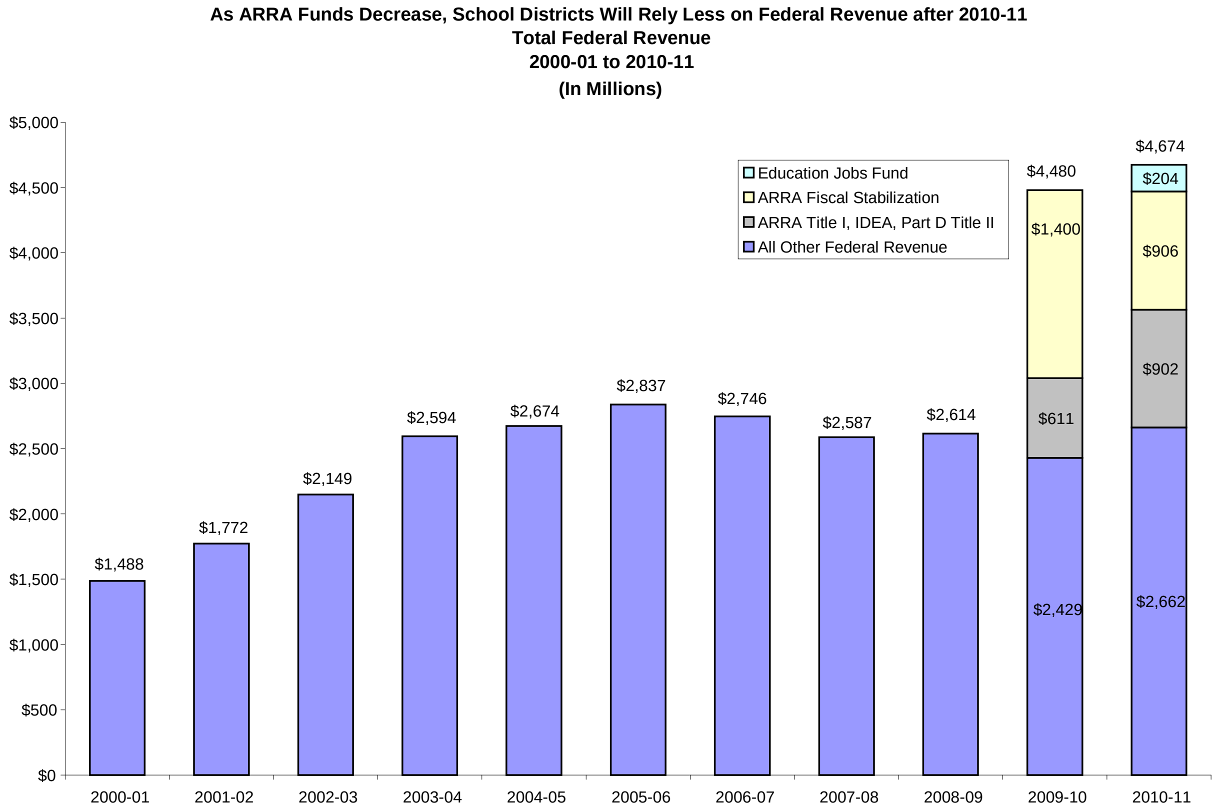
Figure 3
Per Pupil Tax Levy by Property Wealth Under the Property Tax Levy Cap



Federal Stimulus Funds No Longer Available and More Reductions Possible

In the face of State funding cuts to education, federal stimulus funds helped to stabilize school districts through the American Recovery and Reinvestment Act (ARRA). ARRA funding included Education Stabilization Funds; Education Jobs Fund; additional Title I funds; and additional IDEA funds. Figure 4 reflects the increase in federal funds provided through ARRA between 2009-10 and 2010-11. These funds declined sharply in 2011-12 due to the completion of the bulk of ARRA projects, excluding Education Jobs Fund. However, very few Education Jobs Fund dollars remain available to support school districts in 2013-14. Federal *Race to the Top* funds in the amount of $696.6 million, which commenced in 2010 and are spread over four years, will continue to help school districts implement reforms to improve teaching and learning.

