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

TO: Subcommittee on State Aid

FROM: Ken Slentz

SUBJECT: Regents 2013-14 Proposal on State Aid to School Districts

DATE: December 6, 2012

AUTHORIZATION(S):

Issue for Decision

Does the attached Regents 2013-14 State Aid proposal reflect the Regent's priorities for State Aid to school districts?

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 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. The Subcommittee reviewed the conceptual proposal in November and discussed modifications. The attached proposal reflects revisions to the conceptual proposal presented in November and incorporates details concerning the amount and distribution of State Aid.

Background Information

Each year the Regents Subcommittee on State Aid develops the Regents State Aid proposal 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.

Recommendation

I recommend the following action:

VOTED that the Regents adopt the attached report as their proposal on State Aid to school districts for the school year 2013-14.

Timetable for Implementation

Following the Regents approval of the final State Aid proposal for 2013-14, the Governor will issue his budget recommendations in January and ask the Legislature to approve a State budget by April 1.

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

Executive Summary

New York State's 676 major school districts are tremendously diverse. Although the State's school districts start from different fiscal and performance benchmarks, they all face the same basic challenge of improving educational outcomes for our students. The Regents Reform Agenda provides a road map to better educational outcomes through improvements in instruction and curriculum. The economic downturn that began in 2008, combined with more recent natural disasters, have impacted finances at all levels of government, underscoring the importance of distributing scarce resources equitably as school districts implement important reforms.

The Regents recommend the State implement a planned 3.5 percent increase in General Support for Public Schools. This includes $709 million to support increases in an updated Foundation Aid formula and growth in other aid categories. In addition, recognizing the importance of an early start for at risk students, the Regents recommend $75 million in available grant funding be used to begin high quality full day Universal Prekindergarten programming. Approximately 73 percent of these funds would be allocated to high need school districts and 27 percent to all others to strengthen the provision of educational opportunity. While no changes to expense-based aid are recommended for the 2013-14 School Year, the Regents propose creating a task force to review expense based aids and develop recommendations for reforms which would provide additional resources for general purpose operating aids.

Along with recommendations for 2013-14 school year funding, the Regents recommend several longer term initiatives. Included among them are measuring the educational opportunities available to students across the State and the expansion of multi-year financial planning using available tools. While encouraging districts to develop multi-year financial plans, the Regents recognize the important role the State plays in providing predictable funding, including a less volatile School Aid growth index. Other recommendations include the use of BOCES as regional leaders, regional secondary schools and district consolidations and continued mandate relief efforts.

Exhibit A shows the aid the Regents recommend by major category of State support with an overall increase of $709 million for General Support for Public Schools and $75 million in new Universal Prekindergarten grant funding. Exhibit B shows the distribution of computerized State Aid changes. Exhibit C shows the distribution of computerized aid per enrolled student. Under the Regents proposal, funding would increase for all categories of school districts with the greatest increases directed to high need school districts.

Exhibit A

2013-2014 Regents State Aid Request

NEW YORK STATE

(all figures in millions)

Program	2012-13 School Year	Regents 2013-14 Request	Enacted Change from Regents
General Purpose Aid	**$13,514**	**$13,939**	**$425**
Foundation Aid	$15,005		
High Tax Aid	$205		
Academic Enhancement Aid	$27	$13,514	
Supplemental Public Excess Cost Aid	$4		
Gap Elimination Adjustment	($2,156)		
Adjusted Foundation Aid Subtotal	$13,085	$13,514	$429
Charter School Transitional Aid	$35	$33	($2)
Reorganization Incentive Operating Aid	$3	$3	$0
General Purpose Aid Subtotal	**$13,123**	**$13,550**	**$427**
Aid for Early Childhood Education	$391	$389	($2)
Support for Pupils with Disabilities	**$772**	**$891**	**$119**
Private Excess Cost Aid	$320	$359	$39
Public High Cost Excess Cost Aid	$452	$532	$80
BOCES\Career and Technical Ed.	**$909**	**$928**	**$19**
BOCES Aid	$704	$725	$21
Special Services - Aid for Academic Improvement	$45	$45	$0
Special Services - Career Education Aid	$122	$121	($1)
Special Services - Computer Admin. Aid	$38	$37	($1)
Instructional Materials Aids	**$282**	**$286**	**$4**
Hardware & Technology Aid	$38	$39	$1
Library Materials Aid	$19	$19	$0
Software Aid	$46	$47	$1
Textbook Aid	$179	$181	$2
Expense-Based Aids	**$4,373**	**$4,505**	**$132**
Building Aids	$2,714	$2,783	$69
Transportation Aids	$1,659	$1,722	$63
Computerized Aids Subtotal	**$19,850**	**$20,549**	**$699**
Total GSPS	**$20,143**	**$20,852**	**$709**
Full Day UPK Expansion Grants	**$0**	**$75**	**$75**

