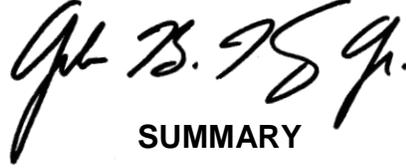




TO: State Aid Subcommittee
FROM: Cosimo Tangorra, Jr. 
SUBJECT: Conceptual Framework for the 2015-2016 Regents State Aid Proposal

DATE: November 10, 2014

AUTHORIZATION(S): 
SUMMARY

Issue for Discussion

The 2015-2016 State Aid Proposal will be presented at the December State Aid Subcommittee meeting. In its last meeting, the Subcommittee considered several important issues in advance of the proposal. The Subcommittee will further refine this Conceptual Framework this month. The issues for discussion include:

- How can new State resources best be distributed to ensure that school districts can maintain or enhance programs and improve performance consistent with the New York State learning standards and the goal of college and career readiness for all students?
- How should additional operating aid be distributed among school districts?
- How should the Pathways to Graduation Initiative be supported through the State Aid process?
- Are there additional investments beyond formula operating aid that should be made over an extended time period?

Reason(s) for Consideration

Development of policy.

Background Information

Each year the Board of Regents, through its State Aid Subcommittee, develops a proposal on State Aid to support public education. In its deliberations, the

Subcommittee considers information gathered from the Regents State Aid Symposium, the needs of school districts and an examination of various State Aid models.

The Board of Regents advanced a 2014-2015 State Aid proposal that included a \$1 billion increase to general support for public schools. This increase reflected an approach to general operating support called Transitional Operating Aid, as well as increases in reimbursement-based programs such as Transportation Aid, Building Aid and BOCES Aid. These increases in the reimbursement based programs were built on normal expenditure growth. No changes were recommended to the underlying formulas in the reimbursement based programs.

In addition, \$300 million was advanced to provide support for multi-year investment, including funding for universal prekindergarten (\$125 million), a Core Instructional Development Fund (\$125 million), and Enhanced Technology and Textbook Aid (\$50 million).

In its framing of the 2015-2016 Proposal, the Subcommittee has focused on initiatives that are responsive to critical issues facing our students. The conceptual proposal found in Attachment 1 identifies the issues where the Subcommittee has recognized that additional financial support is necessary to address emerging policy issues.

Timetable for Implementation

This discussion is a conceptual framework of the 2015-2016 Regents State Aid Proposal. A final proposal will be presented to the Board of Regents for approval at its December meeting.

Attachment 1

Conceptual Framework of the 2015-2016 Regents State Aid Proposal

Introduction

In October, the Subcommittee reviewed the Enacted Budget for 2014-2015, noting that the Enacted Budget included \$21.8 billion in funding for General Support for Public Schools (GSPS). This was a year-to-year increase of approximately \$1.12 billion, or 5.4 percent, compared to 2013-2014.

The major components of the increase were the Gap Elimination Adjustment Restoration (+\$602 million), Foundation Aid (+\$251 million), and expense-based aids (+\$274 million), as well as the new Statewide Universal Full Day Prekindergarten (+\$340 million). For the second consecutive year, the 2014-2015 Enacted Budget school aid increase exceeded the increase that had been recommended by the Board in its State aid proposal (see Chart A below).

