

# **Reforming Education Finance in New York State**

Testimony Before the New NY Education Reform Commission  
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November 22, 2013

# Reforming Education Finance in New York

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## ▶ Outline

- ▶ Background on education finance in New York State
- ▶ Analysis of three major changes in education finance:
  - ▶ State Aid Cut-Backs
  - ▶ The New “Tax Cap”
  - ▶ STAR
- ▶ Recommendations



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- ▶ **The Key Problem: Disparities in Student Performance**
  - ▶ Student performance varies widely across school districts in New York, with particularly low performance in poor cities.
    - ▶ Only 5% of students in Rochester met or exceed the 2013 ELA and math proficiency standards, for example, compared to 31% of students statewide.
  - ▶ These disparities are not only profoundly unfair, but also place severe constraints on New York's potential for economic growth.



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## ▶ The Link to Education Finance

- ▶ Funding disparities are closely linked to student performance disparities.
- ▶ Numerous studies of education cost functions, for New York and other states, show that districts with higher student performance spend more, all else equal.
- ▶ A fairer education finance system is necessary for fairer outcomes.



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## ▶ Addressing Disparities

- ▶ Like most states, New York has taken some steps to minimize school funding disparities.
- ▶ However, with one important but seemingly temporary exception, **the policy choices made by New York State over the last 15 years have made these disparities worse.**
- ▶ Moreover, without dramatic changes in education finance policy, these disparities are on track to widen substantially in the years ahead.



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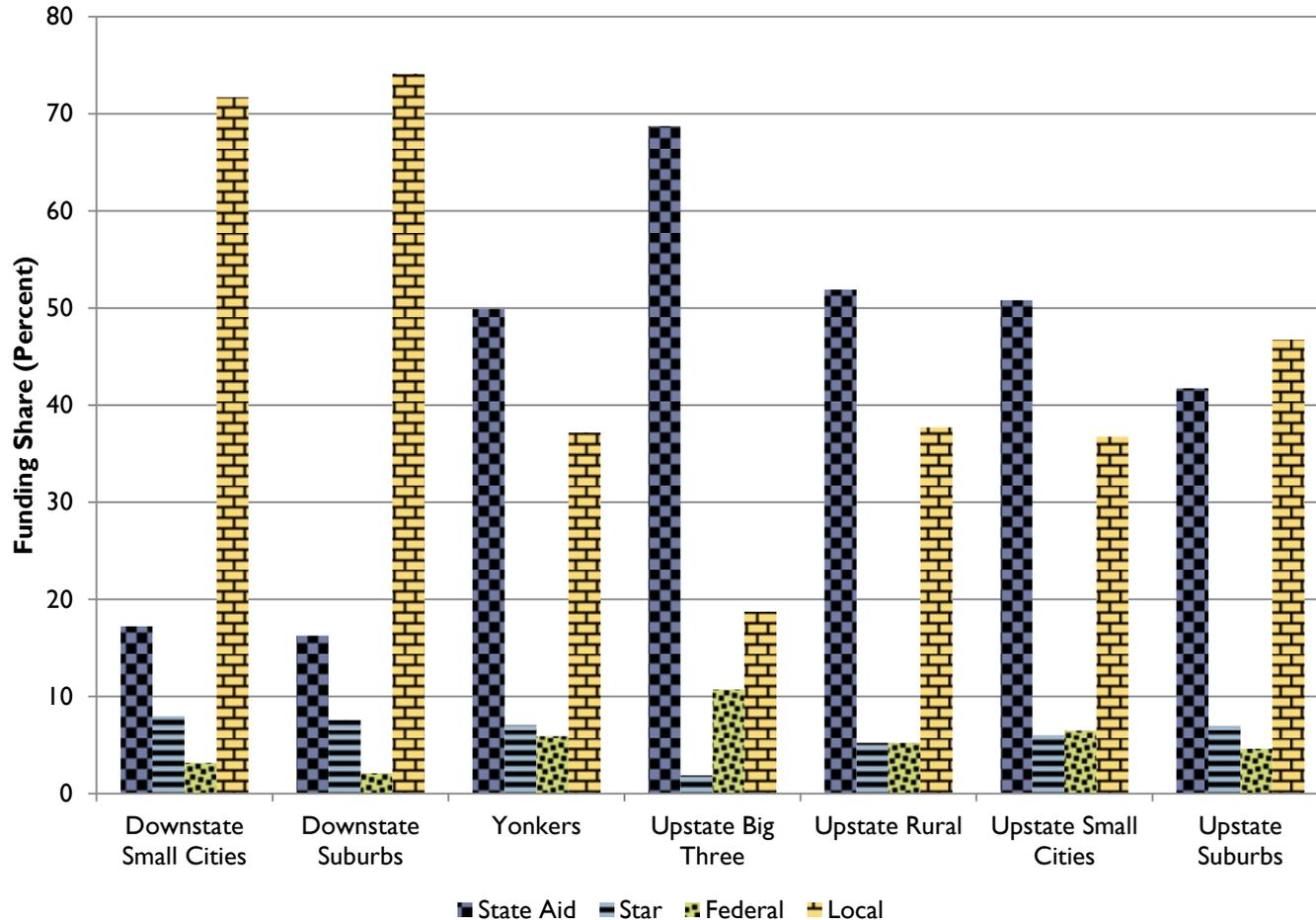
## ▶ Sources of Funding