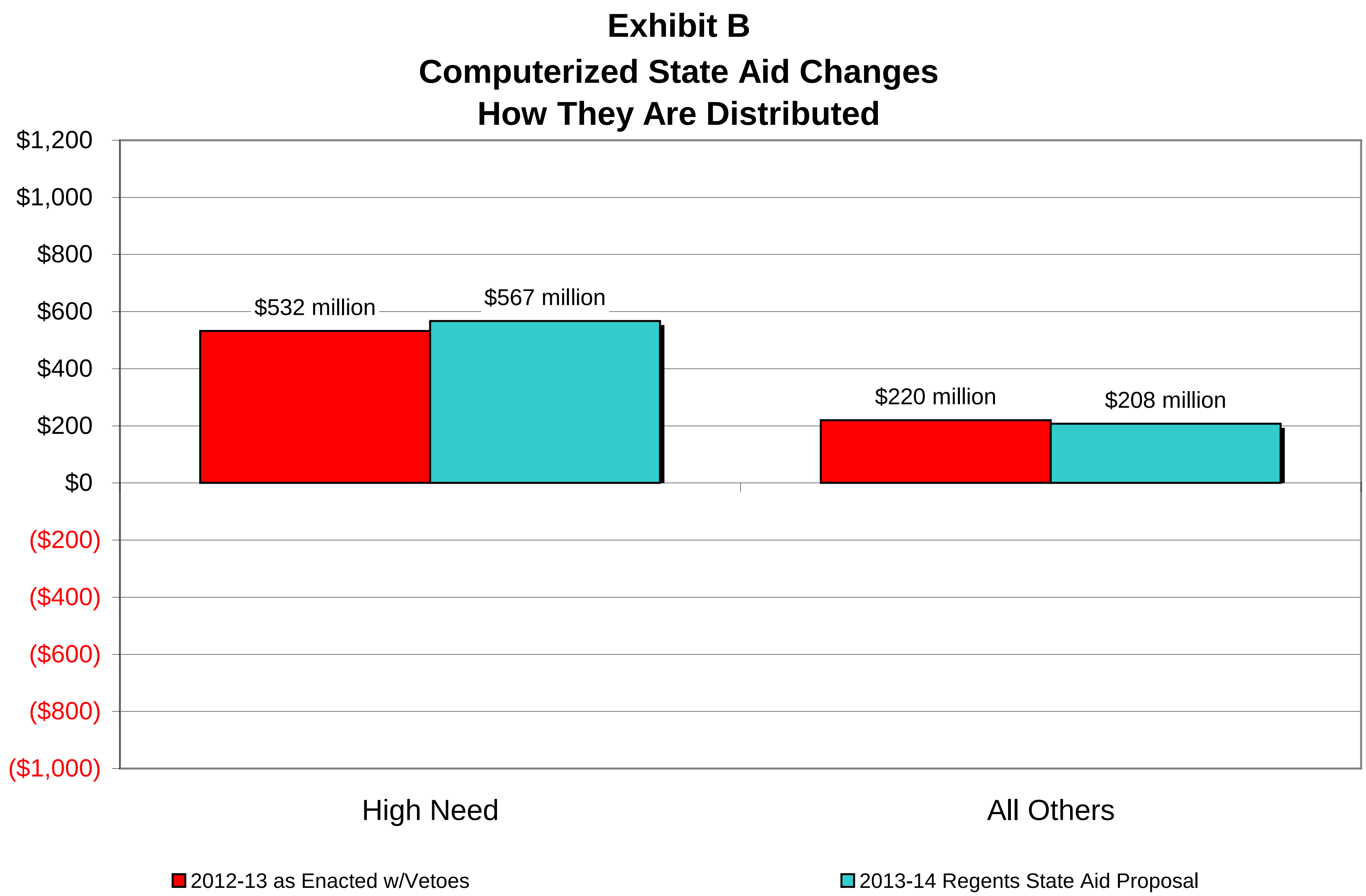


Exhibit B
Computerized State Aid Changes
How They Are Distributed
$1,200
$1,000
$800
$600
$400
$200
$0
($200)
($400)
($600)
($800)
($1,000)
$532 million
$567 million
$220 million
$208 million
High Need
All Others
2012-13 as Enacted w/Vetoes
2013-14 Regents State Aid Proposal

