



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

**TO:** Subcommittee on State Aid and Full Board

**FROM:** John B. King, Jr.

**SUBJECT:** Regents 2011-12 Conceptual Proposal on State Aid to School Districts

**DATE:** December 13, 2010

**STRATEGIC GOAL:** 1, 2, 3 and 5

**AUTHORIZATION(S):**

## **SUMMARY**

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### Issue for Action

The Regents 2011-12 State Aid Proposal as approved by the Regents Subcommittee on State Aid on behalf of the Regents.

### Reason(s) for Consideration

Policy implementation.

### Proposed Handling

The detailed State Aid proposal will come before the Subcommittee at their December meeting and the Subcommittee will make a recommendation to the full Board to approve.

### Procedural History

The Regents Subcommittee on State Aid began its discussion about the Regents 2011-12 State Aid proposal at its September 2010 meeting. At that meeting subcommittee members discussed legislative action for the current school year and the context for the 2011-12 Regents State Aid Proposal. In October, the Subcommittee discussed varying options for the continued viability of the Regents Examination Program given fiscal deficits, the balance between Foundation Aid and expense-based

aids, and reviewed and discussed a presentation on *Cost Drivers, State Aid and Education Reform: The Problem and Possible Strategies*. In November, the Regents Subcommittee and Full Board reviewed a draft of the Regents conceptual proposal.

### Background Information

In light of diminishing revenues and escalating expenses, a tension exists between providing the resources needed to support educational reform and maintaining the current level of support for education including meeting the State's obligation for reimbursement of expense based aids. Containing future costs associated with expense based aids, e.g., Building Aid, Transportation Aid, BOCES Aid, and Public and Private High Cost Aid, is an important part of this conversation. In addition, the adverse economy calls for a reexamination of school district reorganization, mandate relief and use of BOCES capacity to support education reform and contain costs.

The Regents State Aid Proposal has been modified over the past month in response to discussions held among key constituents and further editorial review. The following changes reflect revisions to the Conceptual Proposal since the State Aid Subcommittee met and discussed it at their November 15, 2010 meeting.

- Executive Summary added (p. 3);
- Added a proposal to consolidate Textbook and Software aids (p. 18);
- Added Comptroller's proposal to allow districts to establish reserves to help plan for retiree and other expenses (p. 19);
- Deleted reference to seat time as a possible mandate relief item (as per the State Aid Subcommittee discussion on 12/13/10) and modified description of possible options to read, "...will include a variety of areas which could address, but not be limited to..." (p. 19);
- Included the option of regional high schools to the section on school district reorganization (p. 20);
- Broadened the proposal that BOCES provide services to children educated at OCFS agencies to other appropriate State agencies (p. 21);
- Added to the BOCES section the importance of maintaining BOCES Aid for Cooperative Service Agreements that support the Regents reform agenda (p. 21);
- Added to the BOCES section the proposal to eliminate the DS salary cap (p. 22);
- After consultation with the Big 5 city school districts, deleted the proposal to expand BOCES Services to the Big Four;
- Added to the section on restructuring Building Aid that the panel should consider tying the incidental cost allowance to actual costs rather than the maximum cost allowance (p. 24);

- Added to the section on restructuring Building Aid that the panel should consider eliminating Building Aid for energy performance contracts that are required by law to pay for themselves (page 24);
- Edited the recommendation for a Statewide Health Insurance Plan to recognize the need for more evidence and research before making recommendations (p. 24); and
- Made editorial changes for clarity and consistency of format (various pages).

### Recommendation

I recommend you take the following action:

VOTED that the Regents adopt the attached report as their proposal on State Aid to school districts for school year 2011-12.

### Timetable for Implementation

Following the Regents approval of the final State Aid proposal for 2011-12, the Governor will issue his budget recommendations in January and will ask the Legislature to approve a State budget by April 1.

***New York State Board of Regents  
Proposal on  
State Aid to School Districts  
For School Year 2011-12  
December 2010***



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

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## ***Executive Summary***

As the Board of Regents finalizes its recommendations on State Aid to school districts for school year 2011-12 the State and nation continue to struggle with a prolonged economic recession. The Regents school aid proposal recognizes the significant fiscal stress under which the State is operating and provides advice to the State on how to minimize the impact of the State's deficit on public school districts and the reforms that are underway to improve New York's educational system. The Regents recommend an increase in general support to public schools of \$91 million over the prior year.

The Regents remain committed to the Foundation Aid approach to school funding. The formula's simplicity and transparency allow for a healthy public discourse on each of the formula's elements. The Regents support changes to the formula that preserve the essential elements of the formula to provide foundation support to school districts to educate students. The Regents recommend no increase in funding Foundation Aid, as proposed by the Governor and Legislature, but do recommend changes that recognize current data on school district fiscal capacity, regional cost, pupils and academic success. This bare-bones approach includes a restoration of the phase-in of the Foundation Aid formula as the economy improves. The Regents provide a projected target of 2016-17 for full implementation of the formula. The Regents recommend that Foundation Aid be provided to guarantee that no school district experiences a loss of more than five percent over the prior year.

The Regents recommend that State support for expense-based aids (Building Aid, BOCES Aid and Transportation Aid), which tend to increase consistently by hundreds of millions of dollars each year, also be moderated. The intent is to better balance State support for school construction, pupil transportation and shared services on the one hand with State support for school operation and maintenance on the other. The Regents recommend changes to State Building Aid that reduces State support for future school construction projects. The Regents propose a blue ribbon panel to further assess and evaluate directions for State support of school construction. The Department is engaging the field in a series of regional pupil transportation pilot projects to identify the potential for cost savings and to remove obstacles to achieving these savings. The Regents recommend eliminating the multiple aid ratio choices for Transportation and BOCES Aids and refining the computation of the State share to better reflect districts' fiscal capacity. The Regents also recommend that the State maintain BOCES Aid for cooperative services that support the Regents reform agenda.

The Regents also recommend that the Universal Prekindergarten grants be expanded, continuing to progress toward the goal of making quality early childhood education available throughout New York State. The Regents also recommend implementation of a modest High Tax Aid formula that recognizes the extraordinary burdens shouldered by taxpayers in districts with high costs.