- ▶ Elementary and secondary education in New York State is funded by state aid, state compensation for STAR property tax exemptions, federal aid, and local revenue, which consists largely of property tax payments.
- ▶ Because low-wealth districts receive more aid, the relative contribution of these sources of revenue vary across districts.
- ▶ Downstate suburbs receive only 16% of their revenue from state aid, for example, whereas Syracuse, Rochester, and Buffalo, (the Upstate Big Three) receive, on average, 69% of their revenue from state aid



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**Figure I. Sources of School Funding, 2011-2012**



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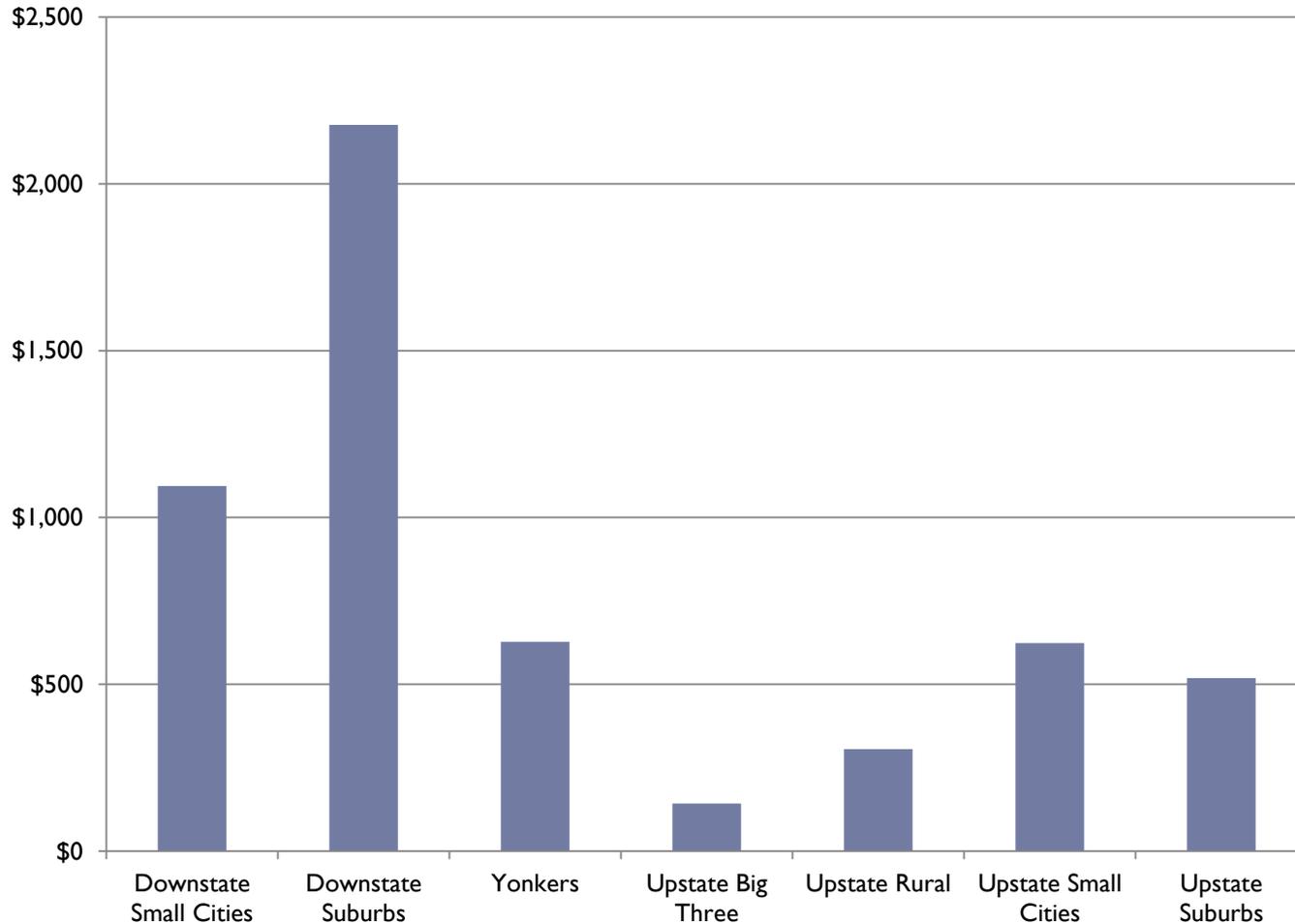
## ▶ Wealth and Aid

- ▶ The wealth differences driving these differences in revenue sources are very large.
- ▶ The state's measure of property wealth per pupil, ranges from only \$142,000 in the Upstate Big Three to \$2,177,000 in the downstate suburbs.