Figure 4

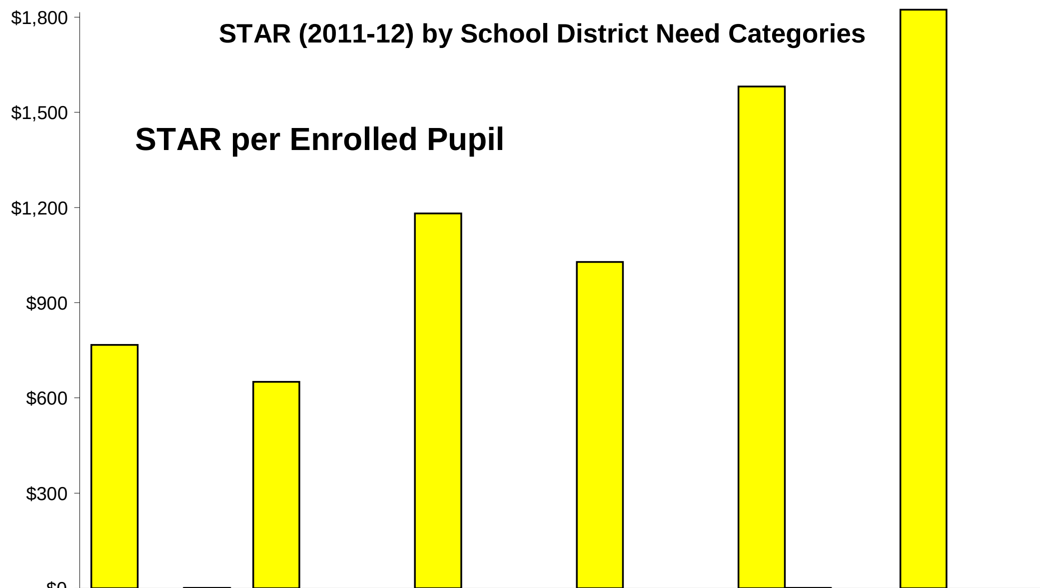


Additionally, the federal Budget Control Act of 2011 contained agreements on spending levels and the debt ceiling and created a Congressional Debt Supercommittee charged with cutting at least $1.5 trillion from the federal budget. As the Supercommittee was unable to identify cuts of at least $1.2 trillion over the next ten years, automatic budgetary cuts will be triggered, spanning from January 2013 to October 2021. The Congressional Budget Office has estimated that non-defense discretionary spending will be reduced by approximately 8 percent. A federal Senate committee report estimates that New York will lose $185 million in federal education funds.

School Tax Relief (STAR)

In addition to school aid, New York State provides property tax exemptions to New York State homeowners. The School Tax Relief (STAR) Program provides Basic and Enhanced STAR Property Tax Exemptions to New York State homeowners for their primary residence. Basic STAR is available to anyone who owns and resides in their own home. Enhanced STAR is available to senior homeowners whose incomes do not exceed a statewide standard. The State makes approximately $3 billion in payments each year to school districts to compensate them for reduced property tax receipts. Since STAR payments are linked to the value of the properties the program heightens the need for the equitable distribution of funding. Figure 5 provides additional information.

Figure 5
Low Need Districts Receive the Largest School Tax Relief (STAR) per Pupil