Other recommendations include:

- Require school districts to develop a three year financial plan to identify future cost increases and support an informed financial planning process;

- Appropriate \$15 million to ensure the continuation of the Regents examinations, which are the cornerstone of the State's high school accountability program;
- Restructure State funding for the Universal Pre-kindergarten Program to provide more stability, and greater predictability and flexibility;
- Reinstating a formula to provide for High Tax Aid to eligible districts with extraordinary taxpayer burdens.
- Provide greater flexibility in State support for textbooks and software with a combined Instructional Materials Aid;
- Support the Comptroller's proposal to allow districts to establish additional reserve funds to plan for future obligations including retiree expenses;
- Provide mandate relief in requirements for special education; middle school; and planning and reporting;
- Establish a panel to review current incentives, and disincentives, for school district reorganization and support models which are consistent with needed educational reforms, cost savings and shared services;
- Increase the role of the District Superintendent and BOCES as Regional Leader and Regional Services Provider including providing certain services to charter schools, the Big 4 city school districts and State agencies that educate students;
- Eliminate the salary cap on BOCES District Superintendents;
- Promote and expand the role of the BOCES Central Business Office service, in compliance with legal limits and professional auditing standards; and
- Explore cost containment options through statewide health insurance plans for school district employees.

Exhibit A shows the aid the Regents recommend by major category of State support including net adjustments and federal apportionments. Exhibit B shows the distribution proposed by the Regents for the share of the computerized aid increase to high need school districts and all others.

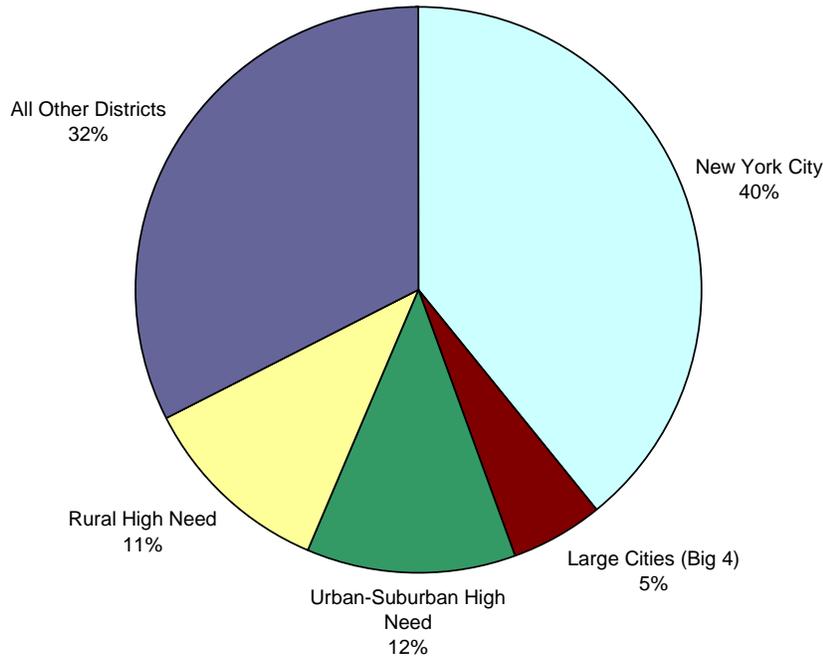
**Exhibit A**  
**2011-2012 Regents State Aid Proposal**  
**NEW YORK STATE**

(all figures in millions)

Program	2010-11 School Year	Regents 2011-12 Request	Regents - Change from Base
<b>General Purpose Aid</b>	<b><u>\$15,546</u></b>	<b><u>\$15,413</u></b>	<b><u>(\$133)</u></b>
Foundation Aid	\$14,894	\$14,894	\$0
Academic Enhancement Aid	\$27	\$0	(\$27)
Charter School Transition Aid	\$23	\$25	\$2
High Tax Aid	\$205	\$52	(\$153)
Reorganization Incentive Operating Aid	\$3	\$3	\$0
<b>General Purpose Aid Subtotal</b>	<b><u>\$15,152</u></b>	<b><u>\$14,974</u></b>	<b><u>(\$178)</u></b>
Aid for Early Childhood Education	\$394	\$439	\$45
<b>Support for Pupils with Disabilities</b>	<b><u>\$788</u></b>	<b><u>\$825</u></b>	<b><u>\$37</u></b>
Private Excess Cost Aid	\$330	\$343	\$13
Public Excess High Cost Aid	\$454	\$482	\$28
Supplemental Public Excess Cost Aid	\$4	\$0	(\$4)
<b>BOCES\Career and Technical Ed.</b>	<b><u>\$913</u></b>	<b><u>\$908</u></b>	<b><u>(\$5)</u></b>
BOCES Aid	\$702	\$694	(\$8)
Special Services - Academic Improvement	\$51	\$51	\$0
Special Services - Career Education Aid	\$124	\$126	\$2
Special Services - Computer Admin. Aid	\$36	\$37	\$1
<b>Instructional Materials Aids</b>	<b><u>\$283</u></b>	<b><u>\$287</u></b>	<b><u>\$4</u></b>
Computer Hardware & Technology Aid	\$38	\$38	\$0
Library Materials Aid	\$19	\$19	\$0
Software Aid	\$45	\$0	(\$45)
Textbook Aid	\$181	\$0	(\$181)
Instructional Materials Aids	\$0	\$230	\$230
<b>Expense-Based Aids</b>	<b><u>\$4,058</u></b>	<b><u>\$4,264</u></b>	<b><u>\$206</u></b>
Building Aids	\$2,489	\$2,659	\$170
Transportation Aids	\$1,569	\$1,605	\$36
<b>Computerized Aids Subtotal</b>	<b><u>\$21,588</u></b>	<b><u>\$21,697</u></b>	<b><u>\$109</u></b>
<b>All Other Aids</b>	<b><u>\$277</u></b>	<b><u>\$259</u></b>	<b><u>(\$18)</u></b>
<b>Total GSPS</b>	<b><u>\$21,865</u></b>	<b><u>\$21,956</u></b>	<b><u>\$91</u></b>

<b>Net Adjustments</b>	<b><u>(\$2,270)</u></b>	<b><u>\$0</u></b>	<b><u>\$2,270</u></b>
Gap Elimination Adjustment	(\$2,138)	\$0	\$2,138
FMAP Reduction	(\$132)	\$0	\$132
<b>Federal ARRA Apportionments</b>	<b><u>\$1,336</u></b>	<b><u>\$0</u></b>	<b><u>(\$1,336)</u></b>
Gap Elimination Adjustment Restoration	\$726	\$0	(\$726)
Education Jobs Fund	\$608	\$0	(\$608)
Other Grants	\$2	\$0	(\$2)
<b>Grand Total</b>	<b><u>\$20,931</u></b>	<b><u>\$21,956</u></b>	<b><u>\$1,025</u></b>