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**Figure 2. Property Wealth Per Pupil (Thousands of Dollars)**



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## ▶ Foundation Aid

- ▶ New York, like most states, uses a foundation aid formula.
  - ▶  $\text{State Aid} = \text{Target Spending} - \text{Expected Local Contribution}$
- ▶ Target spending is the state's estimate of the spending needed to achieve an adequate education in each district.
- ▶ The expected local contribution is, roughly speaking, a share of a district's wealth, so higher wealth means lower aid.



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## ▶ The Role of At-Risk Students

- ▶ Dozens of scholarly studies have established that it costs more to bring at-risk students (defined as those who come from poor families, who have limited English proficiency, or who have special needs) than to bring other students up to any given performance standard.
- ▶ This affects the “target spending” in the foundation aid formula.
  - ▶ A higher target is needed in a district with more at risk students.



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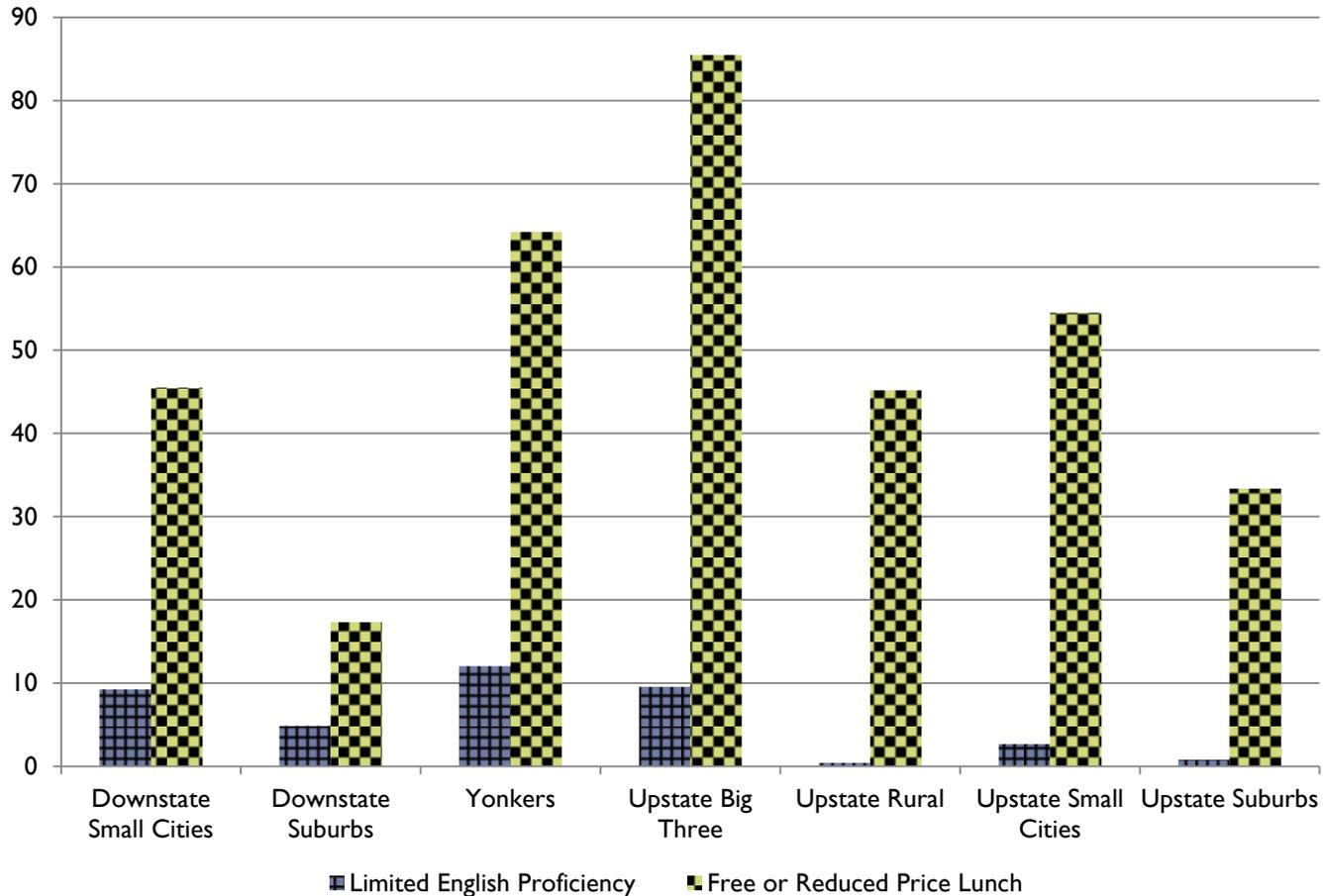
### ▶ Where Are At-Risk Students?

