Evaluation of New York School Funding

Report Brief 4: Review of Rockefeller Report

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Contents

Introduction

The goal of a school finance system is to deliver the funding necessary for each district and school to provide the educational programming and services to ensure that all children have an equal opportunity to succeed (Duncombe & Yinger, 1998). Each state's constitution requires that its education funding system meet some criteria for quality for all students attending public schools, often defined by a set of student outcome goals. In New York State specifically, the Court of Appeals has declared that all children must be provided a meaningful opportunity for a sound basic education, which the court defined as "the skills students need to function productively as civic participants capable of voting and serving on a jury." The Court also held that achieving a meaningful opportunity for a sound basic education requires sufficient levels of funding or resources.

The practical implication is that New York's education funding system faces challenges in appropriately accounting for two potential sources of inequity across districts stemming from the following:

1. *The costs of providing equal educational opportunity to achieve the stated outcome goals.* The sorting of students and populations across local schools and districts means that student characteristics and the needs of students vary substantially across districts. In addition, costs of hiring and retaining staff and school operations may vary across school contexts (e.g., small schools and districts tend to have higher operational costs per student). These differences in needs and context require substantial differentiation of funding to provide an equal educational opportunity.

2. *The ability of local public school districts to cover those costs.* Continued reliance on local property taxation to support education along with differences in local wealth means that districts vary drastically in the amount of revenue they are able to raise locally when applying reasonable and consistent tax rates. States must distribute aid to offset these discrepancies so that all districts have sufficient funding to meet their needs regardless of their capacity to raise revenue locally.

New York's Foundation Aid formula has been in place for almost two decades at this point, and there are growing concerns that the formula no longer appropriately accounts for differences across districts in both student needs and local capacity (Shen-Berro, 2024). The Rockefeller Institute (RI) recently issued a report evaluating New York's funding formula and providing recommendations for improvement. The RI report consisted of comparative analysis of education spending and revenue in New York versus other states, a thorough review of school finance literature, and a summary of feedback received through public hearings. In its analysis

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and reporting, the RI report adopted similar conceptions of equity and adequacy as the AIR team described above, in our prior report briefs, and in other publications (Atchison et al., 2020; Baker & Green, 2008).

The RI report acknowledges that the study's scope was limited as a result of a short timeline and the narrow charge, which was to provide recommendations for modifications to the current New York State Foundation Aid formula. As a result, the RI report did not go so far as to determine the costs associated with achieving the above goals or provide empirically based suggestions for how to calibrate the Foundation Aid formula to distribute the funding that would support the estimated costs. Therefore, it is unclear to what extent the recommendations outlined in the RI report will make a substantive difference in providing a more adequate and equitable education funding system.[1]

In this brief, we consider the strengths of the RI report and identify questions that still need to be addressed, as well as suggest necessary next steps in generating evidence to inform an updated Foundation Aid formula. This brief is organized in three sections: (1) recommendations related to the estimated costs and needs components of the Foundation Aid formula (the first challenge above); (2) recommendations related to the local contributions and state aid shares required to finance those costs and needs (second challenge above); and (3) miscellaneous state aid streams, revenue caps, and funding policies that contribute to inequity. We end with the conclusion that a comprehensive adequacy study is necessary to better inform the redesign of New York's Foundation Aid formula.

Topic 1: Cost of Constitutionally Adequate Schooling

We first address the calculation of adjusted Foundation Aid targets that are intended to provide the current operating expenditures associated with achieving student outcome success—as measured in the state's "successful schools" model. The RI report shares our concern with the current application of the "successful schools" approach to calibrating the formula.

As we described in our first brief in this series on student equity, the adjusted foundation amount (AFA) is the product of a base foundation amount, a pupil needs index (PNI), and a regional cost index (RCI), as follows:

$$Adjusted\ Foundation\ Amount \\ = Base\ Amount * Pupil\ Needs\ Index * Regional\ Cost\ Index$$

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[1] A full list of the RI report recommendations is included in Appendix A.

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If any one component on the right-hand side is miscalculated or mis-calibrated, the effects will be multiplied throughout.