**Exhibit B**  
**2011-12 Regents State Aid Proposal**  
Share of Computerized Aid Increase for 2011-12 School Year



## Introduction

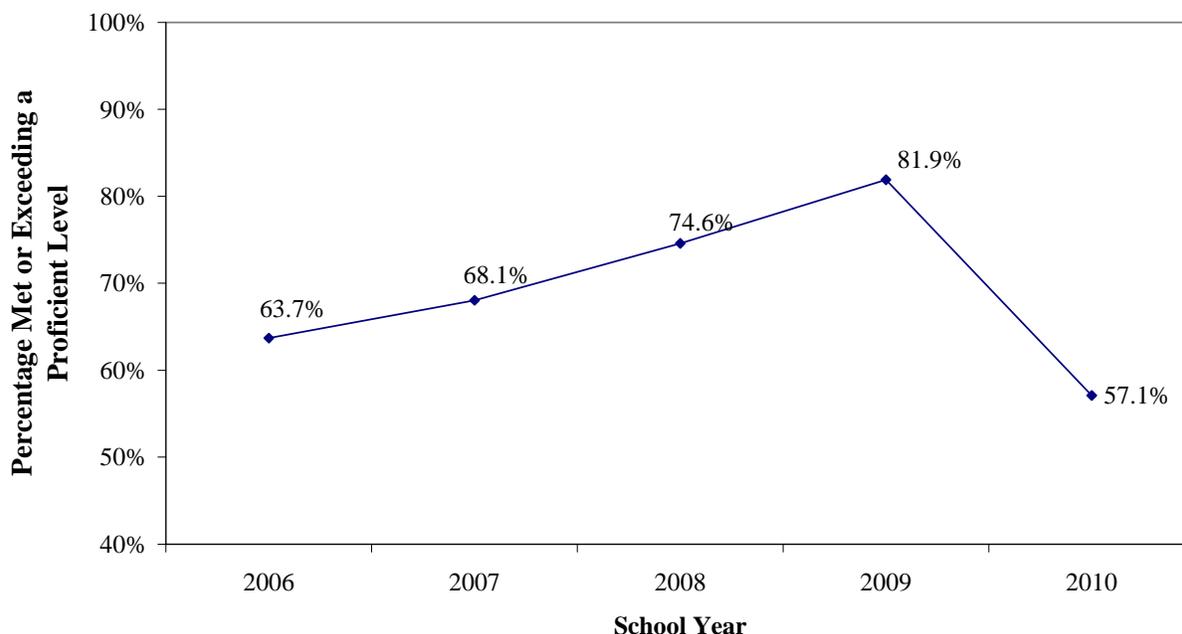
### ***Supporting Students for College and Career Readiness***

New York State students should complete their high school education with the highest preparation possible to ready them for college and careers. Are sufficient resources available, in conjunction with needed reforms, to ensure that all students are on the path to meet or exceed State learning standards? Can students plan on graduating with the knowledge and skills they need to be successful in college and work?

The Board of Regents has begun a strategic initiative to change the process of working with school districts in order to effectuate significant improvement in student achievement. This Regents reform agenda seeks to improve curriculum and assessment, establish a P-20 longitudinal data system, ensure great teachers and principals, and improve intervention in low performing schools. These reforms, funded with seed money by the federal Race to the Top grant, will need a State investment to sustain the progress that is made.

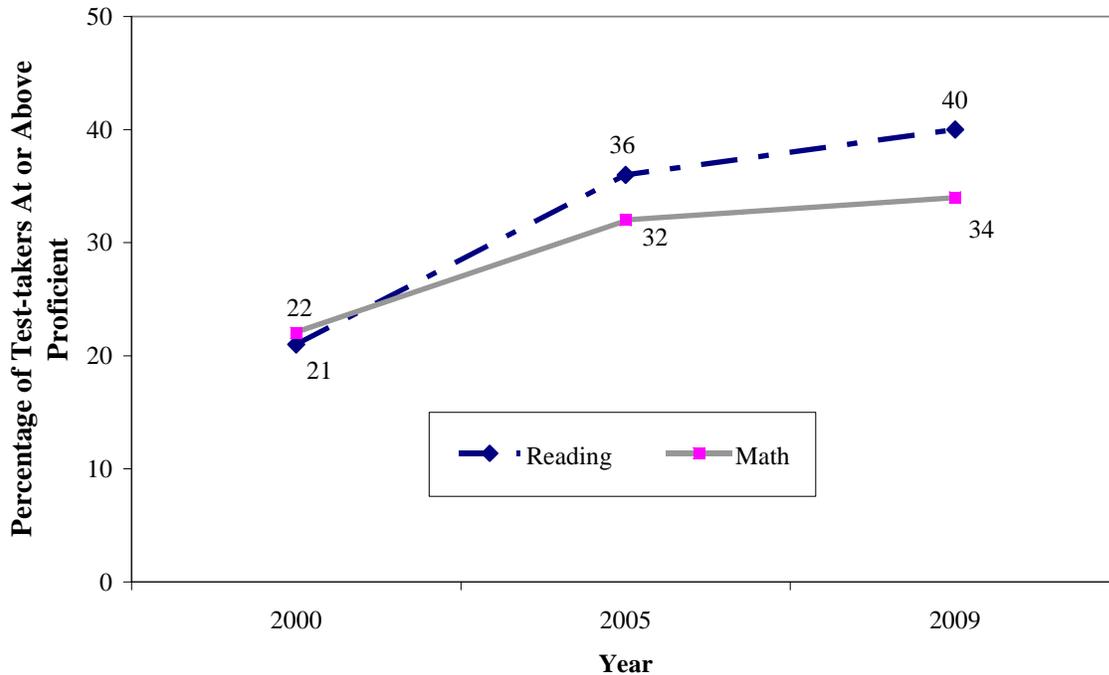
While students across the State have shown continued progress on the State’s learning standards over the past several years, as measured by assessment results for Math and English Language Arts in grades 3 through 8, there was increasing concern that achievement at the proficient level on these assessments did not adequately prepare students for college and/or career readiness. In response to this concern, the Regents revised the minimum scores required for proficiency, effective July 2010. Figure 1 provides a five-year view of the average proficiency of students in grade 3 through 8 on the State’s English Language Arts and Math assessments. The dip in 2010 reflects the Regents adoption of new higher cut scores as a measure of proficiency.

**Figure 1. Average of Students in Grades 3-8 Achieving at Least at a Proficient Level on the Math and ELA Statewide Assessments, Last Five Years of Test Administration**



The progress in student achievement over the past decade can also be examined using an objective measure of educational progress, such as statewide scores in math and reading on the National Assessment of Educational Progress (NAEP). NAEP scores serve as a predictor for future student outcomes. Figure 2 shows that in 2009 only about one-third of fourth grade students tested scored at proficiency levels in mathematics and less than one-half were proficient in reading. Students who are struggling in reading and math in the fourth grade will confront significant hurdles as they seek to master subject content in middle school and high school. The State’s P-12 educational system has an obligation to provide all students with the skills they need to graduate from high school and pursue college or enter the work force as a productive member of society. Successful graduates will provide needed fuel to the State’s economy and help promote its economic productivity and viability.