- ▶ Students from poor families and students with limited English proficiency are concentrated in city and some rural districts.
- ▶ Over 80 percent of the student in the Upstate Big Three districts, for example, are eligible for a free or reduced price lunch, which is an indicator of poverty.
- ▶ The combination of high poverty and low wealth leaves many districts, especially large cities, at a severe fiscal disadvantage.



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**Figure 3. Concentrations of At-Risk Students, 2010-2011  
(Percent)**



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## ▶ Pupil Weights

- ▶ Virtually every state makes some kind of adjustment to the target spending in its aid formula to account for at-risk students.
- ▶ One of my articles estimates an extra weight of 100% for poor children in New York.
- ▶ Most states use pupil weights in the 10 to 25% range, although Maryland and New Hampshire recently implemented aid formulas with 100% poverty weights under some circumstances.



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### ▶ Foundation Aid and the Principles in the CFE Case

- ▶ In the CFE case, the New York Court of Appeals endorsed the principle of providing an adequate education for all students.
- ▶ Moreover, it endorsed the principle that the education finance system must account for the higher costs of educating at-risk students.
- ▶ Even though the CFE decision directly applied only to New York City, elected officials in the state incorporated these principles into the aid reforms implemented in 2007.



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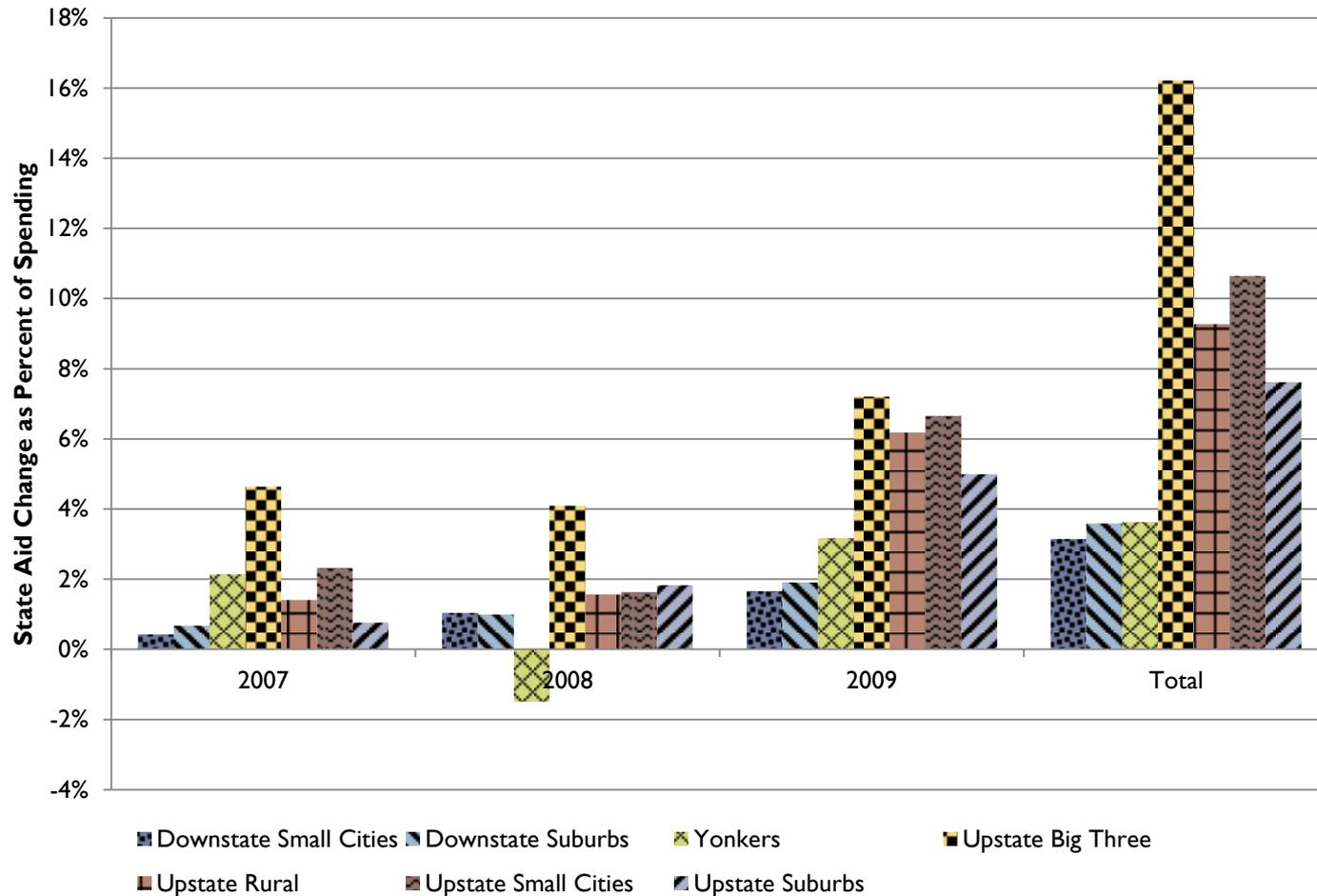
## ▶ The 2007 Aid Reforms