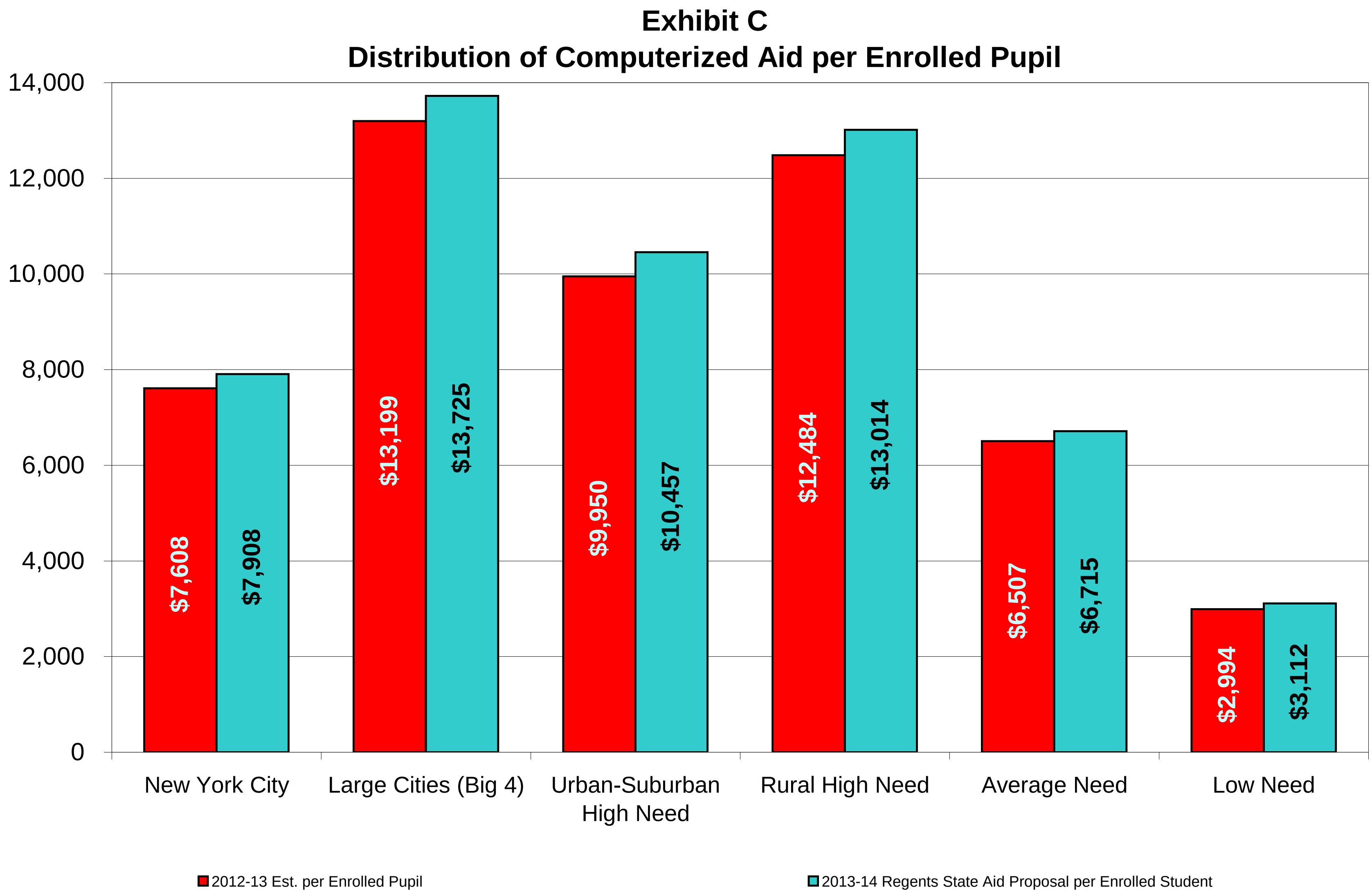


Exhibit C
Distribution of Computerized Aid per Enrolled Pupil
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
$7,608
$7,908
$13,199
$13,725
$9,950
$10,457
$12,484
$13,014
$6,507
$6,715
$2,994
$3,112
New York City
Large Cities (Big 4)
Urban-Suburban High Need
Rural High Need
Average Need
Low Need
2012-13 Est. per Enrolled Pupil
2013-14 Regents State Aid Proposal per Enrolled Student

Introduction

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. The bold, systemic changes of the Regents Reform Agenda are needed to help all students 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. Recent graduation data reveals 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]

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 Regents Math, which correlates with success in first-year college courses.

Consequences of the economic recession continue to exacerbate the fiscal pressures on school districts across New York State and nationally. The natural disasters which hit parts of upstate New York State hard last year and most recently devastated areas around metropolitan New York and Long Island will further challenge state fiscal resources. 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

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

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?

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 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. The strategic allocation of limited school resources focused on achieving the greatest performance gains for all students is a fundamental goal of the Regents State Aid Proposal.

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 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 more than $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 for Public Schools (GSPS). In contrast to historical trends, school districts are now required to operate within revenue constraints at or below the rate of growth in expenses. Prioritizing educational goals and examining options for reallocating resources to address student learning needs presents difficult 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 spending.

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. Modifying the single year PIGI is 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.

<u>Foundation Aid and the Gap Elimination Adjustment</u>

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 more than 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;