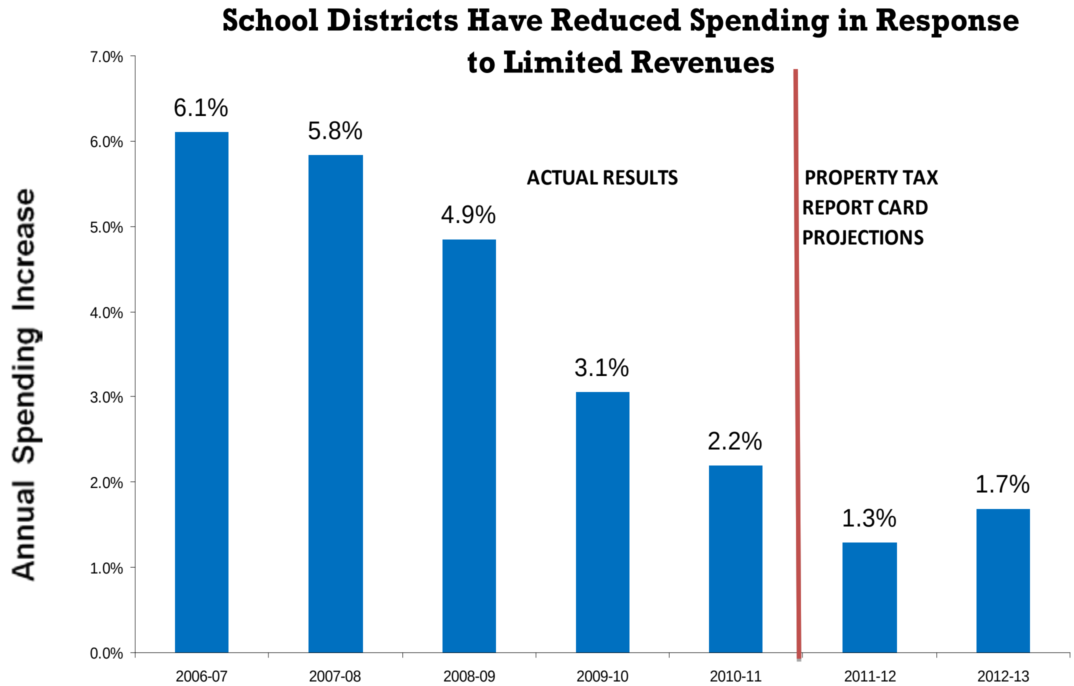


	New York City	Large Cities	High N/RC Urb/Sub	High N/RC Rural	Average N/RC	Low N/RC
STAR per Pupil	$767	$650	$1,181	$1,028	$1,581	$1,823
Share of STAR Aid	24.4%	2.4%	8.1%	4.9%	38.4%	21.8%
Share of Enrollment	38.2%	4.4%	8.2%	5.7%	29.2%	14.3%

Expenditures Continue to Increase, but at a Slower Rate

School districts have lowered the rate of spending increases in response to reduced State and local funding. Data show that growth in total spending has been modified in recent years and districts project even lower rates of growth in light of revenue forecasts. Figure 6 demonstrates the continued downward trend in the rate of spending increases.

Figure 6



The rate of increasing costs, however, is not uniform across all district expenditure categories. Certain cost categories, such as district contributions for employee health care, retirement costs and energy utilization, continue to challenge districts' efforts to balance budgets. But there is also some indication that expenditures for employees' health care, which grew on average 9.1 percent annually from 1996-97 through 2009-10, have slowed to about 4 percent in the most recent year under analysis.[2] Retirement costs, though, continue to present significant challenges. The percent of payroll that the public retirement system imposes on school districts, i.e., the employer's contribution, varies depending on the stock market.[3] Strong stock market gains in the 1990's resulted in the Teacher Retirement System (TRS) reducing district contributions in the early 2000's to about 1 percent. But, due to the slow economic recovery and lower than expected market returns, district contributions have increased over the past several years and are now in excess of 10 percent of annual districts' payrolls.2

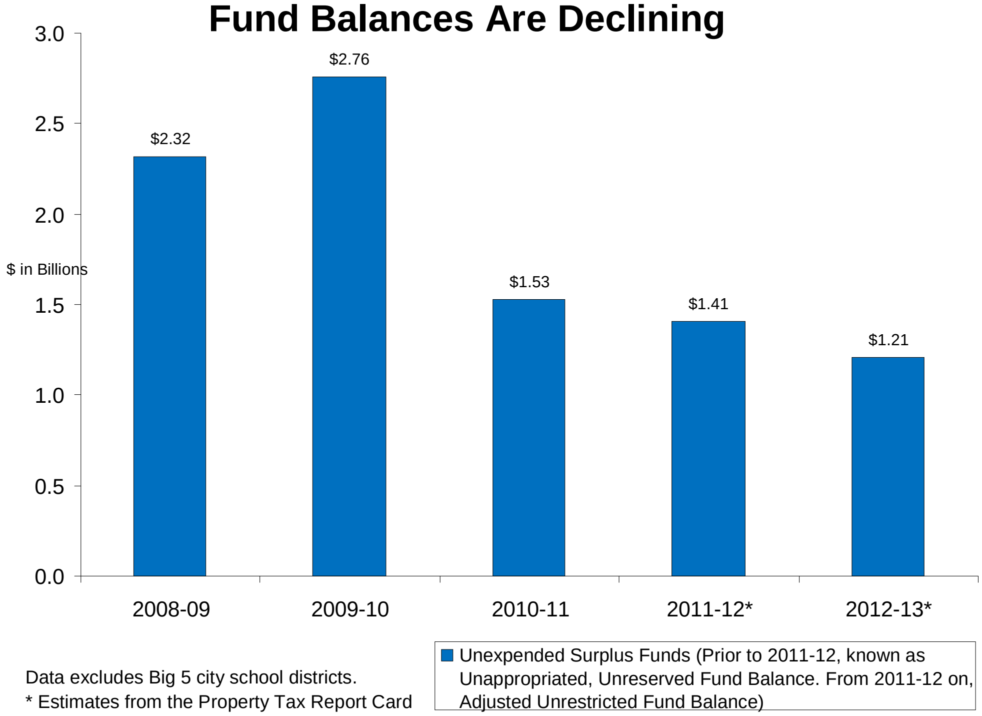
Rising energy costs also present serious budgetary challenges. From 2001-02 through 2009-10 expenditures related to districts' operations and maintenance grew by 40 percent and transportation and debt services increased by 56 and 58 percent

[2] NYSED ST-3 Fiscal Profiles
[3] NYS Teacher Retirement Annual Report, 2011

respectively. Energy costs are reflected in operations, maintenance and transportation categories.[4]

Districts are using increasing amounts of their unrestricted surplus which are more generally referred to as Fund Balance. Unrestricted reserves declined by 55 percent between 2009-10 and 2010-11 with districts projecting further decreases over the next couple of years as evidenced in Figure 7.