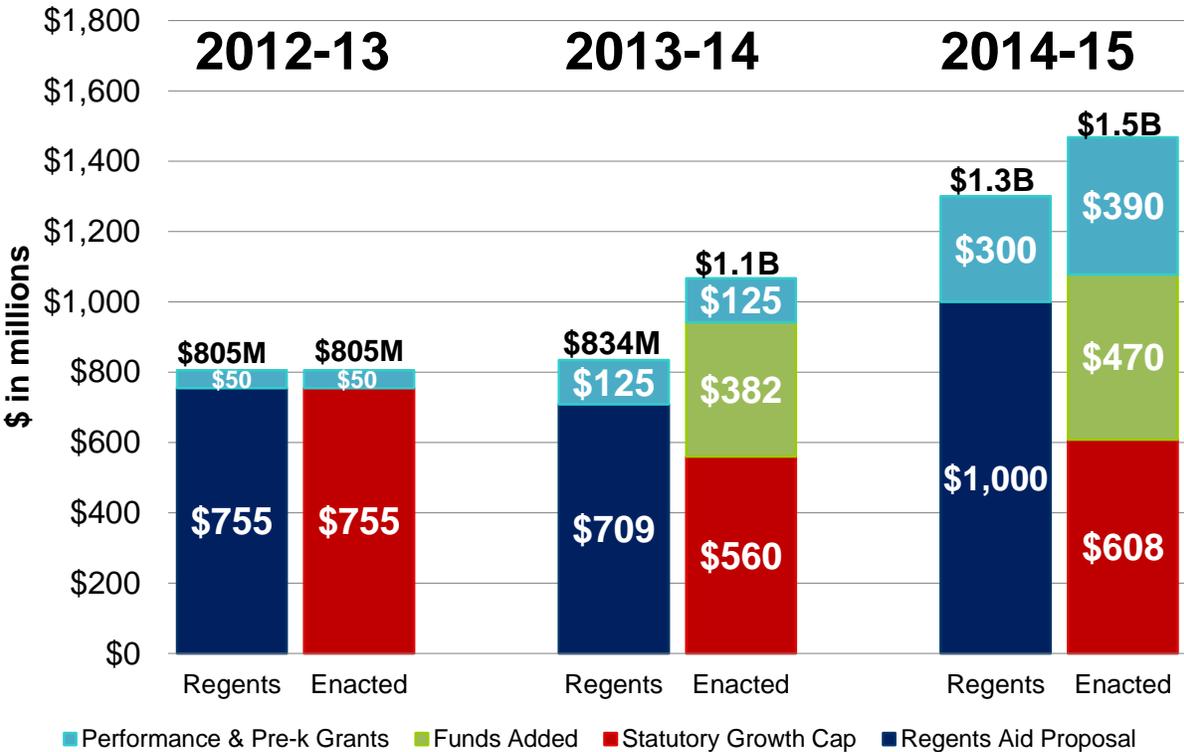
As Chart B below illustrates, the restoration of the Gap Elimination Adjustment (GEA) targeted most of the restored funds to lower wealth districts. As a result, while approximately \$1 billion in GEA deductions remain under the Enacted Budget formulas, those deductions are primarily applied to aid for districts with average and lower student needs and greater local fiscal capacity.

As a result, it was suggested that an allocation based solely on a GEA restoration would not have the student need-weighted characteristics upon which the Board has traditionally based its recommendations.

During October's discussion, the Subcommittee discussed three allocation methods. The first focused on Foundation Aid, leaving GEA deductions outstanding; a second method focused on GEA restorations, which raised concerns about the impact of a State Aid Proposal which recommended that funds be focused on lower need districts. The third method featured a blended approach, called a Transitional Operating Formula, which featured a combination of GEA restoration and new Operating Aid allocated according to the principles underlying Foundation Aid. As it had for its 2014-2015 Proposal, at its October meeting, the Subcommittee directed staff to develop the 2015-2016 Proposal with the blended, Transitional Operating Aid method.