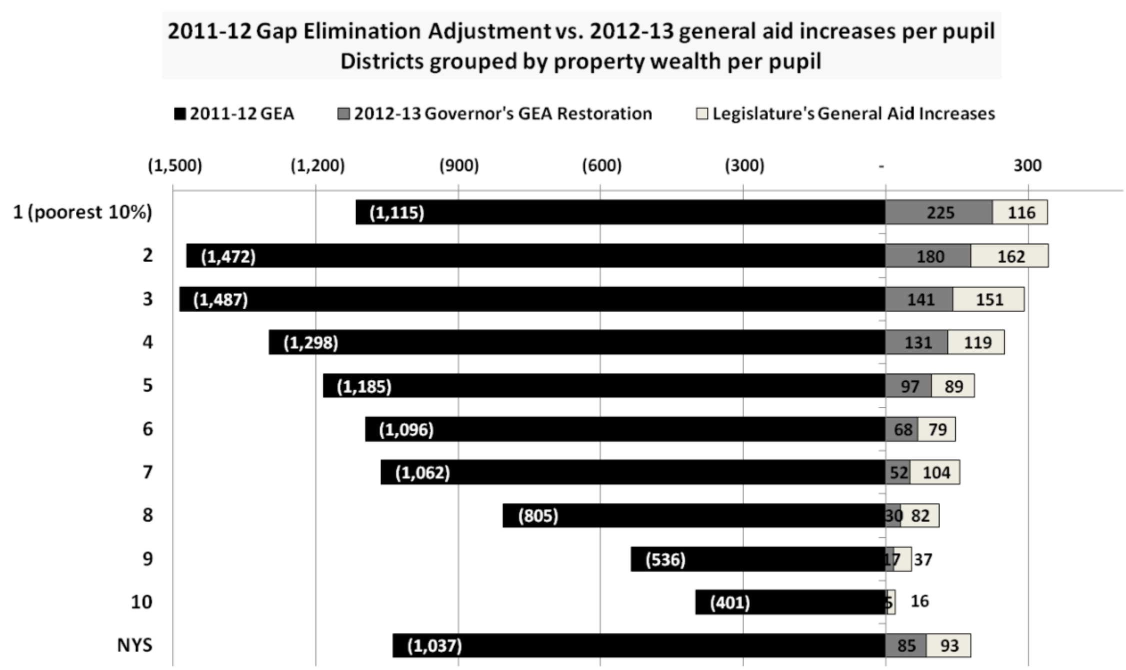
2) A regional cost index to ensure State Aid can buy a comparable level of goods and services around the State;

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.*

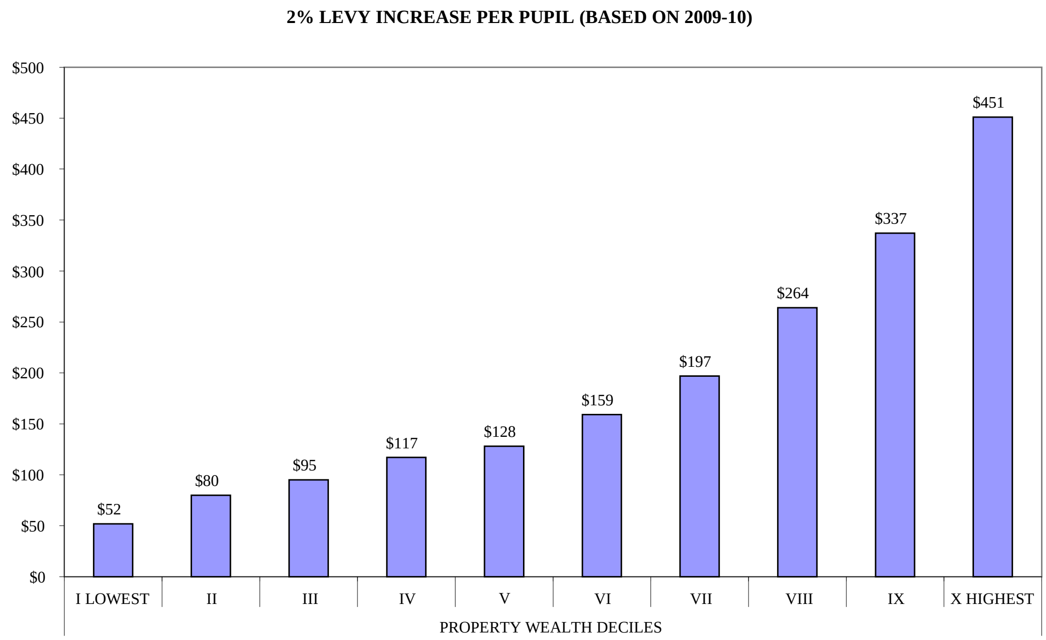
Property Tax Levy Cap

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 impacted because their host cities are subject to the tax cap imposed on municipalities. New York City is fully exempted from the cap.

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 60 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. ARRA funding is no longer 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

Additionally, the federal Budget Control Act of 2011 imposes spending limits over a 10 year period. Annual reductions are to be negotiated through the Federal Budget process with the potential of across the board cuts in the event of failure to reach agreement. The magnitude of the impact for the State and local governments is yet to be determined[2]