**Figure 2: Percentages of New York Students Scoring at or Above a Proficient Level--4th Grade NAEP Reading and Math 2000, 2005 and 2009**



***A Poor Economy Presents Continued Problems***

In an effort to improve student outcomes around the State and work toward closing the achievement gap, the Regents proposed a foundation formula which was the basis for the formula the State enacted in 2007. The foundation formula, when fully phased in, is intended to provide the funding to support a sound basic education for all students. However, despite substantial Foundation Aid increases in 2007 and 2008 the foundation formula was frozen in 2009 due to the poor economy and the phase-in was extended from four to seven years.

Each year that Foundation Aid is frozen, school districts that are highly dependent on State Aid get further behind than those that receive more of their funding from local revenues. These State-Aid-dependent districts have limited local fiscal capacity to offset the loss of State Aid which represents a greater proportion of their budget than less needy districts.

New York State anticipates a budget gap of \$9 billion in the next fiscal year and even greater projected budget deficits in subsequent years. The State's dire fiscal condition is mirrored locally and nationally. Decreased tax revenues and financial market losses have negatively affected all levels of government. Declining revenues and escalating school district costs are cause for great concern. Additionally, school aid costs are

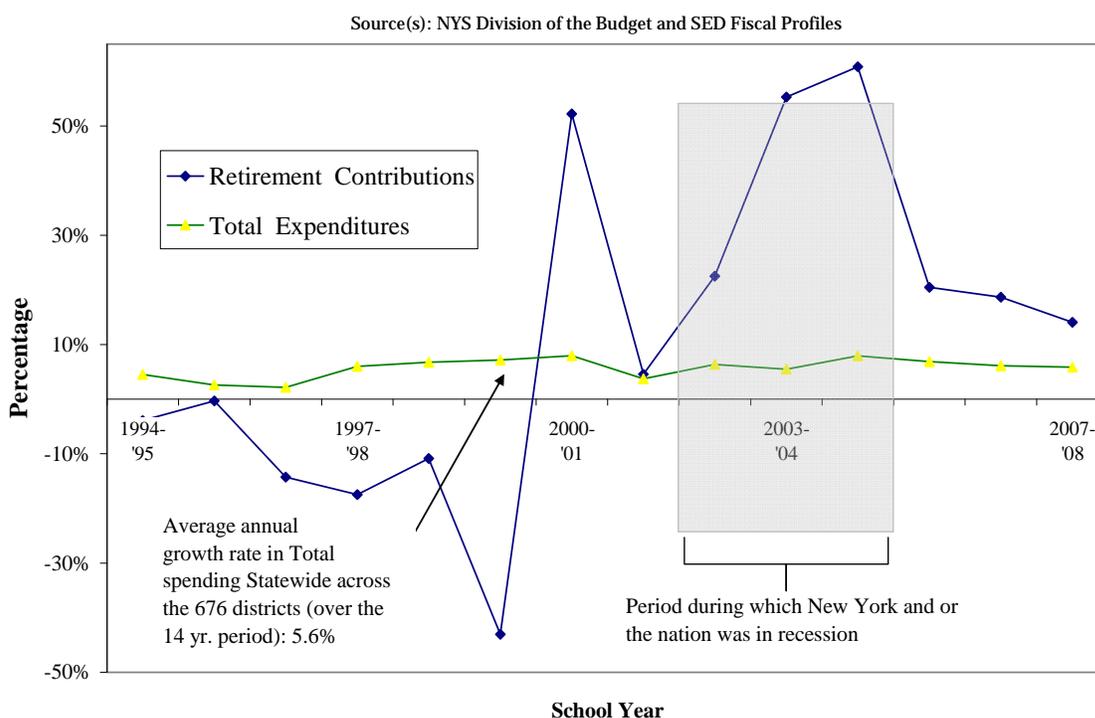
expected to increase more than previously anticipated in 2011-12 due to updated wealth and demographic information reported by school districts which reflect the challenging economic conditions faced by many families and communities.

Consistent increases in school district expenditures are exacerbated by demographic changes resulting in enrollment declines and growing numbers of retired personnel. These trends require a more in depth examination of the organizational structure and financial support of our schools. Costs are rising for several major spending categories within school district budgets. For example, instructional expenses and pupil transportation expenses have doubled since 1993-94. Expenses for teacher retirement, employee health and other instructional expenses, including charter school payments, have increased from two to more than three times over the same period.

Additionally, expense based aids, which include Building Aid, Transportation Aid, BOCES Aid, High Cost Excess Cost Aid and Private Excess Cost Aid, have grown dramatically, increasing by an average of \$340 million each year or 44 percent since 2005-06. This increase has resulted in reimbursement to districts from approximately \$4 billion in 2005-06 to approximately \$5.7 billion in 2010-11.

Figure 3 demonstrates that annual expenditures of school districts increased, on average, 5.6 percent between 1994-95 and 2007-08. It shows that retirement contributions required to be paid by districts are erratic, due in part to the increasing number of retirees in the system, as well as the performance of retirement fund investments. That is, districts pay less when the overall return on retirement investments is higher and more when market returns are diminished. The volatility of the market has resulted in districts paying more in retirement contributions in this weakened economy, compounded by a growing number of retirees for whom school districts must support health care and retirement costs.

**Figure 3: Annual Percent Change in Statewide Contributions for Employee Retirement and Total Expenditures, School Years 1994-95 thru 2007-08**



Note that while total expenditure data are not yet available for years subsequent to 2007-08, contribution rates continued to decline through 2009-10, but increased in 2010-11 and are expected to increase in 2011-12. Figure 4 shows the percent of payroll that the New York State Teachers' Retirement System (TRS) imposed on school districts for employee contributions from school year 2000-01 to school year 2010-11.