Figure 7
Fund Balances Are Declining



Data excludes Big 5 city school districts.
* Estimates from the Property Tax Report Card

With the current economic situation limiting the growth in both State Aid and local revenues, many New York State school districts are reporting signs of fiscal stress. A review of the type and rate of expenditure reductions, and continued reliance on shrinking fund balances, requires the gap between revenue and expenditures to be continuously examined and further moderated.

A School Finance Symposium sponsored by the Regents and the Department on September 11, 2012 assessed how school resources can most effectively support high student performance despite constrained State and local support. A keynote presenter and panel presentations included options for how school administrators can spend resources differently to support and improve student outcomes. The following section,

[4] NYSED Fiscal Profiles, aggregating ST-3 school district financial information

Recommendations: Improving Student Learning in Fiscally Challenging Times complements ideas presented during the symposium and explores major directions for school funding within an economic recession.

Recommendations

Improving Student Learning in Fiscally Challenging Times

Support Foundation Aid and Modify the Gap Elimination Adjustment

It is imperative that the State prioritize support for school districts with the greatest student need and least local fiscal resources during these fiscally challenging times. The Regents support an equitable distribution of State Aid to school districts through a continuation of the Foundation Aid construct, thereby progressively allocating funding based on student need, regional cost differences and the local ability of districts to raise tax revenues.

The Gap Elimination Adjustment (GEA), resulted in the largest cuts to high need and average need school districts, as was shown earlier in Figure 2 on page 7. A historical account of the GEA includes:

- 2009-10 - $1.5 billion Deficit Reduction Assessment (DRA) offset with federal stimulus funds;
- 2010-11 - GEA reduced State Aid to school districts by $2.1 billion with some federal stimulus funds continuing to be available to offset reductions;
- 2011-12 - GEA reduced aid by $2.6 billion; and
- 2012-13 - GEA of $2.2 billion.

Adjust the Personal Income Growth Index

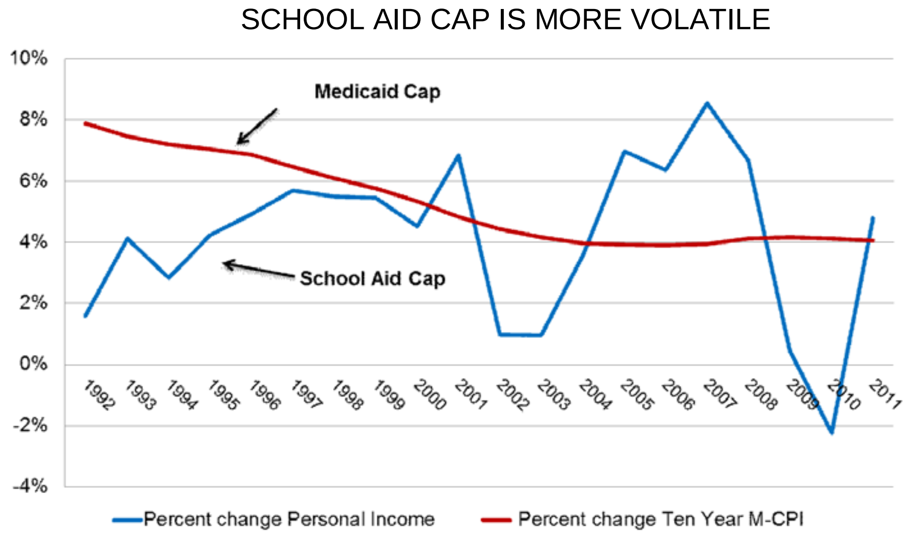
A cap on General Support to Public Schools (GSPS), which limits year-to-year increases in State Aid to the rate of the State's prior year's personal income growth, was enacted in the 2011 State Budget for 2013-14 and beyond. Basing the aid cap on the year-to-year change in personal income growth results in large fluctuations, especially in light of the financial services sector impact on New York State incomes. Such variability makes both short and long term planning by the state and school districts extremely difficult and could likely lead districts to both draw down more fund balance and eliminate additional teachers and instructional programs. By contrast, the Medicaid Index cap uses a ten year average of the Medical Component of the CPI and provides for more consistency and predictability. If the provisions of the new Personal Income Growth Cap were applied retrospectively, a variable income trend line would emerge, especially when compared to the ten year average of the Medicaid Cap, as shown in Figure 8.[5]

[5] Pro forma analysis of annual personal income in New York State, 1992-2011.