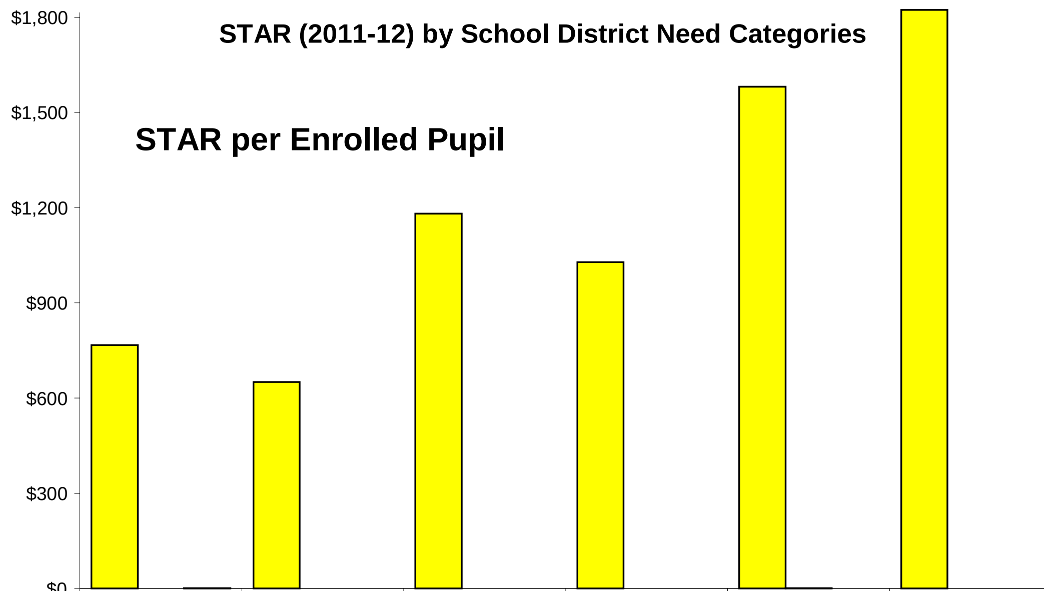
School Tax Relief (STAR)

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

[2] Mid Year Update to the Financial Plan for Fiscal Year 2013, Division of Budget, pg.16.

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 4 provides additional information.

Figure 4
Low Need Districts Receive the Largest School Tax Relief (STAR) per Pupil

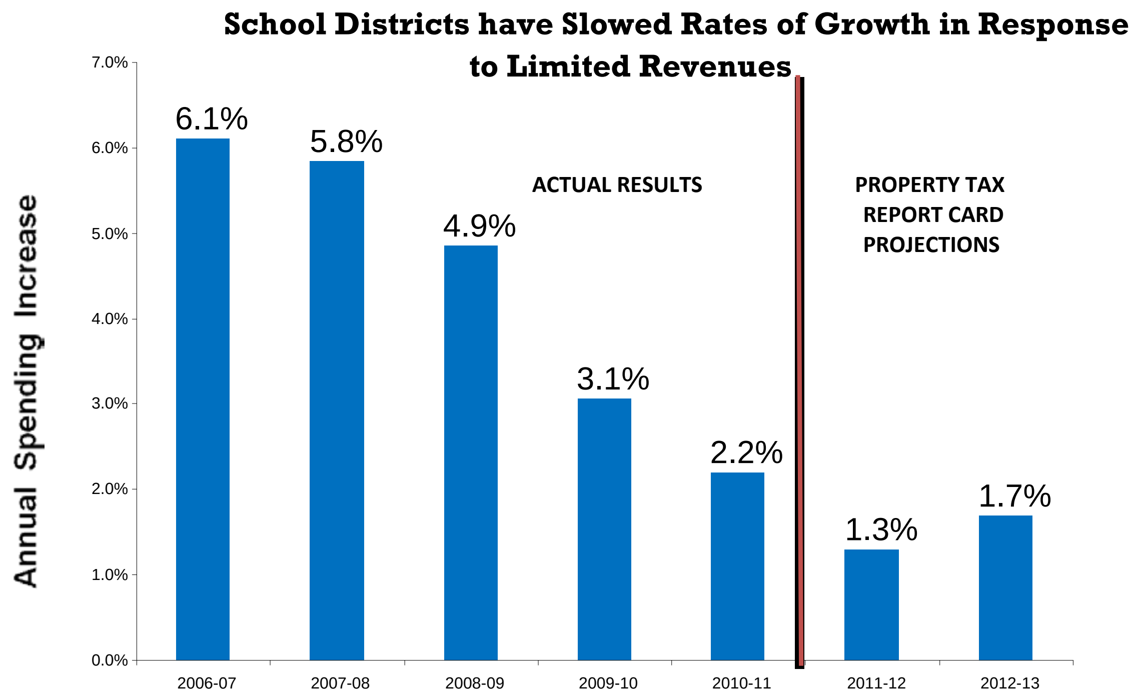


	New York City	Large Cities	High N/RC Urb/Sub	High N/RC Rural	Average N/RC	Low N/RC
STAR per Pupil	$767	$650	$1,181	$1,028	$1,581	$1,823
Share of STAR Aid	24.4%	2.4%	8.1%	4.9%	38.4%	21.8%
Share of Enrollment	38.2%	4.4%	8.2%	5.7%	29.2%	14.3%

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 5 demonstrates the continued downward trend in the rate of spending increases.