- ▶ These reforms introduced more realistic weights for poor children, up to 100 percent in some cases, into the calculation of target spending.
- ▶ The new aid formula was intended to be phased in over 4 years, but the phase-in ended after 2 years.
- ▶ The first 2 years of this phase-in brought significantly higher aid for the Upstate Big Three, which are the neediest districts in the state. Except in the case of Yonkers, other needy districts also received relatively large aid increases.



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**Figure 4. State Aid Reform, 2007-2009**



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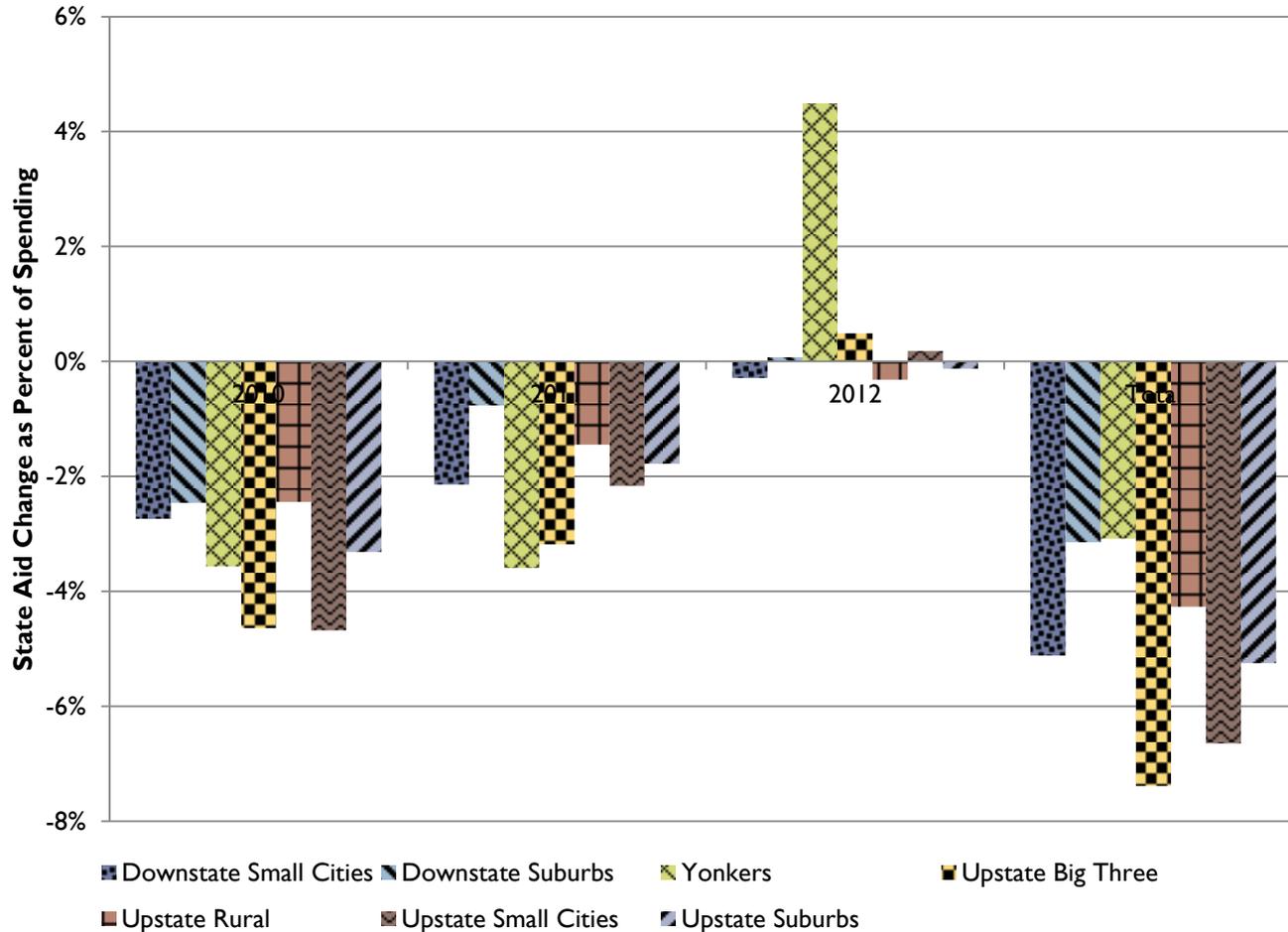
## ▶ Issue I: Cut-Backs in State Aid