Figure 8

FY 2011-12 Budget Capped

Medicaid and School Aid



The volatility in the Personal Income Growth Index cap strongly suggests that adjustments are needed to ensure predictability and stable funding. In the near future, as data is reviewed and options for Personal Income Growth measures considered, it is recommended that a one year adjustment be adopted to smooth the variation that is likely to occur in 2013-14.

Encourage Multi-Year Fiscal Planning

The challenges created by current revenue constraints make it more important than ever that all districts undertake multi-year financial plans and that the Department collect and analyze them.

Develop and Track Education Opportunity Indicators

In light of budgetary constraints the Regents have recommended the development of key education indicators in order to gauge what effects the fiscal crisis is having on school districts' basic instructional programs. An academic researcher has been engaged to develop a limited, but essential, number of reliable and valid indicators to measure the educational opportunities available to students in each district. This important endeavor will also enable Department staff to monitor changes over time and provide an early indication of "educational insolvency." It is anticipated that the approach could also help identify best practices.

Quality Early Learning Opportunities Are a Critical Investment

High quality prekindergarten programs ensure that children acquire the foundational knowledge and skills needed for success in elementary school and to put them on track for college and career readiness later on. Children's early language development and preliminary reading skills directly benefit from participation in quality early childhood programs and grade level reading ability in the early elementary grades provides a reliable predictor of future school success.

There is significant research-based support for providing quality early learning opportunities for preschool children, especially for those at risk of educational achievement gaps related to poverty, and the economic benefits of investing in early learning are equally well documented. Every dollar invested in prekindergarten programs produces savings to the taxpayers of approximately $7 through reduction of remedial, special education, welfare and criminal justice services. A cost-benefit analysis conducted for New York State demonstrates that investing in prekindergarten programs results in a reduction of grade repetition and the need for special education services. [6] These reductions, along with other increased learning benefits, offset 41 percent to 62 percent of total spending on primary grade education, which translates to a savings of between 1.9 percent and 2.8 percent of the total General Support to Public Schools (GSPS). As New York has a higher rate of special education placement than the national average, the State stands to benefit even more than others by implementing and sustaining high quality early education programs.

The Universal Prekindergarten (UPK) program is a key component of New York State's educational system. Launched in 1998 with a statutory funding formula designed to achieve statewide implementation within four years, UPK stalled with funding frozen at the 2008-09 level and districts not already offering a UPK program in 2008-09 no longer eligible to apply. Expanding the number of slots and restructuring the program to offer full day programming, with a focus on serving low income students, is vital to implementing the Regents Reform Agenda.

There are several issues to consider in supporting a UPK program aligned with the Regents Reform Agenda:

- Statewide programs are not yet universal due primarily to funding limitations;
- 20 high need school districts do not currently offer UPK;
- Districts most often use the current funding to provide half-day sessions;
- The current funding levels are not adequate to support more intensive, full day educational programming;

[6] Belfield, Clive R. (2004) *Early Education: How Important Are the Cost Savings to the School System Research Briefing.* New York, NY: Teachers College, Columbia University

- The current structure excludes some children who could benefit but whose parents are not available to transport them mid-day; and

- Current UPK statute precludes districts from applying additional criteria for selection of children, such as giving priority to students with the greatest educational need due to poverty and other adverse life circumstances.

Figure 9 provides UPK enrollment data for 2011-12 by Need Resource Capacity categories.

Figure 9

UPK Enrollment by Need Resource Capacity Category: 2011-12

Need Resource Capacity Category	Percent of All Four-year-olds Served in UPK Program	Percent of UPK Students in Half-Day Programs	Percent of UPK Students in Full-Day Programs
High Need Urban/Suburban	67%	74%	26%
New York City	77%	73%	27%
Big 4 cities	85%	61%	39%
High Need Rural	52%	80%	20%
Average Need	33%	91%	9%
Low Need	10%	99%	1%

It is in the State's long term educational and economic interests to enable the most at-risk four year old children, i.e., those in poverty who are at the greatest risk of educational achievement gaps, to participate in full day UPK programs. It is therefore recommended that a restructuring of UPK be considered and the statute be examined in light of this change, with Free and Reduced Price Lunch (FRPL)[7] program guidelines serving as the proxy for poverty. It is also recommended that average and low need school districts that have not yet had the opportunity to offer UPK be funded, with priority in those districts given to children eligible for FRPL. Public and private partnerships opportunities should be developed or expanded to also connect UPK programs for students with the greatest needs with services for accessing comprehensive health and social services.