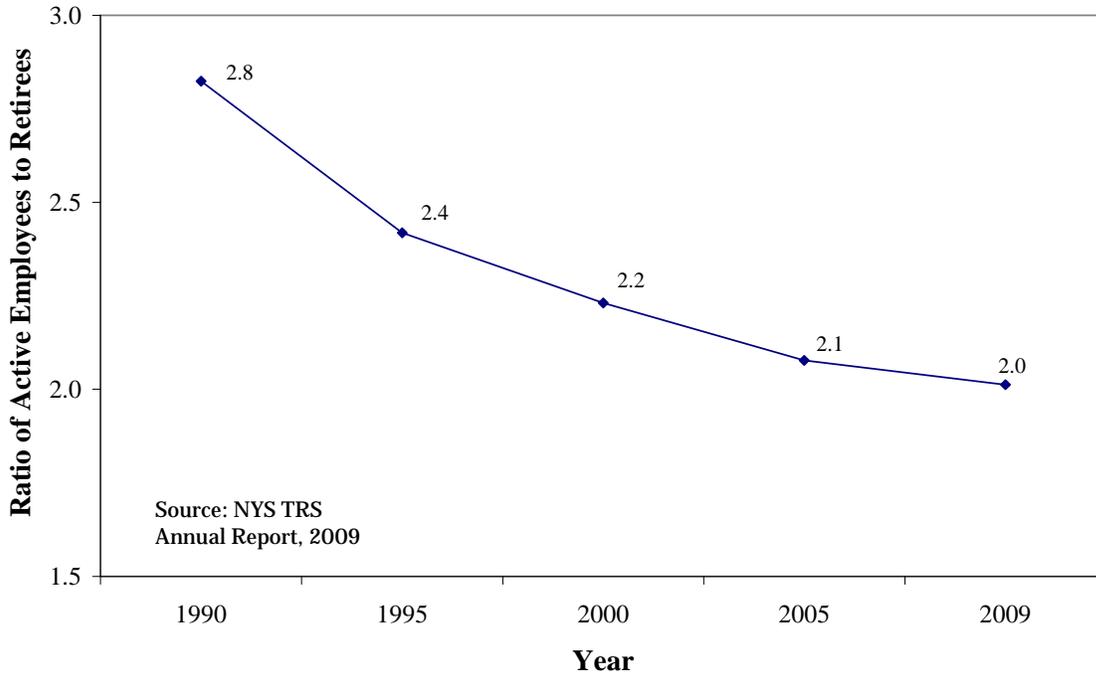
**Figure 4. Percent of Payroll that the New York State Teachers' Retirement System (TRS) Imposed on School Districts by Year**

Salary Year	Contribution Rate
2000-01	0.43%
2001-02	0.36%
2002-03	0.36%
2003-04	2.52%
2004-05	5.63%
2005-06	7.97%
2006-07	8.60%
2007-08	8.73%
2008-09	7.63%
2009-10	6.19%
2010-11	8.62%

SOURCE: New York State Teachers' Retirement System Administrative Bulletin, Issue No. 2010-13, November 2010.

Figure 5 shows that the number of retired employees, for whom districts continue to pay health care and retirement, has increased relative to the number of active employees over the past 20 years. In 1990 there were 2.8 active employees in the Teacher's Retirement System (TRS) for every retired employee. In 2009 there were only two active employees in TRS for every retiree.

**Figure 5: Ratio of Currently Employed Employees Covered by the Teachers Retirement System (TRS) to Retirees, by Year**



***Federal Stimulus Funds Have Delayed the Funding Cliff***

In 2009-10 and 2010-11 the federal American Recovery and Reinvestment Act (ARRA) of 2009 provided over \$3 billion in increased stabilization funding to mitigate school aid cuts and approximately \$2 billion in additional targeted funding. The Education Jobs Fund, enacted in 2010, has provided an additional \$607 million in federal stimulus funds for districts to be spent by the end of school year 2011-2012. It is anticipated that when the Federal stimulus funding is discontinued there will be a very sizable budget gap in the State's funding for education. The replacement of one-time injections of federal money and State cost savings is expected to require \$2.27 billion in increased resources in 2011-12.

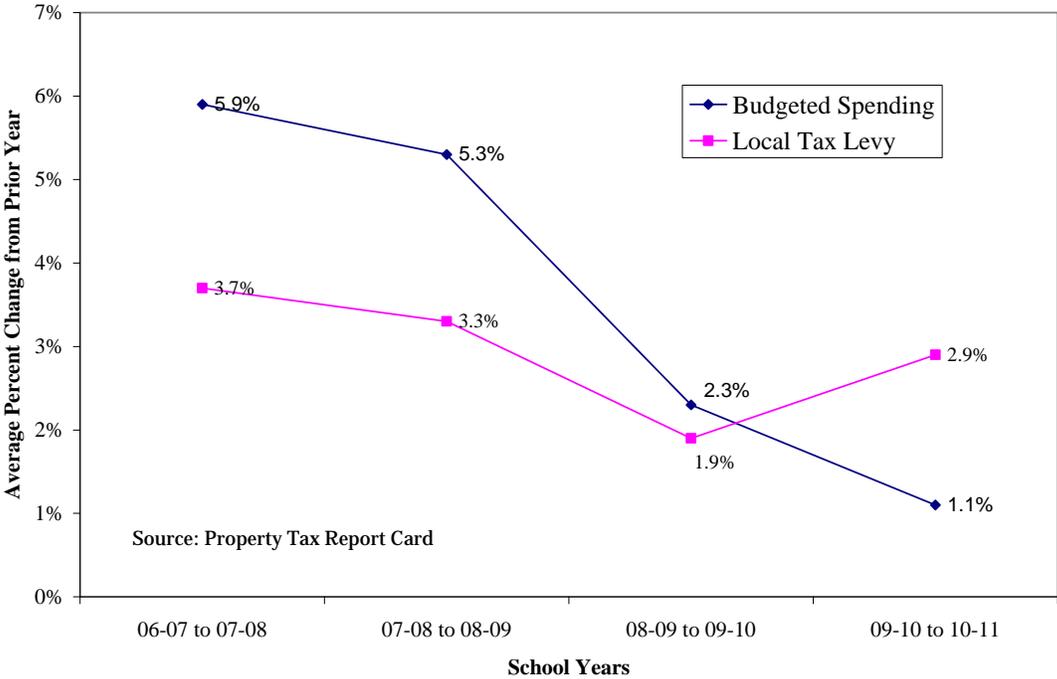
**School Tax Relief (STAR)**

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. A middle class STAR exemption enacted in 2007 was discontinued in 2009. 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, more tax relief goes to school districts with higher property values.

**Districts are Making Adjustments to Confront Economic Challenges**

Districts are taking steps to address fiscal challenges. Despite federal stimulus funds providing a cushion from significant losses in State Aid in 2009-10 and 2010-11, districts are facing rapidly diminishing fiscal options. As a result they have taken measures to cut costs and limit tax rates. Figure 6 shows the decrease in budgeted General Fund spending that school districts have reported and their efforts to minimize tax levy increases. In order to achieve these results for school year 2010-11, districts used almost \$230 million in fund balance.

**Figure 6: Statewide Average (outside of New York City) Percentage Change in Spending and Local Levy, SY 2006-07 to 2010-11**



### ***The Policy Dilemma—How to Raise Student Achievement in an Economic Crisis***

The challenge before the Board of Regents is how can the State continue the progress in funding equity that has begun, and continue needed reforms, to help all students finish school and be college and career ready despite the economic crisis? Are there efficiencies in the educational system that will free up more funds to support student learning? Can the State improve the distribution of State Aid in a way that is fair to all school districts while better accomplishing the State's mission of providing an adequate education to all students? Are there key investments that if made will produce greater results for students and reduce costs in the future?