Figure 5



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.[3] 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.[4] 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

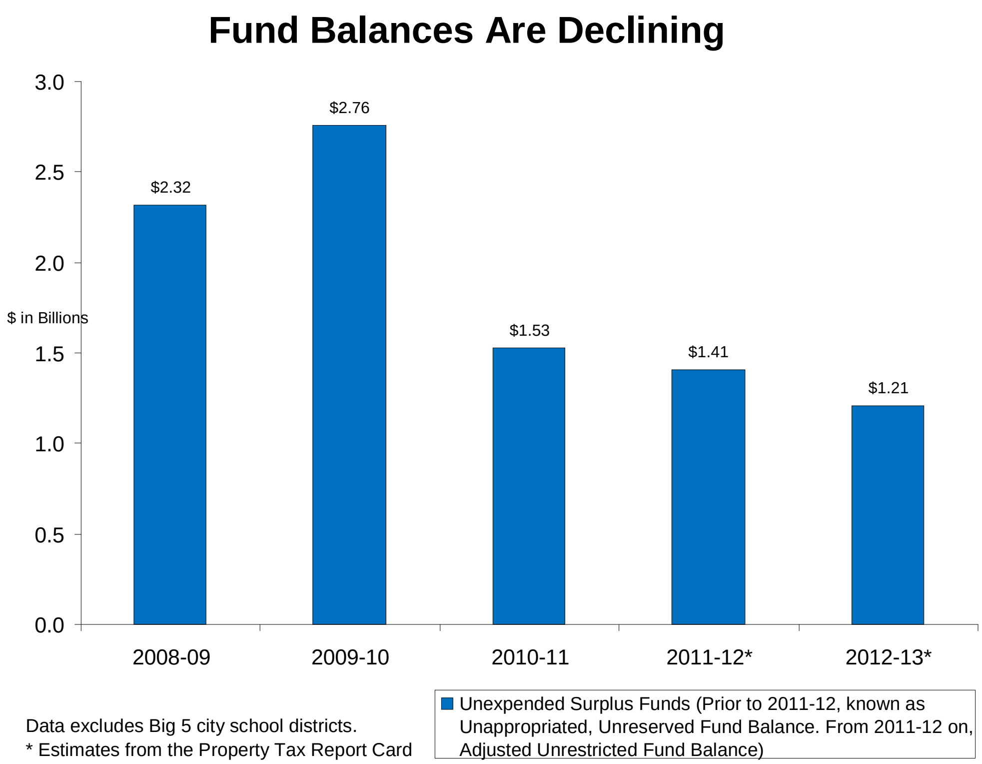
[3] NYSED ST-3 Fiscal Profiles
[4] NYS Teacher Retirement Annual Report, 2011

years and are now in excess of 10 percent of annual districts' payrolls. For 2013-14, contributions are expected to grow almost 40 percent to 16.5 percent of salaries.[5]

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 respectively. Energy costs are reflected in operations, maintenance and transportation categories.[6]

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 6.

Figure 6



[5] Administrative Bulletin 2012-12, New York State Teachers Retirement System, http://www.nystrs.org/main/admbull/bull2012-12.pdf
[6] NYSED Fiscal Profiles, aggregating ST-3 school district financial information

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 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 speaker and panel presentations included options for how school administrators can spend resources differently to support and improve student outcomes. The following section, *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

Two important factors impacting General Support for Public Schools (GSPS) for the last five years are the Foundation Aid freeze that began in 2009 and the Gap Elimination Adjustments. Going forward, a statutory cap on GSPS linked to State personal income will limit future increases. Under the growth cap it is estimated that, after funding expense-based aids, annual increases in GSPS will range from $300 to $500 million. At that level restoring the GEA or fully phasing-in Foundation Aid are years away.

The Board of Regents recommends providing $425 million in additional operating aid to public schools in a manner consistent with the principles contained in the original Foundation Aid formula, with adjustments that reflect the impact of state aid reductions in recent years. Including the Gap Elimination Adjustment and other operating aid categories in a new Foundation Aid base ensures that the formula considers the current level of state support as well as student need, regional cost, and local fiscal capacity. This balanced approach, based on the most recently available data, provides an equitable distribution of limited resources.

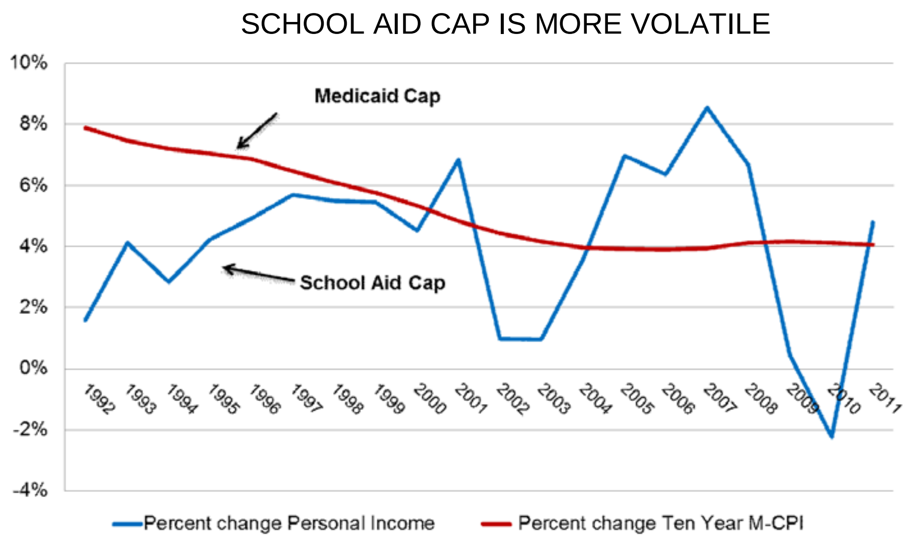
Adjust the Personal Income Growth Index

A cap on General Support to Public Schools, 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. A school aid cap based on year-to-year changes in personal income growth results in large fluctuations, especially in light of the volatility of the state's large financial services sector. Such variability makes both short and long term planning by the state and school districts extremely difficult and could 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 7.[7]