- **Base Amount and Inflation Adjustment:** The base amount is the prior year's base amount multiplied by an inflation adjustment represented by the Consumer Price Index (CPI). The base cost underlying the Foundation Aid formula should represent the per-pupil expenditure needed in the minimum regional cost setting, for meeting the desired outcome goals, for groups of children with no additional needs as specified by the PNI (i.e., those who are not in poverty, not ELLs, and not in sparsely populated areas). Furthermore, the inflation adjustment should account for year-over-year increases in the cost to achieve those same outcome goals, which is driven primarily by changes to the labor costs of maintaining a constant-quality teacher workforce.

- **Pupil Needs Index:** The PNI is an index ranging from 1 and 2 that accounts for the level of poverty, prevalence of English language learner (ELL) students, and district sparsity (defined as the number of students per square mile). Pupil needs weights, or the PNI as used in New York State, should capture the additional costs associated with achieving the desired common outcomes when serving differing populations of students. Children with disabilities are addressed separately in the calculation of Total Aidable Foundation Pupil Units (TAFPU).

- **Regional Cost Index:** The RCI accounts for differences in labor market costs across nine labor market regions in New York. A regional cost adjustment such as the RCI in this context is intended to capture regional differences in the wages required to recruit a comparable quality teacher workforce by measuring wage variation for professional workers (those of similar education levels to teachers) from one region to the next.

- **Adjusted Foundation Amount:** Through appropriate measures of the three components listed above (base, RCI, and PNI), the AFA should fully cover the annual operating costs of providing all children, wherever they reside and attend school, equal opportunity to achieve the desired, common educational outcomes.

The Foundation Aid formula, as noted in our earlier briefs and in the RI report, includes the basic elements needed to distribute funding to New York's local public school districts equitably and adequately. The RI report included recommended changes to many of these components, and presented these recommendations as a "menu of options" that policymakers can selectively pick and choose from. However, these components must be comprehensively, collectively, and simultaneously evaluated and calibrated with respect to the larger goals laid out above. Our responses to the RI recommendations in this category are as follows:

1. We agree that the base figure should be recalibrated with respect to modern outcome goals, but reiterate the insufficiency of simply using the average expenditures of schools or districts that happen to achieve those goals—a method called "successful schools" analysis.

The RI report recommends modifying the "successful schools" approach to include the top-performing 50% of school districts, as this "greatly expands the type and attributes of districts … that are included in the pool used to determine `success'" (Rockefeller Institute of Government, 2024, p. 11). Although this is true, increasing the pool also means that the average outcome level of that pool decreases. Further, despite including more districts with more diverse needs, successful schools analyses provide no insights into the additional costs associated with student needs or district characteristics.[2]

The adequacy of the AFA depends on the three multiplied components being appropriately calibrated. While outcome-oriented methods (cost modeling) and input-oriented methods (professional judgment) provide inexact estimates, they are the most rigorous available empirical methods for calibrating both the base funding amount as well as cost adjustments for student needs and other contextual factors associated with achieving common outcome goals. In sum, having less than perfectly precise estimates that are generated by rigorous methods is better than having none at all.[3]

2. We concur with the RI report that the measurement of child poverty (as embedded in the PNI) should be updated. Using the annually updated Census Bureau's Small Area Income and Poverty Estimates, recommended by the RI report, is reasonable. Although the use of a 3-year average makes sense at face value, alternative multi-year averages and other measures of poverty or economic disadvantage should be tested to determine whether certain measures are more strongly related to differences in student outcomes across districts (similar to the analyses we completed in our second report brief examining student outcomes).

3. The report suggests moving from the current RCI to the National Center for Educational Statistics Comparable Wage Index for Teachers and using a regional rather than national inflation index based on the Consumer Price Index (CPI). A regional cost index is intended to capture the regional geographic differences in wages required for school staff in order to recruit and retain staff of similar quality/qualifications from one region to the next. An inflation index in education is meant to capture the increased costs associated with maintaining common outcome goals over time. The goals of these two indexes are similar, but one is meant to adjust for cost differences geographically while the other adjusts for cost differences temporally. With regards to cost inflation over time, holding student populations and outcome goals constant, the primary drivers of those increased costs are

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[2] Furthermore, these models should use a spending measure that is fully inclusive of all annual operating costs necessary for achieving the desired outcomes. Prior successful schools analyses in New York were based only on "instructional spending," thereby omitting several large categories of spending that school districts incur.