## **State Aid Recommendations**

### ***Identify the Fiscal Challenges that Lie Ahead***

In order to help school districts face multiple challenges in the coming years, it is critical that school board members and school administrators have a means to examine the financial impact of various alternatives. The Board of Regents recommends that all school districts develop a three-year financial plan in a format designated by the Commissioner. Like the State's financial plan, these plans will serve as analytical tools to assist school administrators in their strategic decision making. The plans are not intended to predict the future but to identify future cost increases and savings that may affect the financial well being of the district.

### ***Maintain the Commitment to Adequate Funding with the Foundation Formula***

In order to provide all students with the opportunity to meet State learning standards, the Regents must ensure that all districts have the financial resources needed to provide a sound basic education. The funding structure must be fair to both students and taxpayers. It must allow for the provision of inputs, e.g., highly qualified teachers, appropriate facilities and other educational resources, which are required to adequately<sup>1</sup> educate students regardless of where they attend school. The formula should also continue to be linked to student success and provide the resources to support a certain level of outputs, namely the Regents learning standards.

State resources should be allocated on the basis of the cost of success and a district's fiscal capacity, compensating for regional costs and student needs. This is what the Foundation Aid formula was designed to accomplish and what was initiated with the statutory funding phase-in begun in 2007. However, as a result of the poor economy, funding was frozen in 2009-10 and in 2010-11 and the phase-in was extended from four to seven years. While very serious fiscal challenges exist, the State must maintain its responsibility and commitment to seek adequate funding for all school districts by resuming a portion of the Foundation Aid phase-in in 2011-12 to a modest degree, specifically targeting those districts which are still furthest from providing educational adequacy.

Experience has shown that when State Aid is frozen, there are inequitable consequences that have a disproportionate negative effect on high need school districts. These districts' resources are farthest from adequate and have a larger portion of their budget dependent on State Aid. The freeze affects a greater share of their budgets than districts that are less dependent on State Aid and which may be providing more than an adequate education at a reasonable tax rate.

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<sup>1</sup> *Educational adequacy* is defined in the school finance literature as the resources needed to provide all students with the opportunity to meet a given level of achievement which, in New York State, is the Regents learning standards for elementary and secondary education.

Restoring the phase-in over an extended annual schedule will demonstrate the State's good faith effort toward the structural realignment of resources as intended when the foundation formula was adopted in 2007. Adjustments to the formula that recognize changes in student enrollment and district wealth will help to better target funds to the neediest students and to the districts that have the farthest to go to provide an adequate education. The current economic crisis has both reduced district revenues and increased the number of students in poverty, thereby increasing associated educational needs as well. We must continue to make progress toward educational adequacy even while coping with the budget crisis.

***Sustaining Accountability through Student Achievement Results***

In recent months, concerns have arisen regarding the fiscal sustainability of the Regents Examination Program. The Regents Exams provide the basis for New York State's educational accountability system by measuring student knowledge of required subject content and providing needed benchmarks for the State's accountability program. Recent reductions in State revenue, and a reliance on federal funds which are no longer available, have created a structural imbalance between the resources available to the State Education Department and the costs of administering the Regents Examinations Program.

Additionally, while costs have risen over time as a result of inflation, the addition of exams, increased costs of vendor contracts, and the need for more security, measures have already been undertaken to reduce costs. It should be noted, however, that as we move towards using State assessments as part of the evaluation process for teachers and students, it is imperative that adequate resources for test monitoring and security are included to improve oversight and security of State test administrations.

Chart A provides a recent history of the costs of Regents examinations. It should be noted that the cost for 2010-11 was a figure budgeted prior to the cost reduction strategies approved by the Regents in June 2010. The 2011-12 amount represents the current cost estimate after reductions, but also includes the estimated costs of additional exams in English Language Arts for grades 9 and 10.

**Chart A**  
**Costs -- New York State Regents Examinations**

<b><u>School Year</u></b>	<b><u>Cost</u></b>
2007-08	\$12.8 million
2008-09	\$16.0 million
2009-10	\$17.6 million
2010-11	\$18.1 million
2011-12	\$15 million

### ***Recommendation—Three Options***

The Board of Regents has reviewed a range of options for addressing revenue shortages to fund the Regents Examinations. These include:

- 1) The Regents preferred option and recommendation is for the State to provide an allocation of \$15 million, including supplemental funds to ensure improved test monitoring and security in light of the role assessments will play in the teacher and principal evaluation process. This sum is needed to ensure the continuation of the current Regents exams and the restoration of State assessments for the Grades 5 and 8 Social Studies exams (which are to be eliminated as an emergency cost cutting measure); the continued translations of exams into Chinese, Haitian-Creole, Korean and Russian; and the continuation of the January administration of Regents exams. Because State assessments and accountability are a State responsibility this is the Regents preferred approach.
- 2) A second strategy is to charge the cost of the Regents exams to the schools, districts and nonpublic schools that use them. This would be achieved through an adjustment in school districts' State Aid payments. Education Law §209 provides general authority for the Regents to set a fee for Regents exams and there does not appear to be any statutory or regulatory prohibition on the State's ability to charge school districts, charter schools, and nonpublic schools for such examinations. The Regents recommend that authority be sought to allow the Department to recover these costs through an adjustment in the State Aid paid to school districts.
- 3) In the event that the 2011-12 enacted State Budget does not include the additional State funding requested, a third option is to eliminate all remaining Regents examinations, as shown in Chart B, that are not required for Federal accountability. This option will occur if funds are not identified but it is not recommended by the Regents because eliminating the exams will erode educational accountability. The list below includes all Regents exams not already eliminated in the 2010-11 school year. In addition, the Department would not proceed further with the planned future administration of Regents exams in English Language Arts for grades 9 and 10.

Depending on the scenario adopted, the Department may have to secure legislative and appropriation authority under the State Finance Law.

**Chart B**

<b>Examination</b>	<b>Number of Students Tested in 2008-09</b>
Regents Italian	8,244
Regents French	17,188
Regents Spanish	87,437
Regents US History & Government	225,410
Regents Global History and Geography	271,041
Regents Physical Setting/Physics	48,057
Regents Physical Setting/Chemistry	111,218
Regents Physical Setting/Earth Science	174,614
Regents Geometry	113,405

***Restructure State Funding for Universal Pre-kindergarten***

Quality early childhood education makes good education and economic sense.<sup>2</sup> It is more cost effective to prevent the development of an achievement gap than it is to try to remediate the gap afterward. If the achievement gap is lessened from the start, the inevitable consequences of the gap are also impacted, such as a decline in the need for special education and academic intervention services.