Finally, researchers concur that the quality of prekindergarten programs greatly impacts the learning opportunities for participating children. The Department has allocated $4 million of federal Race to the Top funds to support the implementation of QUALITYstarsNY from 2012-2014 through a Memorandum of Understanding with the City University of New York's Early Childhood Professional Development Institute for

[7] The Free and Reduced Price Lunch Program ratio for elementary school students could serve as a proxy for a district's prekindergarten children. Prekindergarten students are being included in the Students Information Repository System (SIRS) beginning in 2012-13 and in subsequent years additional data will be available for this age group.

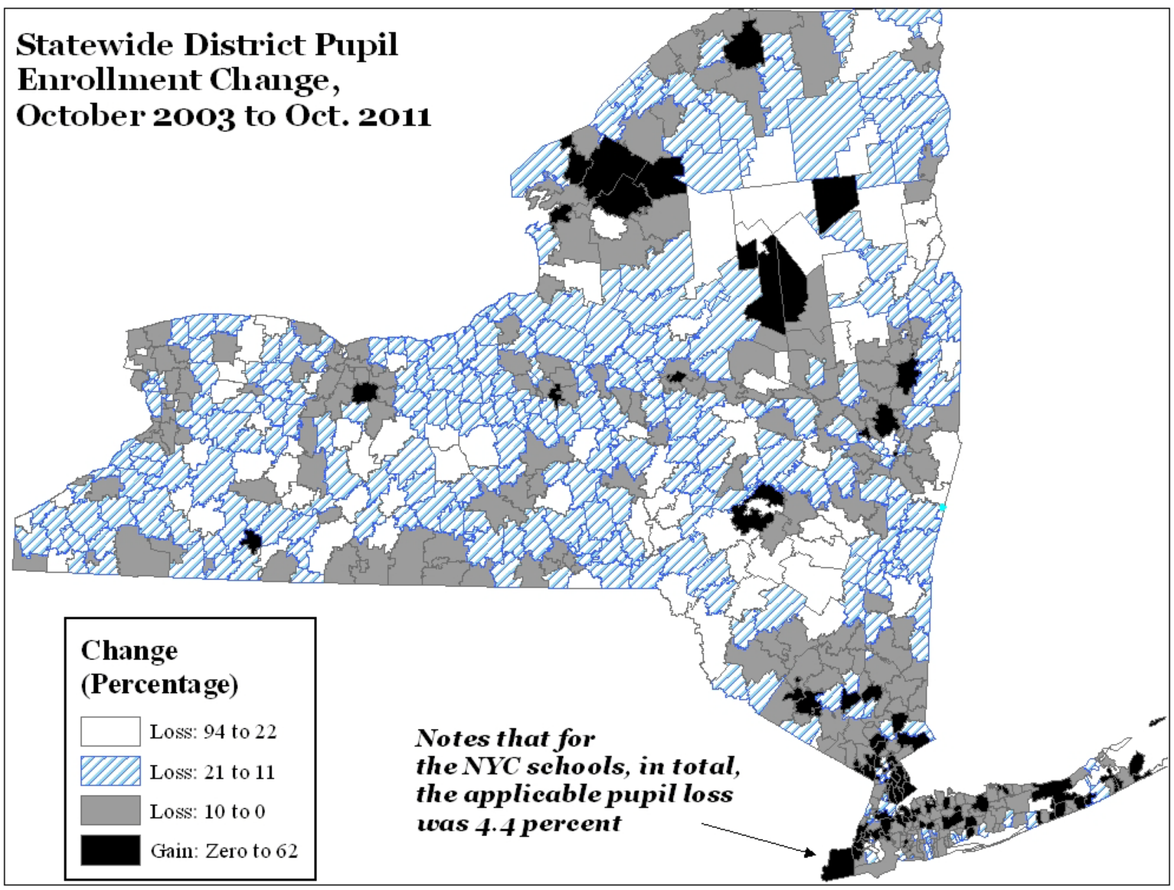
UPK programs and other early learning providers in communities that have one or more schools designated as Persistently Lowest Achieving (PLA).

Support for Regional Approaches to Enhanced Options

There are many regional variations across the State. While student enrollment is increasing in some areas, declining enrollments are apparent in most parts of the state, as shown in Figure 10. Enrollment losses are greatest in rural New York but are also evident in districts in the Hudson Valley, NYC and Capital Region.

