



*Adequate. Constitutional. Equitable.*

## BRIEFING BULLETIN | No. 5

### Equity Issues in Raising Revenue for Education

The [Adequate, Constitutional, Equitable \(ACE\) School Funding Project](#) is a collaboration between the Center for Educational Equity, Teachers College, Columbia University, and American Institutes for Research (AIR). Our goal is to provide reliable independent research to contribute to New York State budget deliberations for the next fiscal year and to advance the development of a new school funding formula that will respond to current student needs and ensure students' right to a sound basic education is honored now and in years to come.

#### What's the ACE School Funding Project?

AIR's reports for the ACE School Funding Project thus far have detailed [the inequities of the current Foundation Aid formula](#) and described how these inequities [are denying educational opportunity](#) to hundreds of thousands of students around the state. Their third report demonstrated how a [systematic, data-based cost modeling approach](#) can be used to help build a new school funding system. [Their fourth report](#) analyzed the recent review of the Foundation Aid formula issued by the Rockefeller Institute of Government. These reports show that (1) existing funding for New York schools and districts is not equitably distributed and (2) students, particularly in high-need districts, are not provided with equal opportunity to achieve the state's outcome goals. These findings—as well as the recommendations in the Rockefeller Institute report—demonstrate the need for a new school funding system.

[AIR's new report](#) addresses equity issues in raising revenue to fund education. It describes New York State's current approach to school funding, combines state aid and local revenues, and seeks to account for differences in local capacity to raise funds through property taxes and other means. AIR finds that the system does not operate as theoretically intended because Foundation Aid target amounts and state aid overall are not high enough to allow low capacity school districts to offset the ability of higher wealth districts to raise more local revenue per student, with lower tax rates.

#### Background

In 2003, New York's highest court held that all students are entitled under the state constitution to the "opportunity for a sound basic education" (*Campaign for Fiscal Equity (CFE) v. State of New York*, 2003). The court ordered the governor and the legislature to (1) determine "the actual cost of providing the opportunity for a sound basic education" to all students and (2) create an equitable formula that will ensure that all schools have the resources necessary to

provide their students a sound basic education.

The school funding formula the New York State Education Department created in 2006 to comply with the *CFE* decision is now out of date—and unconstitutional. The formula is not providing schools sufficient funding to cover the costs of a sound basic education. Because the state has failed to set up a process for meeting its constitutional school-funding obligations, the ACE School Funding Project is providing independent research and analysis to advance the development of a new school funding formula.

### AIR's Analysis of Equity Issues in Raising Revenue for Education

A well-designed school funding system should ensure that through a combination of state aid and revenues raised by local communities, schools are provided the actual number of dollars needed to ensure all their students the opportunity for a sound basic education. It should also ensure that local communities are able to meet students' needs through equitable tax effort and without those communities having to tax themselves at excessive rates.

[AIR's fifth report](#) for the ACE School Funding Project examines New York State's current approach to equalizing revenue and analyzes the extent to which New York's current system achieves equitable funding with respect to local capacity. It considers whether the school funding system accounts for the reality that, at comparable levels of effort, districts with lower capacity are not able to raise sufficient local revenue.

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AIR concludes that New York's current school funding system is neither equitable to taxpayers nor *wealth neutral*.

- Residents in the lowest wealth districts typically tax themselves at higher rates and yet achieve lower levels of overall resources compared with higher wealth districts.
- Although state aid is distributed in a way that provides more aid to the lowest wealth districts, this distribution does not provide enough funding to make up for the vast differences in local revenue-raising capacity across districts with different levels of wealth.

The report suggests that one reason for these inequities is that Foundation Aid targets (that is, the amount each district needs to provide all its students the opportunity for a sound basic education) are likely too low. These targets are too low for a number of reasons, including that:

- 30% of state aid is provided through less equitable categorical grants, expense-based formulas and the STAR real estate tax rebate system
- The state's share of total education expenditures is too low. New York State provides approximately 38% of public education funding statewide, whereas nationally states contribute on average over 50% of total education funding (excluding federal aid.)

Setting Foundation Aid targets too low means that efforts at equalization across districts based on local capacity apply only to a portion of the overall revenue districts raise and likely need. If Foundation Aid targets were set higher, more district revenue would come under the umbrella of Foundation Aid, allowing the state to apply efforts at equalization to a larger portion of the revenue raised for public education.

Under the state constitution, the governor and the legislature are obligated to ensure that New York's school funding system provides sufficient funding to provide all students throughout the state the opportunity for a sound basic education. The lack of an equitable approach to local capacity for funding education is yet another reason New York State needs to adopt a process for developing a new school funding formula.



This document is a part of a series of regular bulletins sharing news from the [Adequate, Constitutional, Equitable \(ACE\) School Funding Project](#), a collaboration between the Center for Educational Equity, Teachers College, Columbia University, and American Institutes of Research (AIR). If you have feedback or questions, please write to [equity@tc.columbia.edu](mailto:equity@tc.columbia.edu).