State funding for Universal Pre-kindergarten (UPK), together with well planned and adequately funded early grade programs, gives all students a solid learning foundation. Research has documented the lasting impact of quality early childhood programs as an effective approach to supporting a more level playing field as children begin formal schooling. It has been consistently shown that participation in high quality early childhood programs lead to both short-term and long-term positive outcomes for

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<sup>2</sup> 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.

children, including increasing the rate of high school graduation and college readiness, higher work force earnings and a reduction in crime.

Universal Pre-kindergarten was launched in New York State in 1998 with a statutory funding phase-in designed to reach statewide implementation within four years. Implementation efforts have stretched to a decade but only 67 percent of school districts, or 450 out of 676, currently offer the program and only 45 percent of the State's four year olds participate. A primary goal for the program is to give all districts the option to participate and to improve access to UPK for all of the State's four year olds, including children with disabilities. Restricted access to UPK limits the positive gains that a universal P-12 system would ensure.

The UPK funding formula is complex and funding has been unpredictable in the past. Consistent with other State initiatives, funding for UPK was frozen in 2009-10 and 2010-11 at 2008-09 levels. In light of the research and tangible evidence regarding the many advantages of quality early childhood education for all students, the State should honor its commitment to a full phase-in of UPK. Better alignment of the UPK formula phase in with K-12 funding to provide more predictability to school districts is necessary to achieve statewide implementation. Additional flexibility in the use of funds would enable some districts to expand the provision of services from half-day to full-day. This flexibility would require legislative and regulatory changes and would need to be implemented in a manner that did not reduce the overall number of students participating.

### ***Recommendation***

It is recommended that the Regents support a restructuring of the UPK funding formula to provide more stability, greater predictability and greater flexibility and that the State commit to a phase-in of UPK to be aligned with the phase-in schedule for the Foundation Aid formula.

### ***Provide Flexibility in Funding for Instructional Materials***

Although the Governor and Legislature have provided support for instructional materials in the form of *Textbook Aid* and *Software Aid*, changes in education suggest the need for commensurate changes in State Aid.

First, instructional materials are increasingly available electronically so *Textbook Aid* was recently amended to allow textbooks in electronic format to be eligible for aid. This change blurs the distinction between *Textbook Aid* and *Software Aid*.

Second, schools throughout the State are designing science and mathematics curricula to provide an inquiry-centered instructional approach that involves the use of relevant equipment, professional materials, supplies and science kits or mathematics manipulatives, rather than textbooks. Such experiential learning has helped students master State standards and has supported State and national efforts to strengthen student preparation in mathematics and science.

Textbooks may not be the most appropriate instructional materials for kindergarteners. Instead of textbooks, early childhood educators use developmentally appropriate

educational games and hands-on manipulatives that promote early literacy, numeracy, scientific inquiry, and social learning.

### ***Recommendation***

The Regents recommend that the Governor and Legislature consider options for providing school districts with greater flexibility in using state support for instructional materials such as by consolidating Textbook Aid and Software Aid into a new Instructional Materials Aid. The definition of eligible instructional materials should include equipment, materials, supplies, kits and other manipulatives used in the instruction of K-12 mathematics and science, and for kindergarten only, educationally-based materials such as developmentally appropriate games and hands-on manipulatives that promote early learning.

## **Suggestions for More Efficient Use of State and Local Resources**

The State Aid Subcommittee will discuss State Aid implications of several proposals for the efficient use of resources and recommend consideration to the full Board for adoption at the December meeting.

### ***Establish Reserves to Help School Districts Plan for Retiree and Other Expenses***

In order to support district efforts to plan for and manage their spending, the Regents recommend support for the New York State Comptroller's recommendation that the State modify current statutes to allow districts to establish various reserve funds to adequately plan for expenses such as the costs of future retirees' health insurance and other post-employment benefits (OPEB), tax stabilization concerns, teachers' retirement system obligations, and bonded indebtedness.

### ***Mandate Relief***

The Regents will develop a legislative mandate relief package that helps school districts cope with the economic crisis. This will advance a comprehensive list of mandates that exceed federal requirements and that are not supported by research to yield essential education benefits. This package will include a variety of areas which could address, but not be limited to:

- Special education requirements;
- Middle school requirements; and
- Planning and reporting requirements.

## ***Reorganize School Districts to Improve Student Performance and Close the Achievement Gap***

Currently school district reorganization is a process involving two contiguous school districts that study and, if interest and educational benefits are shown, the citizens of each district vote on reorganizing as a single school district. The State has provided incentives for this process through additional Operating and Building Aid for reorganized districts. Although many school district reorganizations have occurred over the years, only four reorganizations have occurred in the past decade despite there being over 200 districts with enrollments of fewer than 1,000 pupils. The Regents educational reform agenda calls for all students to be college and career ready by the time they graduate. This demand for education reform, coupled with enrollment declines occurring across the State, and challenges to revenue generation at the State and local levels, provides an opportunity to re-examine school district reorganization. The Regents recommend changes to the school district reorganization process to better support the New York State education reform agenda. The goals of the Regents reform agenda are to:

- a) Adopt internationally-benchmarked standards and assessments that prepare students for success in college and the workplace;
- b) Build instructional data systems that measure student success and inform teachers and principals how they can improve their practice;
- c) Recruit, develop, retain, and reward effective teachers and principals; and
- d) Turn around the lowest-achieving schools.

In order to better focus school district reorganization on student achievement, the Regents recommend a multi-tiered approach:

- Consolidate school districts on a broader level, including consideration of county- or BOCES-wide districts, through use of a Commission charged with creating a new structure of school district reorganization that supports greater educational opportunities, improved efficiency and reduced costs;
- Consider various options including regional high schools, which address district and community goals for increasing access to enriched coursework and maximizing efficiencies of scale; and
- Provide adjustments to aids to support the school district reorganization process.

### **Commission on School District Reorganization to Improve Student Achievement**

The proposed Commission will examine New York State's 1958 Master Plan for School District Reorganization and make recommendations for the reorganization of school districts consistent with today's need for education reform and cost reduction and the capacity of technology to support shared operations. The result of this work will be a legislative proposal that recommends a new Master Plan for School District Reorganization to Improve Student Achievement. The Commission will review existing

incentives and disincentives that affect school district reorganization to improve student achievement and make recommendations as needed.

### ***Provide Adjustments to State Aids to Support the Reorganization Process***

The State should enact adjustments to aid formulas to better support school district reorganization that encourages education reform. These adjustments might include:

- a. Link to Foundation Aid (rather than 2006-07 Operating Aid);
- b. Restructure Reorganization Incentive Operating Aid to support reorganization approved by SED toward the goal of improving student achievement and reducing costs over the long term.
- c. Provide 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
- d. Eliminate aid provisions that discourage reorganization by small districts (e.g., Sparsity, 98 percent Building Aid, etc.) with viable partners.