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

Figure 7

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. As school districts revise budgets to address declining revenue growth and growing expenses it is critical that the State provide predictable funding. For this reason, the Regents State Aid proposal recommends a one year increase in General Support to Public Schools based on the estimated personal income growth rate of 3.5 percent at the time the 2012-13 budget was enacted as an interim solution. In addition, the Board of Regents recommends the pursuit of a long term solution to provide for predictable growth in funding for public schools in place of the current methodology to be introduced with the 2014-15 budget cycle.

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. Use of a system, such as the Office of the State Comptroller's (OSC) on-line long term fiscal planning for school districts should be considered. The OSC website notes that "multiyear financial planning can help local officials make decisions that will keep their governments solvent and healthy, and even help them make the case for the tough choices that must be made. The Comptroller has compiled a set of handy, easy-to-use tools designed to help elected officials and practitioners in all types of local governments get started." The on-line system can be accessed at: http://www.osc.state.ny.us/localgov/myfp/index.htm

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. [8] 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:

[8] 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

- o Statewide programs are not yet universal due primarily to funding limitations;
- o 20 high need school districts do not currently offer UPK;
- o Districts most often use the current funding to provide half-day sessions;
- o The current funding levels are not adequate to support more intensive, full day educational programming;
- o The current structure excludes some children who could benefit but whose parents are not available to transport them mid-day; and
- o 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 8 provides UPK enrollment data for 2011-12 by Need Resource Capacity categories.

Figure 8

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%

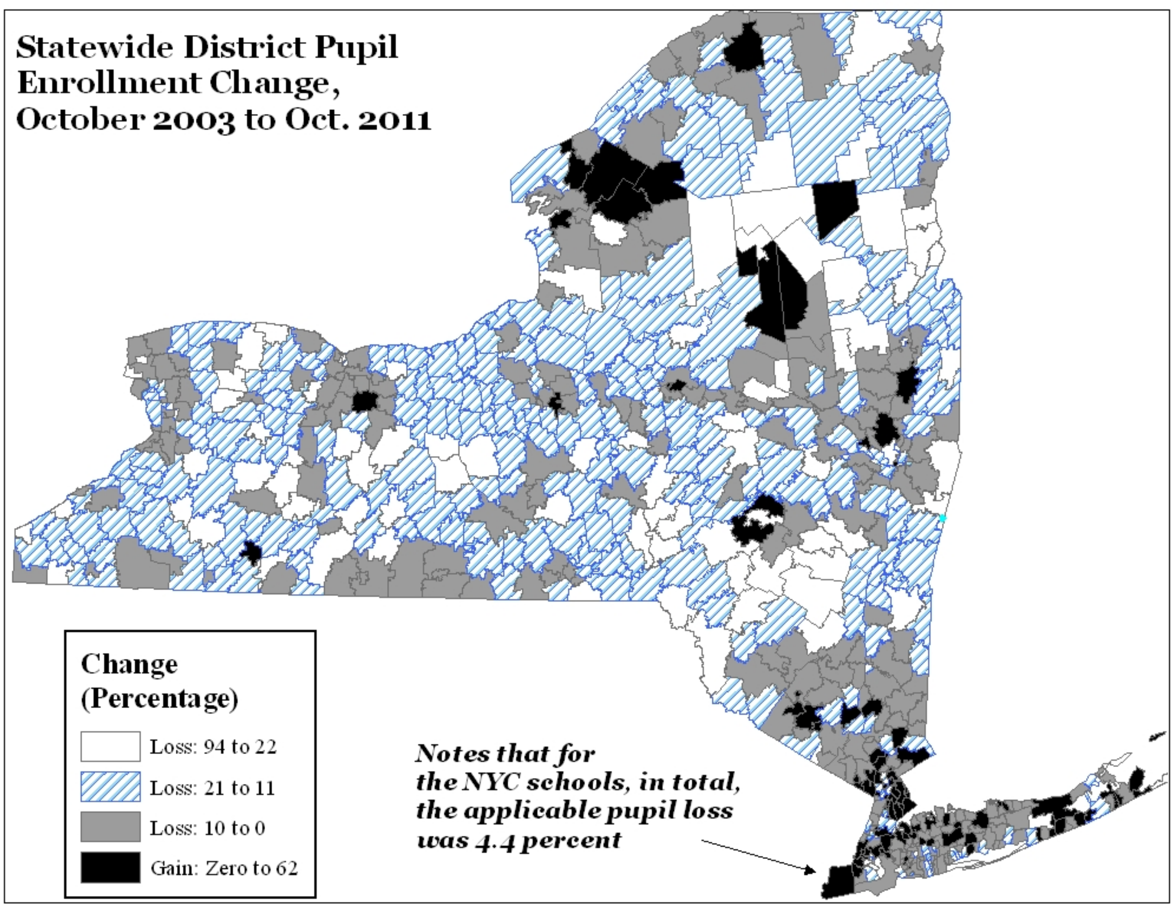
It is in the State's long term educational and economic interests to enable the most at-risk four year old children to participate in full day UPK programs. The Regents are proposing a full-day prekindergarten grant program that would support the goals of UPK and expand full day programming outside of the current cap on State Aid. This approach would augment current funding and provide additional full day opportunities for prekindergarten students who are at educational risk due to: poverty; English language learner status; disabilities and/or other criteria placing children at-risk prior to entering kindergarten. Districts would be required to maintain existing numbers of UPK children and would access supplemental funds to increase the number of full day slots at district locations or through the use of community based organizations.