Figure 10

Average Percent Change in Student Enrollment
By School District, School Year 2003-04 to 2010-11



Declining enrollments, coupled with State and local revenue shortages, highlight the need to continue to promote strategies for fiscal efficiency and educational effectiveness. The following strategies are discussed:

- o Reorganization through merging of contiguous school districts;
- o Regional secondary schools; and
- o BOCES as regional leader.

School District Reorganization

School district reorganization provides the opportunity for two or more contiguous school districts that meet prescribed criteria to merge into a single district. The State has long provided incentives for reorganization through additional Operating and Building Aid. Although historically many school district reorganizations have occurred, only four have transpired in the past decade despite there being 236 districts having enrollments of fewer than 1,000 pupils in 2011-12. Specifically, it is recommended that the State enact adjustments to aid formulas to promote reorganizations by:

- o Linking to Foundation Aid rather than 2006-07 Operating Aid;
- o Restructuring Reorganization Incentive Operating Aid toward the goal of improving student achievement and reducing costs over the long term;
- o Providing an efficiency penalty deduction for aid to school districts which are recommended for reorganization on the State's Master Plan but elect not to reorganize; and
- o Eliminating aid provisions that discourage reorganization by small districts, such as sparsity and 98 percent Building Aid, when districts have viable partners with which to collaborate.

The progression of the erosion of educational opportunities, exacerbated by enrollment declines and revenue generating challenges, especially for rural low wealth districts, strongly supports the need to further examine and champion reorganization options.

Regional Secondary Schools

Regional secondary schools represent a type and approach to the concept of reorganization. The Regents and the Department have examined approaches to the formation of regional secondary schools to help stave off the loss of further course offerings, especially enhanced course offerings that include Advanced Placement coursework, and improve options for academically challenging programs. Regional secondary schools may offer a lifeline for saving instructional programs on the verge of "educational insolvency," i.e., the inability of school districts to provide quality educational programs due to significantly reduced revenues and small enrollments.

The rationale for supporting regional secondary schools includes:

- o Strong evidence that the financial crisis facing small rural schools will not be alleviated to any significant degree in the future;

- Many of our schools may have difficulty meeting financial obligations and will risk cutting programs and personnel to the point of not being able to provide a sound, basic education to all students;
- The number of mergers has slowed to a standstill in recent years;
- Communities are reluctant to give up the local control and identity of their districts through merging their district with another;
- School districts are the center of small rural communities. Regional secondary schools would provide continuity and community identification through elementary school(s) while offering high school students more academic opportunities; and
- The financial and program challenges faced by small, rural districts are primarily at the secondary school level.

Support for Regional Approaches through BOCES

A regional approach in the delivery of services lends support to Board of Cooperative Educational Services (BOCES) serving as the regional leader and regional service provider and increasing the role of the District Superintendent Examples of how BOCES can assume a greater role include:

- Maintain BOCES Aid at current levels where Cooperative Service Agreements support the Regents reform agenda;
- Make BOCES Aid more progressive by eliminating the multiple aid ratio choices and refining the computation of the State share to better reflect districts' fiscal capacity;
- Provide authority for State agencies to contract with BOCES to provide such agencies with educational services that they are otherwise required by law to provide;
- Provide authority for BOCES to provide services to the Big Four city school districts (Yonkers, Rochester, Syracuse and Buffalo), in addition to the career and technical education services currently authorized by law; and
- Extend the existing BOCES capacity to provide all BOCES services available to school districts to charter schools as well.

Expense Based Aids

It is urgent that measures be adopted to balance the role of Expense Based Aids in General Support for Public Schools (GSPS). By supporting more aggressive cost-containment measures, the Regents propose to shift a greater percentage of State resources allotted for the GSPS toward instructional educational costs. This will have an impact on State Aid for future years. The Regents are not proposing changes for this year because school districts have already incurred expenses. This proposal recommends changes in State Aid be enacted now for future years based on expenses that school districts will incur after July 1, 2013 to avoid the rapid growth of expense based aids.

Building Aid

It is imperative that the State move toward a balance between State support for school construction and State support for instruction. Toward this end, the State needs to modify the incentives that exist within the current approach to supporting school construction. Building Aid formula enhancements, such as aid ratio enhancements and the choice of building aid ratios, have driven up the cost of school construction and diminished the accountability of the funding system. By supporting more aggressive cost-containment measures in the expense-based aids, the Regents propose to shift a greater percentage of State resources allotted for the General Support for Public Schools (GSPS) toward instructional educational costs.

