

## **New York State's Foundation Aid Study: A Scholarly Perspective**

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### **VI. Addendum**

This addendum adds to the testimony I submitted on July 25, 2024 to the Rockefeller Institute concerning its state-mandated foundation-aid study. To be specific, this addendum provides further comments on two major issues in state education aid design: the determination of the foundation spending amount and the potential burden of the expected minimum contribution on low-wealth school districts.

#### **Determining the Foundation Spending Amount**

With a foundation aid program, a state government calculates each district's expenditure need and each district's expected local contribution. Expenditure need equals the per-pupil foundation spending amount adjusted for the extra spending required to serve at-risk students, to account for student enrollment, and to pay salaries that reflect competition from the local labor market. Thus, expenditure need varies across school districts, but the foundation spending amount does not. The foundation aid to a district equals the difference between the district's expenditure need and its expected local contribution multiplied by district enrollment.

The foundation spending amount is logically connected to the student performance level the state wants school districts to provide. The higher the expected performance level, the higher the foundation spending amount must be.

One way to set the foundation spending amount is to increase it beyond its baseline (i.e. pre-reform) level until the desired increase in the foundation aid budget is reached.

A more conceptually appealing approach requires information from the cost regression used to estimate the added costs of at-risk students. This regression, which is discussed in other parts of this testimony, estimates per-pupil spending as a function of current performance, student characteristics, district enrollment, and local wage levels. The current foundation spending amount is the predicted per-pupil spending level for a district with average performance, no at-risk students, and average values for the other variables. This amount does not equal spending for any particular school district; instead it is a hypothetical amount based on the regression results. A cost regression is necessary to make the translation from observed spending to the foundation spending amount.

In other words, the cost regression shows the relationship between per-pupil spending and average student performance. As a result, the regression results can be used to estimate the

increase in spending that is required to boost student performance by a given amount. This increase in spending corresponds to an increase in the foundation spending amount.

Increasing the foundation spending amount to yield the desired increase in the foundation aid budget may sound like a more reasonable alternative. However, the increase in the state budget for foundation aid and the increase in the desired level of student performance are logically connected. Setting either one of these targets implies a value for the other target—thanks to the logic of the cost regression.

### The Expected Minimum Contribution

In my discussion of paragraph 5(g) in the enabling legislation, I recommend sticking to a simple formula for the expected local contribution across districts. This recommendation fails to point out, however, that variation in the formula may serve a valuable purpose in one case, namely, the case in which the expected local contribution places an unacceptably high burden on poor districts.

As I pointed out in section IV of my testimony, children in poor districts will not receive the education quality they deserve if a school district is allowed to raise less revenue per pupil than the amount specified by the expected local contribution in the foundation aid formula. This problem can be solved by requiring that all districts levy at least the formula's amount. If the expected local contribution is far above a district's pre-reform contribution, however, the burden on local taxpayers from this approach might be considered excessive, particularly for poor districts. After all, poor districts are likely to face relatively high costs for police, fire, and other local government functions—not just for education.

One reasonable solution to this problem is to design a foundation aid formula in which the expected local contribution to education increases with district wealth. To hold constant the state foundation aid budget, any lowering of the expected local contribution for poor districts would have to be offset by an increase in the expected local contribution for rich districts. Any application of this approach therefore must balance the resulting increase in fairness against the higher burden on rich districts.