[3] There exists a significant history of high-quality peer-reviewed published research (documented in the RI report) using education cost functions as a basis for determining costs and cost variation in education. Counterarguments asserting the imprecision of these methods are rare and do not negate their usefulness for guiding the calibration of state school finance systems. In our third report brief in this series, we provide an overview of the cost-function methodology.

the costs of maintaining a constant quality workforce and not the costs of a gallon of gas or loaf of bread (as captured by a CPI). While any well-designed state funding formula should account for inflation of costs over time, we are not convinced that a CPI-based measure of inflation is the best option. Alternative methods of calculating inflation adjustments should be considered and evaluated. With regard to the RCI, we agree that any regional cost index should be regularly updated. However, additional analysis is needed to evaluate alternative versions of an RCI and determine how the use of an alternative would affect the distribution of funding.

4. We also concur that it seems illogical to place weighting for children with disabilities within the TAFPU calculation. However, we disagree that children with disabilities should be funded through categorical grants, with the possible exception of those with very high needs and costs. In general, we argue for inclusion of children with disabilities within a weighting scheme applied to general aid to address additional costs. Excessive use of categorical grants can create inefficiencies in the delivery of programs and services to children with disabilities, which involves a mix of general and special education services (Duncombe & Yinger, 2011).

Most importantly, the volume of issues identified by the RI report with respect to determining the foundation targets suggests a need for a comprehensive empirical analysis of the cost of providing an adequate education and how the cost varies across districts according to student needs and school and district context. Without such an analysis, policymakers will be relegated to making ad hoc modifications to the current system with no real evidence as to whether the state is achieving more adequate and equitable funding. Altering any individual components in isolation may move the formula or further from these objectives.

Topic 2: Financing Constitutionally Adequate Schooling

Once appropriate (adequate) foundation funding targets for each district are determined, the targets must be achieved through a mix of local revenue and state aid. The funding of an adequate system should be achievable with equitable tax effort. In other words, because districts differ in their capacity to raise revenue locally with a similar level of effort (e.g., tax rate), state aid should appropriately account for those differences by providing more aid to districts with lower capacity.

New York's formula uses two separate methods to determine the split between the state and local share of the foundation targets and applies the method that results in the larger state share. The first, which the RI report calls the Expected Minimum Local Contribution (EMLC), is

the product of each district's property valuation per pupil, a statewide assumed uniform tax rate, and an income adjustment known as the Income Wealth Index (IWI). The IWI is a measure of gross income in the district per pupil relative to the statewide average gross income per pupil (where values greater than 1 indicate that district income is above the statewide average and values less than 1 are below the statewide average). The second method, referred to by the RI report as the Foundation Aid State Sharing Ratio (FASSR), estimates the state sharing ratio based on a sliding scale where the state share declines as the Foundation Aid Combined Wealth Ratio (FACWR) increases. The FACWR is an index based on both a district's property valuation per pupil relative to the statewide average and a district's gross income per pupil relative to the statewide average, where the two are weighted equally in the calculation of the index. For almost all districts, the state and local shares are based on the FASSR method rather than EMLC.

The RI report makes several recommendations for adjustments to the calculations for determining the appropriate local share, and by extension, state aid share to fund the Foundation Aid formula. Regarding the EMLC, the RI report recommends eliminating the floor and raising the ceiling on the IWI. In our view, these are long-needed corrections to arbitrary limits.

Regarding the FASSR, the RI report recommends that school districts should be able to choose among several options for the weighting of relative property wealth and income per pupil (where the weightings could be 70/30 in favor of either property wealth or income or 50/50) that would result in the lowest FACWR and highest FASSR. We disagree with this recommendation, as it simply adds to the complexity of an already complex system for determining the state share. We recognize that income and property wealth have differing influence on local spending and capacity in rural versus suburban and urban communities (Slagle, 2010). It may be that differential weighting can be established to better reflect these differences. However, the desired mix of weights for averaging relative property wealth and income should be determined by the state and through sufficiently rigorous modeling and analysis. It is unclear what the underlying motivation was for this recommendation. If the concern is that there could be some low-income individuals with relatively high property taxes, that concern would be better addressed through helping the individuals in that situation (e.g., through property tax circuit breakers; see Davis & Samms, 2023) rather than by a district-level policy.