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 UPK programs and other early learning providers in communities that have one or more schools designated as Priority Schools.

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 9. Enrollment losses are greatest in rural New York but are also evident in districts in the Hudson Valley, NYC and Capital Region.

Figure 9
Average Percent Change in Student Enrollment by School District*
School Year 2003-04 to 2010-11



*New York City is mapped by each of the 32 geographic regions.

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:

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

Encourage 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:

- Linking to Foundation Aid rather than 2006-07 Operating Aid;
- Restructuring Reorganization Incentive Operating Aid toward the goal of improving student achievement and reducing costs over the long term;
- Applying an efficiency factor to aid for school districts which are recommended for reorganization on the State's Master Plan but elect not to reorganize in the next two years; and
- Eliminating aid provisions that discourage reorganization by small districts.

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.

Support for 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:

- 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.

It is recommended regional secondary schools be supported if they seek to provide improved educational opportunities in a manner that is fiscally responsible and sustainable. While current models exist, additional alternate proposals for school districts to share secondary schools without merging should also be considered. Some basic ground rules and fiscal options for consideration include:

- Requiring that a minimum number of three districts be allowed to combine to form a secondary school program.
- Addressing important transportation issues.
- Operating the regional high school by a host school district or a BOCES with adjustments to funding formulas to provide support for the secondary school by the local school districts and the State.
- Providing flexibility for which grade levels could constitute a secondary school, e.g., 7-12; 6-12; or 9-12. Once grades are determined and approved by voters, participating districts stop providing education for the grades of the regional secondary school which will serve all students from participating school districts.
- Allowing districts to retain their original status while participating in the regional secondary school. This avoids the need to address teacher contract and compensation issues.

- Allowing regional secondary school implementation for a maximum of five years based on a vote of the voters from each district. At the conclusion of the contract, require voters from the participating districts to decide which of three options to advance:

  1) Return to separate secondary schools for each participating district; or

  2) Continue the regional high school; or

  3) Merge the participating districts into a single district.

- Containing costs by ensuring that efficiencies from the regional secondary school model offset the costs of enhanced cost offerings. Develop and recommend State Aid changes to provide State support for this purpose, in a manner that allows for a State and local share and ensures that costs, including aid, do not exceed prior expenditures. The goal is for additional higher level course offerings in support of educational opportunities, as well as future, if not current, monetary savings.

- Requiring the use of existing facilities where feasible.

- Examining fiscal models wherein the sending school districts would levy taxes to support the secondary school program and use State Aid for a portion of the costs of the regional high school. State aid changes could be designed to mitigate barriers to participation and reflect the characteristics of the student's home districts.

Facilitate 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;

- Amend the tax cap legislation to allow district's share of BOCES capital projects to be excluded from the Tax Cap;

- Simplify the authorization process for BOCES capital projects with significant health and safety needs resulting from antiquated facilities which have not been upgraded since original construction. BOCES facilities increasingly need to support 21st century career opportunities for students as multiple pathways for college and career readiness are pursued;

- A regional transportation approach, with BOCES serving in a coordinating role, will require lease specifications be modified to permit BOCES to maintain a centralized hub for the repair and maintenance of bus fleets with only participating districts contributing to the cost of the facility;
- 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.

Support for Reform of Expense Based Aids

It is important that measures be adopted to rebalance the role of Expense Based Aids in General Support for Public Schools (GSPS). The Regents are not proposing changes for the 2013-14 school year for which districts have incurred expenses and anticipate reimbursement or for capital projects already approved by the voters. It is recommended that an Expense Based Aid Task Force be convened to address comprehensive reform of Building and Transportation Aid. Task Force representatives may include: superintendents; business officials; building and grounds officials; transportation directors; school construction professionals; representatives from private transportation industry; and Department staff. Issues for consideration are identified below.

Building Aid

Options the Task Force should consider for managing the State’s investment in capital construction include:

- 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 identified 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 the Task Force should examine 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 proposal discusses the challenging revenue constraints placed on school districts and identifies modifications to the current funding structure in support of 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 providing operating aid increases in a manner consistent with the principles of the original Foundation Aid formula while recognizing the impact of prior year reductions. 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.