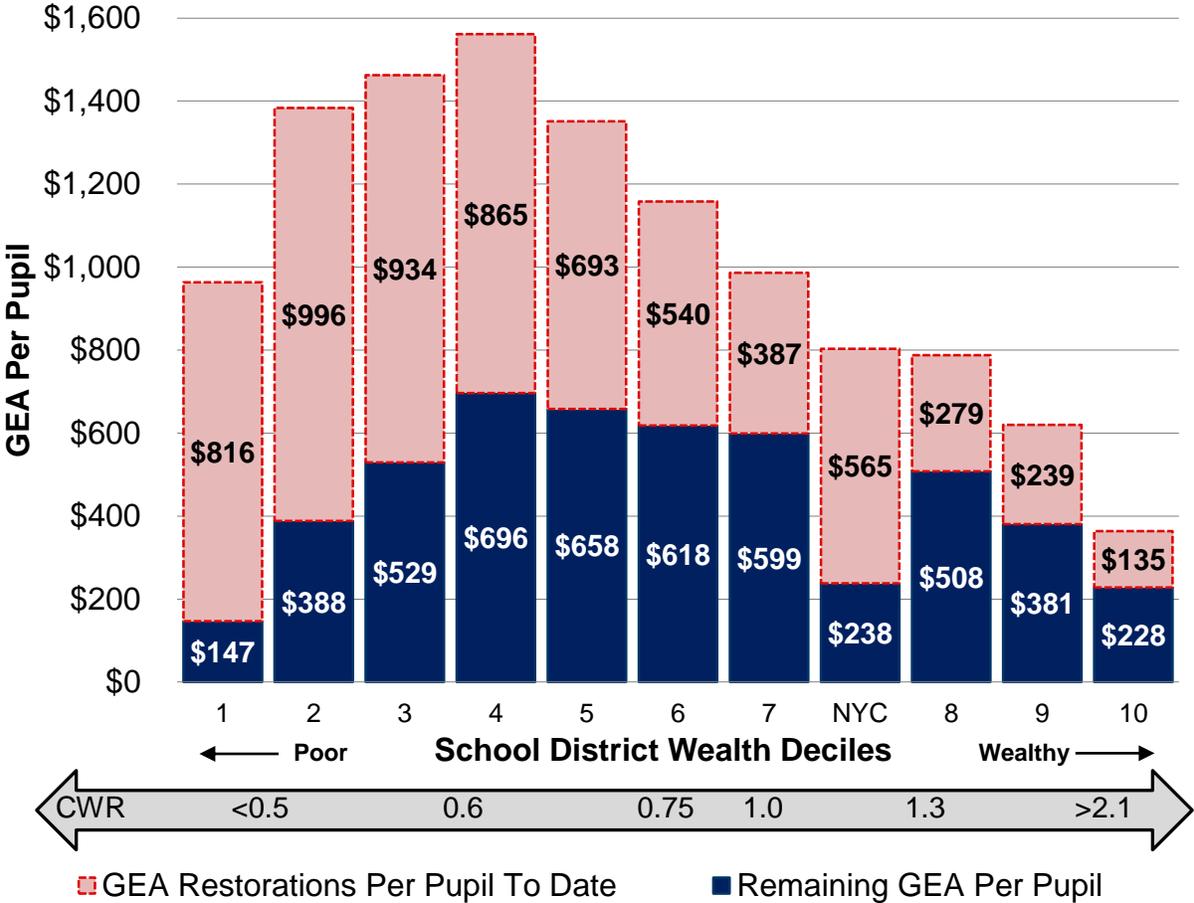
In addition, the Subcommittee discussed several emerging policy issues and considered means by which State Aid can be used to address the Board's goals, such as support for the high quality Career and Technical Education programming that will create new opportunities under the Multiple Pathways Initiative, a more coordinated early childhood system that increases access to high quality programs statewide, improved services for English Language Learner (ELL) students, support for the education of recent immigrants, the need to invest in new Common Core-aligned instructional materials and regionalization efforts. This Conceptual Proposal reflects that discussion.

Chart A. The Regents have proposed less funding in the past two years than was ultimately enacted.



There was a statutory Growth Cap that was enacted in 2011, with the purpose of linking state aid increases in future years to growth in personal income statewide. After remaining within the cap in the 2012-2013 school year, the Legislature added additional funding in both 2013-2014 and 2014-2015 and did not apply the statutory growth cap.

Chart B. GEA Restorations have been targeted to lower-wealth districts.



The current Gap Elimination Adjustment reached its high point of \$2.5 billion in the 2011-2012 school year. The Legislature has restored approximately \$1.5 billion statewide in the years since, with approximately \$1.0 billion remaining.

State and School District Fiscal Context

Property Tax Levy Cap

Under the Property Tax Levy Cap, school districts must obtain approval of 60% of the voters in order to 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. If the budget is defeated in the first effort to pass such a budget, a school district can re-submit the same budget, or a revised budget, to district voters. If the new proposed or revised budget is also in excess of the district's annual tax cap, the budget must again be approved by 60 percent of the voters. In cases where the district does not have a budget approved by the voters, a contingency budget must be adopted and the tax levy is limited to the prior year's amount.

Property Tax Freeze Credit

In the 2014-2015 Enacted Budget, a tax freeze credit program was established. The program encouraged school districts and other local governments outside of New York City to comply with the property tax levy cap by providing a rebate to certain residential homeowners in districts that maintained tax levies below the property tax levy cap. For the 2015-2016 school year, residents of school districts who remain under the cap for the second year and which have engaged in a shared services program that results in a savings of at least one percent of the levy for the next three years will also receive a property tax credit. In 2014, 23 districts opted to submit a budget that exceeded the tax cap. The tax levy cap was successfully overridden in 14 districts.