The RI report also recommends that the calculations of the FACWR be based on the relative differences from county-level averages rather than statewide averages for property valuation per pupil and gross income per pupil. The authors argue that the statewide average in the calculation "makes each district more like the rest of the state when it comes to property and

income wealth per pupil" (Rockefeller Institute of Government, 2024, p. 204). This reasoning is flawed and we suggest the opposite is true. Consider a wealthy county where all districts are uniformly wealthy. Dividing one of the district's actual wealth per pupil by the county average wealth per pupil would suggest this district has average wealth. The same would be true of a property-poor district in a county that is very poor overall. In other words, dividing by county averages could conclude that both a wealthy district in a wealthy county and a poor district in a poor county are similarly wealthy according to the FACWR, serving to minimize differences across districts (which is the opposite of the RI report's stated intent). Implementing such a recommendation would result in increasing state aid to districts in wealthy counties and decreasing state aid to districts in poor counties. Therefore, we disagree with centering the FACWR components on county averages (rather than state averages). However, we agree with the premise that a nuanced FACWR that better captures differences in income and wealth might be warranted.

The RI report included various other recommendations, including changes to the pupil count methods for calculating IWI and Selected Actual Value (using total school-aged population rather than public school counts), changing the splined FASSR to a curve or single line, and changes to components of the FACWR. Although a number of these recommendations may make sense from a theoretical standpoint, there are no analyses contained in the RI report that describe the actual impacts of these recommendations on the state versus local shares, and the tax rates that residents would be expected to pay to raise the local shares under these recommendations. We believe these components require further investigation to determine the actual implications of the specific recommendations, including which districts and residents would be most affected were these recommendations to be implemented.

Topic 3: Stealth Inequalities

The RI report makes several other recommendations, a few of which we address here.

The RI report recommends eliminating the $500 per-pupil flat grant option, which provides a minimum of $500 per pupil to districts with state sharing ratios that would provide them less than that amount. The RI report also recommends eliminating Save Harmless for high income/wealth districts and those with large year-end balances and phasing out Save Harmless over time. Save Harmless is a policy that prevents districts with declining enrollment from receiving less in state aid than they received in the prior year. As with the arbitrary cap and floor on the EMLC, we agree that the $500 minimum Foundation Aid allotment should be eliminated and that Save Harmless aid should be eliminated for districts with especially high income and property wealth and for districts carrying large year-end balances. In addition to

their arbitrariness, the result of these policies is to allocate more state aid that the formula would otherwise indicate to wealthy districts that can afford to meet their funding needs using local revenue.

We also agree with the RI report recommendation that state policies should not be funded as required set-asides from districts' Foundation Aid allocations. Specifically, we believe that Foundation Aid should be able to be used flexibly by districts, and generally believe in placing as much funding as possible through the main Foundation Aid formula. Providing funding through many different categorical funding programs can create equity issues of its own and can undermine the equity intent of the primary funding formula. Furthermore, requirements to spend categorical funding in certain ways may inhibit the efficient use of funds as well as increase administrative burden with respect to use and reporting of funding. That said, if the state insists on requiring districts to implement certain programs, then the state should provide separate funding for those programs.

Conclusion: A Call for an Adequacy Study

We appreciate the RI report's thorough evaluation of New York's current funding formula. The RI report identified many issues with the formula that should be addressed in an update to New York's Foundation Aid formula. We applaud the RI report's focus on equity and the call to address many aspects of the current Foundation Aid formula that favor New York's wealthiest school districts, and in principle we agree with many of the recommendations made. However, we strongly disagree with the notion that recommendations can be presented and implemented as a "menu of options." The components of funding formulas do not act in isolation. Updating one component without recalibrating other components may not achieve a more equitable and adequate funding system, and could even erode the equity and adequacy of the funding system.

Additionally, there needs to be a clear notion as to what the state should aim toward in terms of modifying the current funding mechanism. Isolated changes to specific pieces of the current formula should be limited and temporary in nature to allow for further empirical research that is required to inform a more permanent mechanism that encapsulates funding adjustments that are both comprehensive and cost based. To that end, we believe that a comprehensive study estimating the cost of providing an adequate education is warranted. Such a study should include the following:

- Clearly defined state goals and objectives that constitute an adequate education.

