

**Testimony Submitted to the Rockefeller Institute of Government
for Consideration in the Foundation Aid Study
September 6, 2024**

Summary of Recommendations

1. The Successful Schools Study should be updated with current data, and reasonably modified where original data elements no longer exist or are no longer accurate.
2. The Successful Schools Study methodology should consider factors that were not as present twenty years ago when it was first devised, such as student mental health needs and changes in academic requirements.
3. A statistical analysis determining the most impactful components of the formula should be conducted; if equity measurements are not a significant factor, modifications to make them so should be explored.
4. Equity for all school districts should be pursued by “leveling up” the highest need districts in the State.
5. Data with hard cut-offs should be smoothed to eliminate hard cut offs and eligibility that appear arbitrary.
6. Complexity should not be reduced for the sake of clarity, but should be explained in ways that are understandable, at a high level, to laypersons.
7. Formula calculations, such as the expected local minimum contribution, should be connected to the reality districts face because of State policy, including the tax cap.
8. The Foundation Aid Study should include or recommend an analysis of the actual fixed costs of school districts, regardless of their enrollment size or trends.
9. Foundation Aid should be calculated using up-to-date data in a way that reduces year-to-year volatility such as multi-year averages.
10. Recommended changes from one data element or calculation to another should include the recommendation that they be phased-in so that the dramatic changes in distribution are mitigated over a longer period of time.
11. All setaside requirements should be eliminated, and if programs are to be incentivized, funded separately.
12. The Foundation Aid Study should analyze and consider the possibility of removing the special education weighting and separately funding those programs.

Introduction

The Association of School Business Officials of New York appreciates the opportunity to submit testimony on the Foundation Aid Study being conducted by the Rockefeller Institute of Government. In this written testimony, we expand upon the topics covered by our representatives at the five public hearings during this past summer.

ASBO New York endorses the Foundation Aid Principles adopted by the New York State Educational Conference Board (ECB): adequacy, equity, clarity, predictability, flexibility, and accountability. While we agree with these broad principles, the specific proposals included below reflect only the recommendations of ASBO New York.

In broad strokes, the proposals below reflect the idea that a single but complex model that factors in as many high-quality and updated measures as possible can accurately reflect the reality for each individual district.

Adequacy

The original *Successful Schools Study* from 2003 is titled “Estimating the Additional Cost of Providing an Adequate Education,” cementing the important role adequacy plays in the formulation and distribution of state aid to school districts. It lays out the fundamental question ‘does this funding mechanism, at its root, provide the necessary resources so that students receive an adequate education from their school district?’ We sometimes forget that prior to the enactment of the Foundation Aid formula, the main operating aid formulas did not carry this as a central consideration. It is also important to remember that in part, this study was part of a body of work intended to answer inherent questions of constitutionality, and whether the State was meeting baseline goals. The goals of Foundation Aid were ultimately more ambitious.

In its current form, the Foundation Aid formula utilizes a *successful schools* model for determining the base amount to be used in calculating district-level aid, whereby the unweighted costs of educating students in a particular bucket of schools deemed to be successful are averaged together. The theory is that the formula can use this amount, add back in individual district weightings for student need and district fiscal capacity, and this yields an expected level of spending that is then divided up between State and local revenues.

This imputed average, called the *foundation amount* in formula parlance, currently relies on data that is both nearly and over a decade old, generally (but not always in enacted budgets) simply modified for inflationary growth in the Consumer Price Index (a measure, we note, that does not have direct correlations with the main drivers of education spending). Some of the lag in data updates stems from changes in certain data collection methodologies and is not easily corrected simply by plugging in new data. The distortions caused by this are certain to have some unknown impact and must be adequately considered.

As a first step, we believe the successful schools methodology should be updated and revised to use data that is no longer frozen at a random point in the past and can be updated prospectively on a regular basis.

States, organizations, and academics use and advocate for many other models as replacements to the successful schools model. ASBO New York does not endorse or reject any particular methodology. In the interest of time, we believe the immediate focus should be on a model that is substantially similar to what is currently used; other models could be analyzed for consideration in the future.

There is potential for more substantive changes related to factors that were not included in the 2003 study. **Various measures of student success, additional needs in special education, academic expectations, technology and mental health, and the realities of funding education in remote and declining regions of the State should be considered as an element in the *foundation amount*, to the extent they are considered as a weighting factor for distribution.**

Equity

As with adequacy, there are multiple definitions and considerations for the concept of equity, and how it can and should apply to school funding formulas. It applies to providing equitable opportunities for all students, regardless of their ZIP code or school district. But it can also relate to how allocations are treated among school districts.