Race to the Top

As the Board of Regents finalizes its recommendations for its 2015-2016 State Aid proposal, there are several other factors affecting school districts that it may wish to consider. One important change that will occur is that the \$768 million in federal Race to the Top funds that have supported many of the costs of the transition to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework) will cease in June 2015. That means that the Board's 2015-2016 proposal will be its first opportunity to support the continuing move toward college and career ready standards in the post-Race to the Top era.

Settlement Funds

The Board should be aware that as in recent years school districts will continue to operate within a constrained fiscal environment at the local level for the 2015-2016 school year. At the same time, the districts will continue the move to the Common Core and many districts will take up the challenges of improving access to both quality early childhood programming and quality Career and Technical Education under Pathways.

Nevertheless, the 2015-2016 state fiscal year will provide an opportunity to make one-time expenditures and investments that can place some of our programs on stronger footing. During 2015-2016, the State will have the opportunity to spend an approximately \$4.8 billion in non-recurring legal settlement funds. The Conceptual Proposal makes two recommendations for the use of a portion of those funds.

The first of these would address a fiscal issue that limits the ability of many upstate school districts to participate in the grant process for the new Statewide Universal Full-Day Prekindergarten program. That program was structured in such a way that school districts were required to pay for a majority of the first year of the program themselves before receiving any state funds. For many districts, this was an obstacle to participation. We would recommend that a portion of the settlement funds be used to shift the payment schedule into the fiscal year in which the school districts actually incur the expenses, in a manner consistent with other aid formulas. This is a one-time adjustment that would ease pressure on districts that are operating programs in 2014-2015, while also removing a hurdle to participation by other districts as the program expands.

Second, we recommend that a portion of the funds be used to support an accelerated payment of certain already-approved school district school aid claims for past years (referred to as “prior year adjustments”). Throughout each school year, districts submitted updated data that reflect current pupil counts and actual expenditures on items such as transportation and special education. This data is used to re-estimate existing aid formulas. Claims that are submitted for past years are paid as a prior year adjustment.

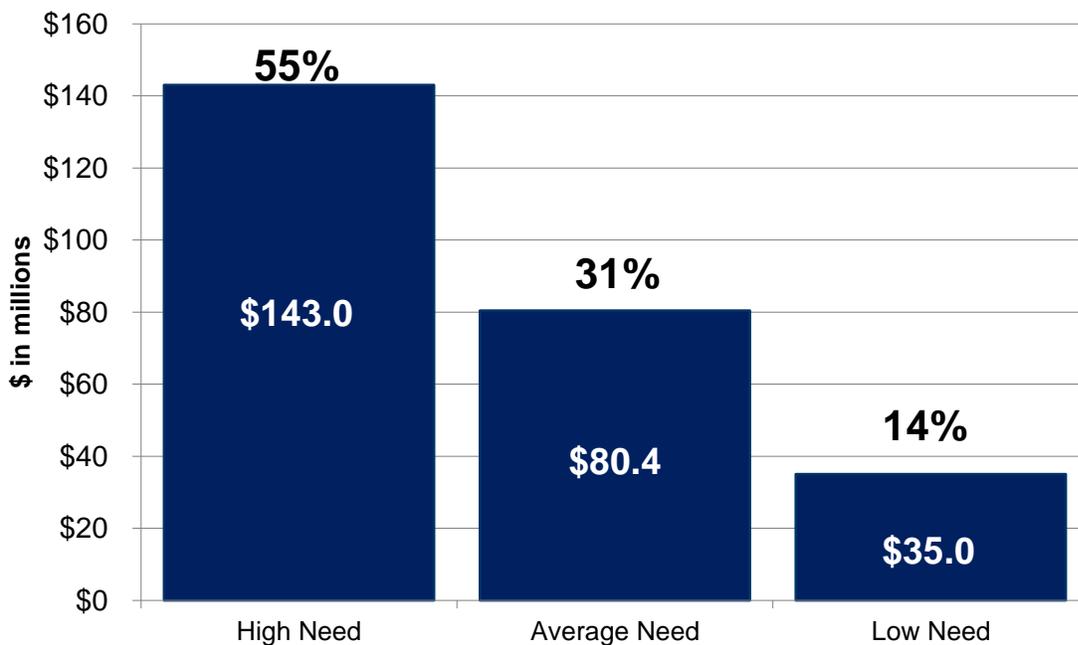
Without a major payment, some of these claims would otherwise not be paid for over a decade, since the backlog has been growing annually while the current state appropriation for repayments has not been sufficient in recent years to cover the new claims that have been added to the repayment queue annually (See Chart C). As the two Charts that follow indicate, accelerating these claims would provide a one-time revenue to school districts, but if they use them wisely over the course of the next several years, it could smooth the transition for some districts to the post-Race to the Top era, even amid the ongoing fiscal constraints described above. As Chart D indicates, 86 percent of the funds in currently what is known as the “prior year adjustments” queue are from low and average wealth districts. These are the districts that would benefit from the acceleration. There is additionally an annual backlog of claims for preschool and summer special educations programs, which could also be paid off with these settlement funds.