- Recognition of the student needs and contextual factors that are related to the cost of achieving those goals and objectives.

- Estimation of the cost targets in achieving those goals and objectives as well as how those costs differ according to student needs and other contextual factors.

- Determination of a base per-pupil amount and funding adjustments that could be implemented as part of the state's Foundation Aid formula to achieve those cost targets.

- Further investigation of state and local shares of funding that would ensure equitable funding to meet the cost targets, accounting for differences in local capacity.

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Appendix A. Full Listing of Rockefeller Report Recommendations (Rockefeller Institute of Government, 2024)

Rockefeller Report Recommendations by Formula Component

Base Foundation Aid Amount

Revise the "Successful School Districts" Calculation:

With the fading of appropriate and usable high school student academic performance data, an unnecessarily restrictive methodology for selecting districts to be counted as "successful," and an arguably inappropriate limit on which districts' expenditures will be counted in the model, the current Successful School Districts calculation can be updated and revised.

To revise and update the SSD calculation:

- Replace the current student performance measurement with a 3-year average district-wide pass rate (Level 3 + Level 4) on the state's ELA and math exams in each grade 3-8.
- Select the top 50 percent of all school districts based on the above measurement as the pool of "successful districts."
- Use the existing, appropriate method to calculate per-pupil expenditures for each of these districts.
- Eliminate the current "efficiency filter" and instead use all districts in the top 50 percent to calculate an average per-pupil expenditure for "successful" districts.
- Consider applying a multiplier of 1.06 if none of the other reforms recommended in this report are adopted.

Adjusted Foundation Aid Amount

Use Five-Year Average CPI—Northeast Region:

Change the current methodology of calculating the CPI rate applied to the Base Foundation Aid from a single-year US rate to a five-year average of the Northeast Region's rate. Using a multiyear average rate will increase predictability and decrease volatility, and using inflation rates for the Northeast Region will more precisely reflect the cost increases being faced by New York State school districts.

Students From Poverty

Switch to SAIPE:

Replacing the current outdated poverty measure with the Small Area Income and Poverty Estimate (SAIPE) rate, which counts children ages five to 17 in poverty, offers an annually updatable, more comprehensive measure of community poverty. The most-recent three-year average of the SAIPE rate should be used to help minimize year-to-year volatility, as recommended by the Board of Regents.

Use a Variable SAIPE Weight:

SAIPE-based weighting could be varied to allocate more aid to school districts with greater concentrations of student poverty. Districts experiencing a three-year average SAIPE count of 30% or greater could receive (SAIPE x 0.95), districts with 20% to <30% could receive (SAIPE x 0.80), districts with 10% to <20% could receive (SAIPE x 0.70), and districts with a 3-year average SAIPE less than 10% could receive (SAIPE x 0.60).

(Three-Year Average SAIPE) x (0.95; 0.80; 0.70; 0.60)

Rockefeller Report Recommendations by Formula Component
Free and Reduced-Price Lunch (FRPL)
Switch to Economically Disadvantaged:
Replacing the current flawed FRPL measure with a count of Economically Disadvantaged students would allow this supplemental poverty aid to capture students in foster care, students receiving refugee assistance, students receiving aid from support programs such as SSI, SNAP, the EITC, HEAP, SNA, TANF, and more.
English Language Learners (ELL)
Vary Weight by ELL Instructional Service Tier:
New York State currently uses a Home Language Questionnaire (HLQ) intake screen and the New York State Identification Test for English Language Learners (NYSITELL) to initially identify ELL students and evaluate the level of services to which they are entitled depending on their level of proficiency. Replacing the current single weight of 0.5 that treats all students the same with a three-tiered weight to match the three levels of service is more appropriate.
For newly classified ELLs:
(ELL Count) x (0.65 for "Entering" (Grades 9-12) or SIFE);
(ELL Count) x (0.50 for "Entering" (Grades K-8) or "Emerging");
(ELL Count) x (0.40 for "Transitioning" or "Expanding")
For ELLs in their second or third year of services:
(ELL Count) x (0.4)
Sparsity Count
No change currently recommended.
Regional Cost Index (RCI)
Replace RCI with CWIFT:
Replace the 2006 nine-region Regional Cost Index with the National Center for Education Statistics' (NCES) Comparable Wage Index for Teachers (CWIFT).
Scaled CWIFT:
If policymakers wish to use the updated and school district-level data available through CWIFT, but seek to minimize cost impacts, alternatively adopting:
(Scaled CWIFT) x (0.83)
would generate an estimated $5.3 billion total regional cost adjustment for 2024-25, similar to the RCI adjustment contained in the current budget.
Local Share—EMLC
For the Income Wealth Index (IWI):   • Eliminate the IWI floor of 0.65, setting the minimum at 0.   • Raise the IWI ceiling from 2.0 to 3.0.   For the IWI and the Selected Actual Value calculations: • Replace public school pupil counts with a 3-year average school-age population count for each school district available from federal Small Area Income and Property Estimates (SAIPE) data.