First, with respect to student equity, the construct of the Foundation Aid formula was a significant upgrade in the State's accounting for student needs in its main operating aid formula, which as noted above was more ambitious than the initial goal. The inclusion of multiple measures of student and community need, including Census poverty, free and reduced-price lunch (FRPL) rates, English language learner (ELL) counts, and sparsity weightings revolutionized how schools in New York were funded. But in recent years, the impact of those factors has been blunted, due, in part, to changes in data collection and availability. The formula appears to be largely driven by aggregate enrollment counts, and in turn those factors that are also dependent upon enrollment, such as the *Combined Wealth Ratio* (CWR). CWR is a measure that looks at relative aggregate income and property wealth in a district on a per pupil basis, and thus can be driven by changes in income wealth and property wealth, but also by enrollment and the statewide average of the measurements.

As we will note below, CWR can be a volatile measurement. Let us consider the changes in district demographics between recent years. For simplicity's sake, from 2018 to 2021, the average CWR in the State decreased by 4.2%, and then between 2021 and 2024 it increased by 3.7%. Considering the data is lagged by a few years, the time periods we are seeing here are 2014 to 2017, and 2017 to 2020, all before the COVID pandemic created distortions in district property values and income statewide.

That data volatility during a time period that was not experiencing actual real-life volatility unnecessarily distorts the formula-based calculations, disconnecting them from reality, and making them less

predictable. To the extent it is a significant driver of equity measurement, it can have a distortionary impact on aid allocations.

Your recommendations should call for the State to conduct an in-depth statistical analysis, regressing components of the Foundation Aid formula on the overall aid amount to determine the current largest and most significant drivers of aid and assess whether and how that should change. In the interest of equity, future changes to the formula should ensure that the factors measuring student needs significantly determine the allocation of State funding.

Second, achieving equity can be defined and, therefore, accomplished in several different ways. **We subscribe to the ECB principle that “equity should be pursued by ‘leveling-up’ support for poorer districts.”** School finance in New York has for decades avoided a zero-sum, “Robin Hood” approach, where resources from low need districts are redistributed to high need districts. This study, recommendations, and the resulting budget deliberations should not walk away from this principle.

Last, school aid formulas are nuanced and necessarily contain measures with cut-off points. Categorical measures of continuous concepts employ arbitrary cut-offs that can distort the distribution of districts by placing them into broad buckets. In the Foundation Aid formula, the use of the *needs/resource capacity index* (NRC) in the *state sharing ratio* (SSR) calculation and the labor force regions for the *regional cost index* (RCI) contain hard cut-offs that do not gradually change the respective eligibility or weighting. Whenever possible we should rely on more nuanced measures. For example, an RCI with a larger number of labor force regions would more accurately reflect differences in labor costs across districts.

District demographic data should be deployed gradually and logically to avoid hard cut-offs between districts with similar characteristics. This concept applies to how the State compares districts on a statewide basis, where significant regional differences exist.

Clarity

In a State as economically and demographically diverse as New York, with a funding formula as complex as Foundation Aid, it is easy to lose sight of the concept of clarity. We noted in our earlier comments that there is a tension between the desire for the formula to be comprehensive and, at the same time, comprehensible. Comprehensiveness is necessary to meet the various diverse needs of districts. Comprehensibility is important for public support for the way the formula ultimately distributes Foundation Aid. The tradeoff between the two should err on the side of comprehensiveness, but the pairing of deliberative policymaking and communications tempers the loss of comprehensibility.

Complicated policies and formulas need not be completely incomprehensible. In fact, despite their complicated nature, the goal of aid formula calculations should be that they are done in a way that is conceptually understandable to a layperson, even if they may not fully understand each element. This would entail what Executive Director Brian Cechnicki referred to in his testimony as the “story test.”

Complicated formula calculations can and should be able to, at a high level, tell a story about what they are doing.

Here are two examples of current formula components utilizing this kind of story test:

“Students in poverty require more resources for education, so we add a .65 weighting per identified student to the per pupil amounts to account for that.” This is a statement that is conceptually understandable despite its technical details. It passes the story test.

“Schools in rural areas have challenges that come with costs, so we add a calculated student weighting equal to the lesser of 25 minus the number of students per square mile, divided by 50.9.” This is intended to provide additional funding for rural districts, but it lacks clarity such that a layperson could not understand the intent. This does not pass the story test. If the State could explain, “we know that rural districts face challenges, and we have calculated that these challenges drive x costs by y percent so we have added a weighting of z” the story would be more compelling. It may not even require a different calculation. It does require a different way of explaining it.

It is important to have a Foundation Aid formula with a sufficient level of complexity to allocate aid equitably across the diverse districts in New York, but the State should consider how the formula is presented to citizens.

We noted earlier the volatility of the CWR and its impact on the formula. But there is also a separate issue with the CWR that prevents it from passing the story test as it once did. Since the enactment of the Property Tax Cap in 2011, the calculation for determining how much revenue a district can generate locally is no longer connected to how much property or income wealth capacity the district has; it is now just a factor of the previous year’s levy. The formula still assumes that increases in property or income wealth can lead to a higher local property tax levy. That is no longer true under the tax cap without the extraordinary measure of a supermajority vote by the public. Independent school districts live with the reality that for their community, the minority rules regarding the tax levy.