Chart C. Prior Year Adjustments have grown over the past five years.



Claim approvals are outstripping funds appropriated, growing the deficit. If funding remains constant for the coming years, new claims approved in August 2014 will not be paid until the 2028-2029 school year—14 years from now.

Chart D. The vast majority of outstanding aid adjustments go to High and Average Need Districts.



State Aid Approach for 2015-2016

In the section below, we describe in more detail our conceptual approach to school aid for 2015-2016.

Major Aid Programs:

Operating Aid: In October, the State Aid Subcommittee discussed three potential approaches to operating aid. These could be described as GEA-restoration focused, Foundation-focused and a blended model. After those discussions, the Subcommittee directed staff to develop an allocation approach to blend both a GEA restoration and to continue the Board's traditional emphasis on providing additional funds to school districts with higher levels of student need and fewer local fiscal resources, the Foundation approach.

Reimbursement-based Aids: The October discussion presumed that for the 2015-2016 school reimbursement-based aids (Transportation Aid, Building Aid, BOCES Aid and Special Services Aid) would be paid according to the formulas that are currently in statute. Recommendations that will enhance reimbursement for Career and Technical Education programs reimbursed through BOCES and Special Services Aid will be described in a section dedicated to fiscal support of specific policy initiatives below. However, it should be noted that while those recommended enhancements to the reimbursement of Career and Technical Education programs would affect the reimbursements for services provided during the 2015-2016 school year, the funds would not flow until a year later.

Instructional Materials Aids: As schools align their instruction to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework), they will experience costs for replacement and renewal of textbooks and other instructional materials. The existing instructional materials aids program is based upon per pupil reimbursement amounts that have not been increased for many years. This level of support is not adequate to support the new required investments, so the 2015-2016 Proposal will contain a recommendation to increase funding for these items.

Targeted Funding to Address Current Policy Concerns of the Board

In October, the Subcommittee discussed several emerging policy goals and directed staff to develop a proposal that reflects these concerns. The 2015-2016 Regents State Aid Proposal will contain recommendations for the fiscal support of the following programs.

1) *Increase Support to Career and Technical Education (CTE) Pathways to Graduation*

During its October meeting, the Board of Regents voted for the Multiple Pathways Initiative, which will provide multiple pathways to graduation, including a 4 + 1

option which will allow students to take four Regents exams and a comparably rigorous CTE exam. In the current fiscal environment, the statewide implementation and success of this historic initiative will require enhanced support for high quality Career and Technical Education programs. Components of a comprehensive CTE aid package will include:

- **Enhanced BOCES Aid for CTE Pathways programs.** Instructional salaries eligible for BOCES Aid have remained at \$30,000 since 1992. The equivalent salary in 2014 dollars would be approximately \$51,000, so the flat reimbursement amount has not kept pace with inflation, and may have reduced the ability of school districts to send their students to high quality programs offered by the BOCES¹. The Subcommittee will recommend that the aidable salary for BOCES CTE programs be doubled, with 40 percent of the gap funded for services provided in 2015-2016, and 20 percent annually for three years thereafter;
- **Enhanced Special Services Aid for District-Operated CTE Pathways programs.** In parallel to the BOCES programs, the recommended base amount used to calculate the reimbursement for CTE programs provided by districts that are not components of BOCES will increase by 40 percent for 2015-2016 services and 20 percent annually for three years afterward; and
- The Board will likely recommend the launch of new opportunities for students to access CTE Pathways programs statewide (with a particular focus on 21st century jobs in high demand and closely linked to regional economic development).