Rockefeller Report Recommendations by Formula Component

Local Share—FASSR

For the Foundation Aid State Share Ratio (FASSR) calculation:

- Replace the tier groupings and use of four different formulas with a single straight-line or curve formula.

For the "high-needs" category designation:

- Recalculate poverty levels for all school districts using updated federal Small Area Income and Property Estimates (SAIPE) school district-level data.

For Combined Wealth Ratio (CWR) elements:

- Allow school districts the choice of a varied weighting of property and income wealth for their FACWR calculation: either the current 50%-50% mix; 30% property wealth to 70% income wealth; or, 70% property to 30% income wealth.
- Calculate income wealth per capita based on the total school-aged population in the district. Replace public school pupil counts with total school-age population counts for each school district to provide a truer picture of a district's wealth capacity. Using a 3-year average will help increase stability and predictability.
- Use county-level average Selected Actual Value instead of statewide average (if the Regional Cost Index is not updated as recommended).

Pupil Count: Selected TAFPU

For Students With Disabilities (SWD):

- Remove the calculation for SWD from the Foundation Aid formula entirely, restoring it as a categorical aid program of Public Excess Cost Aid, and use New York City's more nuanced Fair School Funding matrix to inform a more precise and targeted allocation of these funds.

$500 Minimum and Save Harmless

Eliminate the $500 flat-grant option and phase in wealth-based reductions to Save Harmless.

Once revisions and updates have been made to the Foundation Aid formula:

- Eliminate the $500 per pupil flat-grant option, which steers more than $41 million in Foundation Aid to 45 of the state's wealthiest school districts. Redistribute this aid through the more equitable process prescribed by the Foundation Aid formula, as reformed.
- Establish a per-pupil local income and property wealth threshold above which districts would not be eligible for full Save Harmless aid payments. Similarly, establish an enrollment-loss threshold at which school districts would face reductions in Save Harmless allocations. Reinvest these funds in lower-wealth districts experiencing enrollment growth.
- Require districts retaining more than 10 percent of their budget as a year-end balance to apply the excess as an offset to Save Harmless allocations. Require districts with a 10-year reduction in total student enrollment of 15 percent or more and year-end fund balances of greater than 4 percent to apply the excess balance as an offset against Save Harmless payments.
- Enact elements of the Save Harmless modifications proposed in the 2024-25 executive budget, such as a cap on the size of Save Harmless aid reduction any district would face and a progressive local wealth-based schedule that varies the size of such reductions.

Rockefeller Report Recommendations by Formula Component
Set-Asides
Convert to Categorical Aid
The noted Set-Aside programs in Foundation Aid should be converted to categorical aid programs, freeing districts to spend their Foundation Aid allocations as originally intended. The created categorial aid programs may be structured as direct grant programs, matching grant programs, or an alternative framework as policymakers determine best meets their goals for these specific policy initiatives.
Reserve Funds
For school districts not on Save Harmless:
• Allow districts to temporarily retain an additional 6 percent (for a total of 10 percent) of their budgets as an unrestricted year-end fund balance if they have a plan for spending these funds that is: approved by local voters; has a spend-down plan no longer than five years; and, is approved by NYSED.
For school districts on Save Harmless:
• Require any excess year-end fund balance retained above 4 percent to be applied as an offset against Save Harmless allocations.

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