- ▶ Thanks to the recession, New York's schools experienced large cuts in state aid from 2009 to 2011 and slow growth since then.
- ▶ Cuts must be evaluated as a percentage of spending; after all, **a given percentage cut in aid imposes a much larger burden on poorer districts, which rely much more heavily on aid than do richer districts.**
- ▶ This percentage cut in funding from 2010-2012 was over twice as high for the Upstate Big Three (7.4%) as for the downstate suburbs (3.2%)—an outcome that went a long way towards undoing the aid reforms of 2007-2009.



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## Figure 5. State Aid Cut-Back, 2010-2012



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## ▶ Issue 2. The New Tax Cap

- ▶ In 2011, New York State passed a property tax cap, which, roughly speaking, limits a district's levy increase to 2% per year.
- ▶ Because wealthy districts rely much more heavily on property taxes than do poor districts, their property tax levies—and hence their allowable levy increase—are much larger in absolute terms.
- ▶ A few wealthy downstate suburbs collected over \$30,000 per pupil in local revenue in 2012, whereas the Upstate Big Three collected about \$3,700. The tax cap therefore allowed these rich districts to collect  $\$30,000 \times 0.02 = \$600$  more per pupil in 2013; the Big Three could only raise their revenue by  $\$3,700 \times 0.02 = \$74$ .



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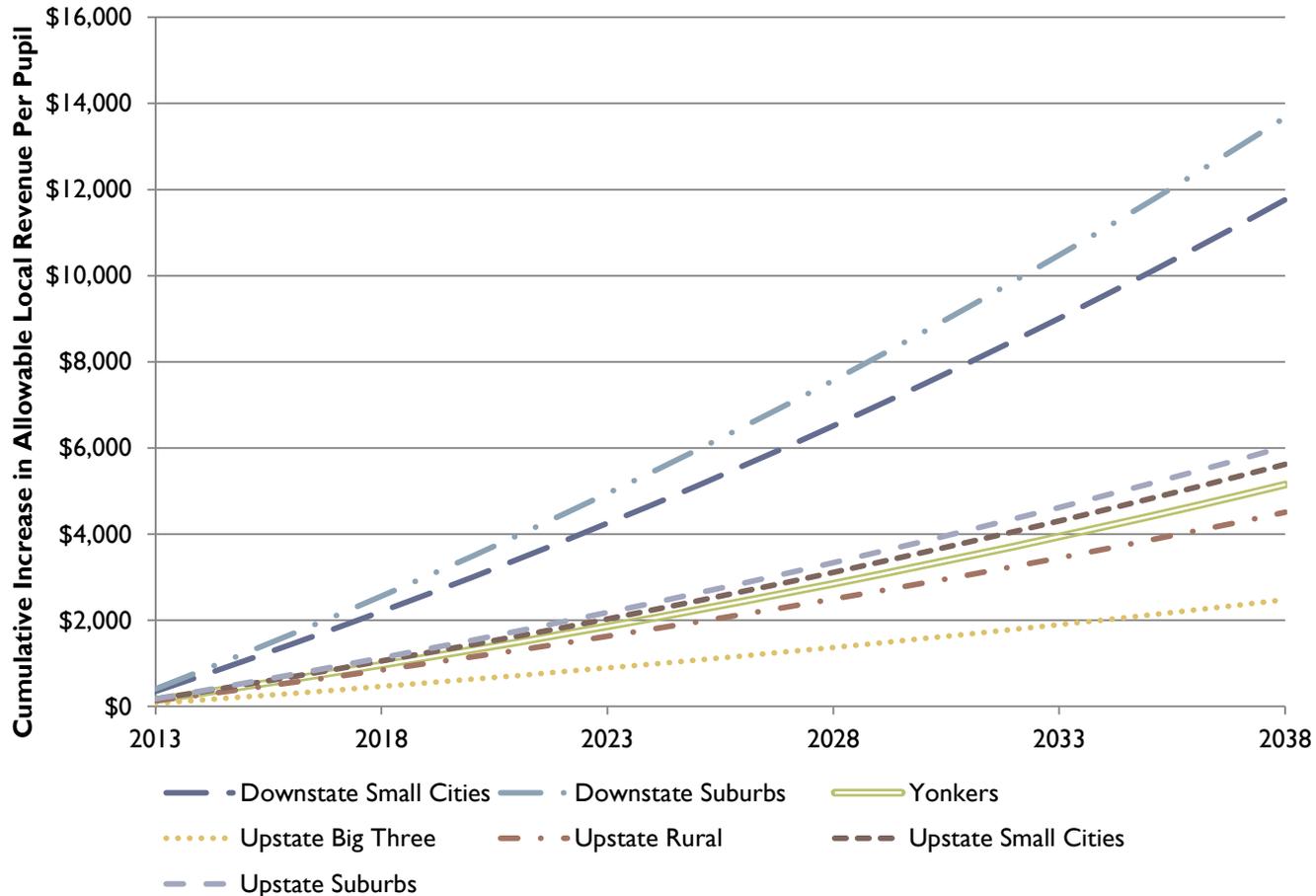
### ▶ The Tax Cap in the Long Run