### ***BOCES as Regional Leader***

Boards of Cooperative Educational Services (BOCES) help increase the effective and efficient delivery of educational services in New York State through shared services with school districts. The District Superintendent is both chief executive of the BOCES and the Commissioner's representative in the field to promote education reforms and solve local problems. District Superintendents are increasingly being asked to serve as Regional Leader as well as Regional Service Provider. Recommendations include increasing the role of the District Superintendent and BOCES as Regional Leader and Regional Service Provider. These include:

- Encourage BOCES participation in regional transportation pilots required by the laws of 2010 to identify legislative and other obstacles in implementing regional pupil transportation.
- Extend the existing BOCES capacity to provide all BOCES services available to school districts to charter schools as well.
- Maintain BOCES Aid where Cooperative Service Agreements support the Regents reform agenda.
- Provide authority for State agencies to contract with BOCES to provide education services that they are otherwise required by law to provide, including but not limited to, the operation of Committees on Special Education and the provision of special education and related services. Such agencies may include the Office of Children and Family Services, Office of Mental Health, Office for People With Developmental Disabilities, and the Division of Corrections.

- Advocate for the enactment of the legislative proposal to allow BOCES to do claims auditing for component school districts as part of the Central Business Office shared service.

### ***Eliminate the Salary Cap on District Superintendents***

The Regents recommend enhancing the ability of BOCES and the State to attract and retain qualified individuals to serve as District Superintendents of schools by eliminating the current cap on salaries and certain benefits while maintaining limitations on payments for accrued leave at the time of retirement or other separation from service.

### ***Promote Shared Business Offices Run by BOCES***

The Boards of Cooperative Educational Services (BOCES) Central Business Office shared service can have a direct financial impact on participating districts by decreasing school district costs for financial management. Central Business Office shared services may also create greater efficiencies in other district costs, such as the impact of long range budget planning on district commitments for employee salaries and benefits over time. Other benefits associated with participation in a BOCES Central Business Office include a greater focus by administrators on educational issues; greater expertise at the Central Business Office in areas such as budgeting and multi-year forecasting; and improved efficiencies and internal controls in the management of the district's finances. The Department should encourage boards of education to participate in the Central Business Office service where appropriate, within limits established by law, regulation and professional auditing standards.

### ***Achieve More Economies with Pupil Transportation***

Transportation Aid is an expense-based aid which has been increasing rapidly. School districts currently spend approximately \$2.8 billion for pupil transportation, for which they receive \$1.5 billion in State Aid or approximately 54 percent of the expense. This represents an average annual increase of approximately six percent.

Chapter 378 of the Laws of 2010 authorized the Commissioner of Education to conduct one or more pilot programs to assist school districts in the formation of regional transportation systems. The Department has invited school districts, BOCES and other entities to participate in local regional pilot programs which will estimate and analyze the extent to which savings can be achieved through the formation of regional pupil transportation systems. Services may include such areas as home to school transportation, transportation to and from special education programs, shared transportation programs with another school district, shared transportation to charter schools and non-public schools, transportation for field trips and extracurricular activities, and cooperative bus maintenance and management. Staff should work with pilot participants to identify obstacles to cost effective sharing and recommend solutions.

In addition the State should reconsider the structure of the Transportation Aid formula to provide incentives for cost effective service delivery. All districts should explore cost efficiencies in pupil transportation.

### ***Promote High Performance School Buildings***

There is ample support in the building industry for high performance “green” school facilities which can be developed at comparable, or minimally higher costs, than traditional building expenditures but which more than pay for themselves with building longevity and reduced annual energy costs. While school districts may need to secure more funding initially, the significant financial and operating benefits over the lifetime of high performance buildings merit State-level consideration. It is anticipated that green design buildings will reduce energy consumption by about 25 percent. Buildings using green design and long lasting materials also offer an environment that is more conducive to learning. Studies on air quality, temperature control and natural lighting have substantiated the benefits of green buildings in the educational arena. Use of green building design should be considered in any evaluation of State support for school construction.

### ***Restructure Building Aid***

The persistent growth for Building Aid in a time of steadily decreasing enrollments in most of New York State suggests a fundamental re-examination of the purpose of Building Aid is in order. Basic questions, such as “Have we met the existing need for school construction in New York State?” or “What are New York’s long-range plans for school facilities?” need to be asked. Building Aid is approximately \$2.4 billion in 2010-11 and has increased an average of 10 percent each year since 2005-06.

The current cost allowance formula determines the maximum cost to be aided when a district undertakes a building project. The formula is considered complex and has multiple moving parts making it difficult to determine the appropriate maximum cost allowance for an adequate facility. It can impede long range planning and force districts to design spaces at odds with their educational program goals in order to secure the greatest amount of State funding. In addition, modifying some existing facilities’ funding provisions would facilitate more targeted disbursement of State funding for capital construction.

### ***Recommendations***

Simplify the maximum cost allowance calculation, by providing a cost allowance based on a certain allotment of space and cost per enrolled pupil, to facilitate better long-range planning and ensure a more efficient use of State funds.

Establishing a blue ribbon panel to restructure Building Aid from the ground up could help to address a wide range of issues. The panel should be charged with addressing the following issues:

- How can the State best protect the \$50 billion investment in school facilities the State and local districts have made since the Building Aid incentives went into effect in 1998?
- How can the State promote quality standards and use of technology including green design schools to improve building quality and reduce costs over the long run?
- What is the proper balance between support for building maintenance and capital construction?

The panel should also consider recommendations to improve the effective support of school construction for projects approved in the future including but not limited to:

- Eliminate the 10 percent Building Aid incentive or limiting the incentive to critical projects;
- Eliminate the Selected Aid Ratio which gives school districts the choice of the most favorable Building Aid Ratio (State share) going back to 1981-82;
- Tie the incidental cost allowance to the actual cost of construction instead of an arbitrary 20 percent (elementary) or 25 percent (secondary) of the construction maximum cost allowance.
- Limit Building Aid to no more than one project on the same building in a five-year period;
- Eliminate Building Aid for projects with a useful life of less than 15 years;
- Eliminate Building Aid for Energy Performance Contracts which by law are required to pay for themselves out of savings obtained through the installation of energy savings measures;
- Eliminate Building Aid for school districts with viable reorganization partners who do not reorganize; and
- Limit Building Aid for new projects for one year while the blue ribbon panel studies restructuring Building Aid.

### ***Explore Statewide Health Insurance Plan Options for School District Employees***

Health insurance for active and retired school employees is a cost area that has tripled over the past 15 years. The State should explore the potential of a statewide health insurance plan to save costs while maintaining services. Cost savings should be explored as possible measures to contain school district employee health care costs, including:

- 1) Examining options for expanding the coverage pool; and
- 2) Exploring the potential of other options for cost containment.

Staff will explore evidence from other states and examine the cost-effectiveness of various approaches.

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