Options for increasing the State's investment in capital construction and lowering overall costs in the near future and over the long term are:

- Restructure Building Aid;
    - Change State support from an entitlement program to an approach that provides a school construction allowance to school districts each year; or
    - Modify Building Aid to contain costs within the current funding system.
- Eliminate Incentive Aid;
- Eliminate the Selected Building Aid Ratio; and
- Discontinue State Support for Excessive Amounts of Incidental Costs.

Pupil Transportation

Transportation Aid partially supports the cost of transporting the State's 2.5 million students to and from school each day. Options for reducing transportation expenditures through regional transportation solutions, as well as obstacles faced in implementing changes, are being examined through Regional Transportation Pilots. Legislation enacted in 2010 led to four BOCES, constituting 32 school districts, and a group of nine additional districts conducting regional transportations pilots beginning in 2011-12. Some of the best practices reported include:

- Evaluating district-wide single bell systems to support consolidated bus runs;
- Analyzing regional bus routes for shared runs;
- Coordinating out-of-district runs to function more like a region-wide public transportation system;
- Considering transportation arrangements in determining student placements;
- Managing inventory of buses and fuel with other districts or municipal entities; and
- Maximizing maintenance facility use and auditing maintenance service levels.

Obstacles to improving the effectiveness and efficiency of the pupil transportation system, and thereby offsetting the advantages of best practices, have also been identified through the regional transportation projects. Obstacles include:

- Generous State Aid formulas provide a disincentive for sharing, especially for the vast majority of school districts which have the highest State shares (up to 90 percent);
- Lack of flexibility with contract requirements; and
- Labor union issues related to transporting across school districts boundaries.

Recommendations include:

- Strategically targeting Transportation Aid by making it more progressive and responsive to school districts' current fiscal capacity and by supporting shared services; and
- Providing flexibility to piggyback on Pupil Transportation Contracts in certain circumstances if the joint contract results in a cost savings to the school district.

Mandate Relief and Flexibility

As the State's revenue condition worsens and school districts adjust to the tax cap and the loss of federal funds, mandate relief becomes vital in order to preserve funding for critical priorities. While many mandates were originally enacted to enhance the rights, protections and performance of students and the fiscal accountability of school districts, not all mandates have produced their intended results. In these challenging fiscal times, it is imperative that a thoughtful and targeted series of changes be made to repeal outdated mandates that have grown too burdensome and costly and which are not essential to improving results for students.

While the Board of Regents has acted on regulatory mandate relief, including repealing outdated reports and minimum service requirements, legislative action is necessary to address mandates that exist in statute. The Regents have proposed legislation that would enact a series of mandate relief measures to provide relief from reporting requirements, provide greater flexibility relating to curriculum, transportation, educational management services and containing special education costs while protecting educational opportunities. While some of the Regents proposals were enacted as stand-alone legislation during the 2012 session, including more closely aligning membership of Committee on Special Education to federal requirements, allowing for electronic distribution of Individualized Education Programs (IEPs), and procurement mandate relief, more action is needed. The Regents support legislative action on the following issues:

- Initiate a feasibility study to allow districts and BOCES to save on credit card costs;
- Exempt school districts from the Smart Growth regulations for reconstruction, renovation and addition projects;
- Replace the mandate on Conservation Day with Earth Day academic instruction;
- Streamline the provision of special education services to parentally-placed students with disabilities;
- Reduce delays and due process costs by shortening the statute of limitations to request a special education due process hearing;
- Eliminate certain duplicative aging out reporting requirements; and
- Repeal special education space planning requirements.

Conclusion

New York State's continued restructured investment in education is fundamental to the college and career readiness of all students and vital to the State's long term economic recovery efforts. This conceptual proposal discusses the challenging revenue constraints placed on school districts and identifies modifications to the current funding structure in support a productive and efficient system. Specifically, it addresses the need for equity and transparency in school financing in light of the cap placed on General Support to Public Schools (GSPS) and recommends continued support for the Foundation Aid approach to school funding. It proposes the option of rebasing State Aid based on last year's levels, eliminating the GEA and using the Foundation Aid formula to distribute additional State Aid. It seeks costs savings and longer term solutions to Expense Based Aids which increasing consume a larger share of GSPS. This proposal also offers a renewed look at UPK, reiterates the need for districts to engage in multi-year financial planning, offers support for developing and tracking education opportunity indicators and reviews proposed efficiencies through shared services and regional educational approaches.

The fiscal and educational challenges facing school districts at this time are unparalleled in recent history. Options for success lie in the close examination of funding strategies and the reallocation of finite resources, including review of the State funded Competitive Grants and whether funding for additional or alternate program areas should be considered. The Regents Reform Agenda provides a strategic framework for school districts to prioritize goals for improving teaching and learning.