- ▶ These disparities grow over time.
- ▶ Over the next 25 years, the average downstate suburb will be allowed to raise its revenue by \$14,000 per pupil, but the Upstate Big Three will only be able to raise their revenue by a little over \$2,000 per pupil.
- ▶ **Fiscal disparities across school districts in New York State are on schedule to keep growing and growing.**



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**Figure 6. Allowable Local Revenue Increases Under the Tax Cap**



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## ▶ Issue 3: STAR

- ▶ The STAR property tax exemptions, which were fully implemented in 2001-02, have become an important part of the New York State education finance system.
- ▶ The state compensates districts for these exemptions; the total cost is now about \$3.3 billion.
- ▶ Two features of STAR contribute directly to the disparities in New York's education finance system:
  - ▶ The Sales Price Differential Factor (SPDF)
  - ▶ The omission of renters



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### ▶ The Sales Price Difference Factor

- ▶ The SPDF boosts the STAR exemption in counties with average house sales prices above the state average.
- ▶ The 2013 exemption in Westchester County is more than 3 times as large as the exemption in all the upstate counties but one.
- ▶ The net cost of this provision is over \$1.5 billion per year.
- ▶ I know of no other policy in New York or any other state that rewards people for deciding to live in wealthy places.



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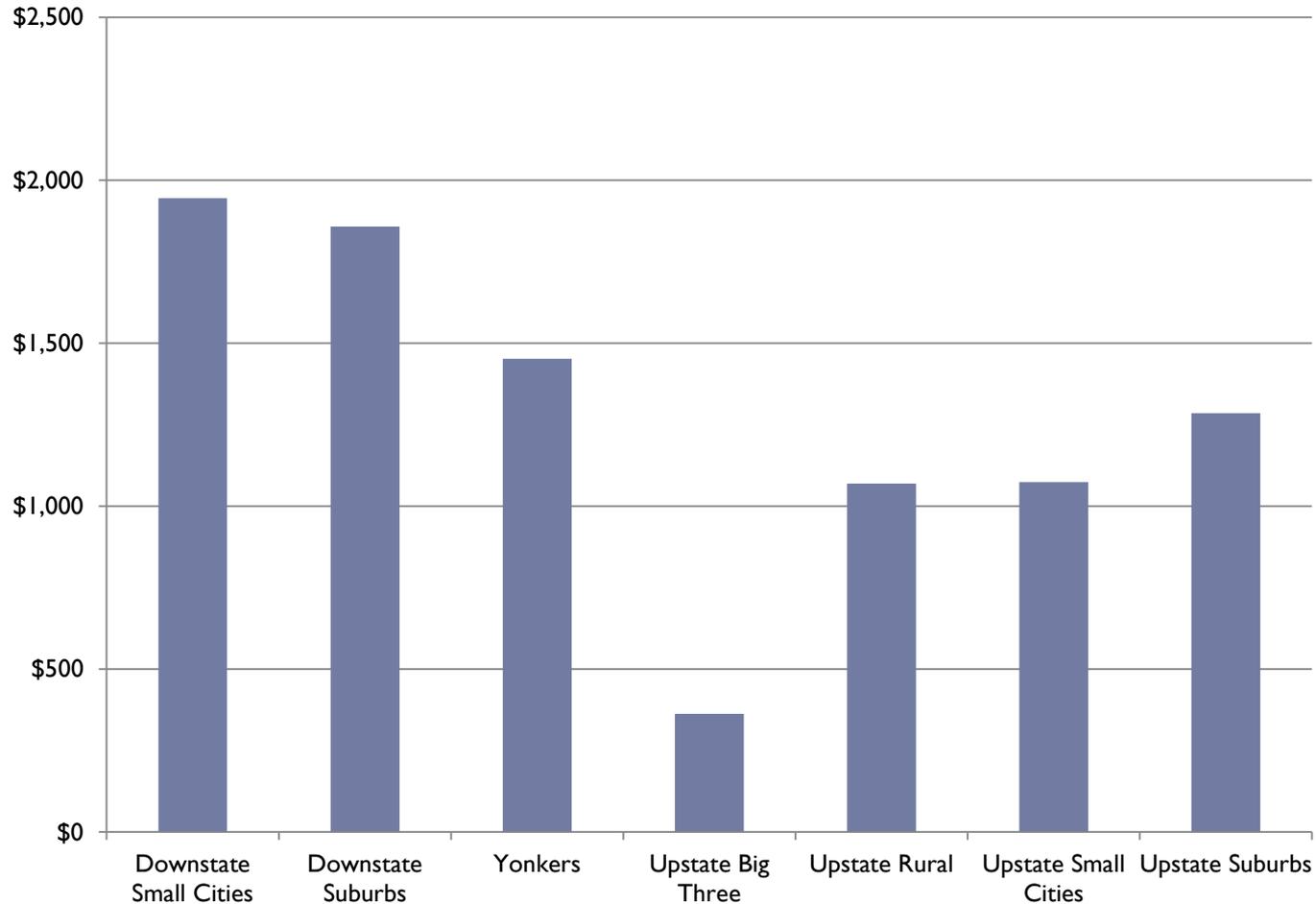
## ▶ The Omission of Renters