2) Expand Access to Full-Day Prekindergarten Funds by Realigning Components of the four Pre-K programs

The 2014-2015 Enacted Budget made a significant and important investment in the state's prekindergarten program by dedicating an additional \$340 million. The state is on the cusp of establishing a fully funded Universal Prekindergarten program. The Board will recommend continued expansion of investments in early childhood programs. However, in order to establish a premium statewide Universal Prekindergarten program, the Board will also recommend that the State move toward aligning the four existing Pre-K programs and ensuring a program that possesses the following elements:

- Broader geographical diversity of funding that reflects the need for high quality programs in every region of the state;
- Permanence of funding and ongoing administration by the agency best equipped to operate early childhood care and education programs that are linked to success in the school age system;
- An approach to reimbursement that recognizes many districts' cash flow constraints, and does not diminish statewide access due to timing of payments;

¹ Source: United States Bureau of Labor Statistics' Inflation Calculator, <http://data.bls.gov/cgi-bin/cpicalc.pl?cost1=30000&year1=1992&year2=2014>

- The development of a payment methodology that most effectively incentivizes all school districts to participate in a truly universal program;
- Flexibility in financing so that districts are able to begin programs mid-year if they discover the need and be reimbursed proportionately (on a prorated basis);
- Consistent rigorous quality standards, up to date and streamlined data reporting methodologies, and regulations regarding staffing and facilities; and
- Strong mechanisms to ensure and support quality services to children and their families and effective evaluations of programs.

3) Support English Language Learners' (ELLs) Success

New York State schools currently educate over 200,000 ELL students. These students speak more than 160 languages. In order for these students to succeed in meeting rigorous academic standards, the state needs to provide schools with the appropriate tools, such as home language assessments, professional development and instructional materials so that teachers can provide instruction that will enable students to meet our academic standards. Currently, funding for ELL students is provided in the foundation aid amount by including the count of ELL students in the pupil need weighting and in state categorical funding of \$13.5 million. Furthermore, the federal Title III, Part A program provides more than \$59.8 million annually to New York State. Additional state funding could be used to support:

- Materials and instructional resources that are linguistically, age/grade appropriate, and aligned to the Common Core Learning Standards.
- High-quality supports and feedback to educators to improve their instructional practice.
- Substantial and sustained opportunities for all teachers and administrators to participate in meaningful professional development that addresses the needs of ELLs, including home and new language development.

4) Financial Support to School Districts Experiencing a Surge in Immigrant Student Enrollments

In recent months, several of the State's school districts have been affected by a significant increase in the number of recent immigrant children served in their schools, many of whom are unaccompanied by their parents. These new arrivals may require substantial support as they adjust to the new environment, and any child who resides in our state has a right to educational services. The 2015-2016 Regents State Aid Proposal will recommend that the State provide additional assistance for affected districts so that they can meet the needs of their new students. In addition, the recommendation is likely to include the provision that some of this new funding should be available on a current year basis to enhance districts' ability to respond as needed to surges in enrollment.

5) Support for Regional Secondary Schools

The Board of Regents has long promoted the provision of certain key services on a regional basis. In the 2015-2016 State Aid Proposal, the Board will likely recommend the authorization of regional secondary schools, which represent a flexible approach to the concept of reorganization.

Regional secondary schools have been used in rural areas of other states, including Massachusetts, to ensure that students in rural communities retain access to specialized coursework, such as Advanced Placement course work or Career and Technical Education programs. This regional approach will help rural communities adjust to declining enrollments while maintaining community identity through the continuing role of the local elementary school.

6) Encourage School District Reorganization and Expanded Regionalization of Services

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. In recent years, multiple efforts to reorganize have failed, with differential tax impacts on the reorganizing districts often cited as a cause for the failure. While the 2014-2015 Enacted Budget included a provision that will make it easier for some school districts to reorganize by phasing-in impact on tax rates of newly reorganized school districts, there are still a number of statutory and fiscal barriers to mergers.

The Governor recently called for \$500 million of the settlement funding available to the state be provided to local governments to promote shared services and consolidations. In agreement with this concept, and in order to encourage reorganizations that are beneficial to students, the Board of Regents recommends that the formulas that are used to incentivize reorganizations be enhanced to help ease changes in tax rates for reorganized school districts. This could include linking the Reorganization Incentive Aid formula to Foundation Aid, rather than the 2006-2007 Operating Aid. In addition, the state could provide additional incentives for regionalization of services.