These factors need to pass the story test to better clarify and, therefore, garner public acceptance. Formula calculations should be connected to the policy realities that districts face.

Predictability

One of the hallmarks of the creation of the Foundation Aid formula and its subsequent phase-in provisions was that it was intended to bring predictability to school financial planning. Districts should have been able to anticipate, within reason, how much aid they would receive from the State during their budget development. Through a combination of factors, including the Great Recession, leading to the delayed phase-in, as well as inherent volatility in the economy, this dream never came to fruition. Arguably, the three most predictable and transparent years for school districts were the 2021-22, 2022-23, and 2023-24 school years, because the State adopted and stuck to a three-year phase-in plan. Even still, many districts witnessed wild variation year to year due to the volatility of their data, which, as noted, is relying on

increasingly inaccurate inputs. Moreover, by opening the present broad discussion of the Foundation Aid formula, the State has now inherently reduced predictability around subsequent budget allocations.

First, the Foundation Aid Study should include or call for the State to perform an analysis of the fixed costs of operating school districts, regardless of their enrollment size. The Foundation Aid formula is very sensitive to movement in enrollment counts, even if the reality of the district experience is unchanged. Take the example of two small, comparably sized districts in the State: if one assumed the move of one student per grade to from one district to the other, the costs for each district in these districts (based on actual enrollment) would change by 3.5% up in one district and down in another. This change in costs on paper would not reflect the reality that nothing has functionally changed in either district. The loss of so few students in one district would not allow for the closing of a building and associated savings or reduction in staff. Appropriately certified teachers, transportation, HVAC, and other fixed costs remain unchanged.

Second, many existing components are outdated and/or volatile. The most common example is the poverty data from the 2000 Census, which is now over twenty years old. The regional cost index is likewise frozen at 2006 levels. **Using the most up-to-date data across all components and reducing the year-to-year volatility due to changes in components will improve predictability.**

Lastly, as the Foundation Aid Study is likely to consider improvements to data inputs, enacting such changes could potentially lead to issues of “winners and losers” among school districts. **If recommending transitioning from one data element or calculation to another, the study should recommend smoothing out the transition between them, so that any win/loss tradeoffs among districts are mitigated over a longer period of time.**

Flexibility

Another hallmark of the original Foundation Aid formula was streamlining. Over time, school funding had been broken into dozens of individual categories, each with different programmatic strings attached to it. The new formula initially consolidated those streams into a single flexible source of funds. While this was largely true at the outset, over time additional requirements and “setasides” have been introduced that continue to tie the hands of school district officials in utilizing these funds. A common example is the community schools setaside, which has led many to believe there is a separate funding stream for these programs, rather than a siphoning of existing Foundation Aid. **All setasides should be removed. If the State wishes to attach funding tied to programs, separate funding streams should be created for those for those priorities. But in general, programmatic decisions should be left to districts with flexible, need-based funding to support those decisions.**

The funding of special education is closely related to setasides and flexibility. The 2007 version of the formula enacted by the governor and legislature included a 1.41 weighting in the enrollment count for special education students and eliminated the major source of special education funding at the time, Public Excess Cost Aid. While we do not believe the original formula should be reconstituted, it is

important to consider the reality that the amount within the formula dedicated for special education, even as grown by inflation since 2007, no longer reflects the actual costs or distribution of such costs among districts. **We believe the Foundation Aid Study should examine and consider the actual costs of special education and whether those costs are best funded through a weighing, or separately through an expansion of excess cost aids.**

Accountability

Finally, we turn to the issue of accountability. We have noted that schools, more than any other municipality in New York, have numerous and significant transparency requirements. There is more detailed financial information available on the operation of school districts than any other level of government. In fact, residents of school districts are sent annually, via mail, detailed budget documents explaining the proposed school budget before they vote on it, a dynamic that does not exist for the State or any of its other municipalities.

We understand the State has a valid interest in how the largest general fund portion of its budget is being spent. But the State, and the public in general, already have access to a plethora of data on this spending. To the extent there are any remaining questions about where State funding for schools is going, it is likely due to an overabundance of disjointed information, rather than a lack of information itself. The State should not add unnecessary and duplicative reporting requirements, but instead look to its current requirements and reform them to be usable and understandable. It has been suggested at almost all the hearings held this summer that the State has “repealed” important state-level transparency reporting. We wholeheartedly dispute that representation. A cumbersome state-level report on budgeting was allowed to expire, as was the intent when it was adopted, due to the phase-in of a more accurate, user-friendly federally required report on expenditures. This report, which is directly connected to performance data, is easily and readily available on the NYSED website.

Conclusion

We appreciate the public process the Rockefeller Institute has undertaken as part of its charge and are happy to share the above thoughts on behalf of over 3,000 individuals working in and around the school business offices throughout the State. We stand ready to provide assistance where we can, and hope that the Institute will consider the concepts we have laid before it for inclusion in the final recommendations that will be transmitted to the Governor and Legislature.