- ▶ Because poorer districts tend to have more renters, the omission of renters skews STAR compensation toward rich districts.
- ▶ STAR payments per pupil are over 5 times as high in downstate small cities and suburbs as in the Upstate Big Three.
- ▶ It makes no sense to be devoting such a large share of the state's education aid budget to such an unequal program.



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**Figure 7. STAR Payments Per Pupil, 2011-12**



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### ▶ Issue 4. Lack of Data and Independent Analysis

- ▶ One common feature of these recent major changes in New York's education finance system is that they were passed without independent analysis and with little public debate.
- ▶ In my judgment New York State's education finance policy, and its education policy generally, would be greatly aided by better data provision and by an independent budget office or something like it.



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## ▶ Analysis and Accountability

- ▶ An improvement in data collection and analytical capacity would also contribute to the state's accountability. programs
- ▶ Accountability is a two-way street.
  - ▶ School districts that receive state funds should be accountable for how they use it,
  - ▶ But state education officials must help to design and evaluate the types of programs that facilitate improvements in student performance.
- ▶ Just as it makes no sense for the state to give money to a poor school district and then walk away, it makes no sense for the state to expect a poor district to conduct program evaluations and experiments.



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- ▶ **Recommendation I: Embrace the 2007 education aid reforms.**
    - ▶ The 2007 aid reforms, which were based on constitutional principles, gave the state's neediest school districts a fighting chance to give their students an adequate education.
    - ▶ Without an formula like the one in the 2007 reforms, backed up by a strong accountability program, New York State will continue to leave many of its children unprepared for the demands of today's labor markets and unable to meet their responsibilities as citizens.
    - ▶ All of New York's citizens pay the cost for this waste of our children's talents.
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- ▶ **Recommendation I, continued.**
  - ▶ State education aid increases are currently limited to growth in the personal income growth index.
  - ▶ I recommend using all the allowable aid increases to gradually move back to the aid amounts promised to districts by the 2007 reforms.



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## ▶ Recommendation 2: Reform the tax cap.

- ▶ The current design of the tax cap punishes districts that rely heavily on state aid, which include the state's neediest districts.
- ▶ If left in place, this feature will result in a huge growth in fiscal disparities.
- ▶ I recommend re-stating the limit as a percentage of each district's target spending amount in the state's foundation aid formula.
  - ▶ With this approach, the revenue growth for each district would be a percentage of the amount that the state thinks that district needs to spend to provide an adequate education.
  - ▶ Several states, including Kansas and Michigan, already use the foundation level of spending as the maximum amount a school district is allowed to spend.



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### ▶ Recommendation 3: Reform STAR.

- ▶ STAR penalizes districts with a high concentration of renters and provides unwarranted subsidies to homeowners who choose to live in high-wealth locations.
- ▶ I recommend eliminating the SPDF and using the funds for a new STAR payment based on the number of renters in a school district.
- ▶ The budget for the SPDF would fund a payment of about \$410 per renter household, which is virtually the same as the payment per owner household from the current STAR without the SPDF, which is about \$405.



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- ▶ **Recommendation 4: Improve Data and Analysis**
  - ▶ The need for better data and analysis is recognized by many states.
    - ▶ Pennsylvania recently set up an Independent Fiscal Office, for example, and both North Carolina and Texas have been pioneers in providing extensive education data to scholars.
  - ▶ Legislation to create an independent budget office was introduced in the New York State legislature this year.
    - ▶ I recommend supporting legislation like this or else an equivalent expansion of the analytical capacity in the State Education Department.
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