



*Adequate. Constitutional. Equitable.*

## **ROCKEFELLER INSTITUTE REPORT MAKES THE CASE THAT NEW YORK NEEDS A NEW SCHOOL FUNDING SYSTEM**

*The Adequate, Constitutional, Equitable (ACE) School Funding Project is a collaboration between the Center for Educational Equity, Teachers College, Columbia University, and American Institutes of 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.*

### **I. INTRODUCTION**

In its 2003 landmark ruling in *Campaign for Fiscal Equity (CFE) v. State of New York*, New York's highest court held that New York was denying students their right under the state constitution to the "opportunity for a sound basic education." 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 for providing their students a sound basic education. To comply, in 2006, the New York State Education Department (NYSED) created the [Foundation Aid formula](#), which determines 70% of all state aid to P-12 education.

Since the formula was adopted in 2007, there have been substantial changes in educational needs and educational practices that affect school funding needs. These include demographic shifts, enrollment changes, new policy initiatives like universal pre-K, significant increases in the numbers of migrant students and students in temporary housing, substantial post-pandemic learning loss, and increased demand for mental health services.

For the past two years, the Center for Educational Equity at Teachers College, Columbia University, the New York State Education Department, and most major educational advocacy and policy organizations in New York have agreed that the current Foundation Aid formula does not meet current educational needs and that a new formula must be developed. However, Governor Hochul blocked all attempts to initiate a process to develop a new formula. Instead, the governor has asked the Rockefeller Institute of Government, part of the state university system, to recommend limited modifications to the current formula for consideration in next year's state aid budget — so long as those changes are "fiscally sustainable for the state."

### **II. THE ROCKEFELLER INSTITUTE REPORT FINDINGS NECESSITATE THE DEVELOPMENT OF AN ENTIRELY NEW SCHOOL FUNDING FORMULA**

On December 2, 2024, the Rockefeller Institute issued a 309-page report that reviewed New York State’s current Foundation Aid education funding formula.<sup>1</sup> Shortly thereafter, the American Institutes of Research (AIR) [issued a new report](#) that analyzed the significance of the Rockefeller Institute report and number of its specific recommendations. AIR’s major conclusion was that “the volume of issues identified by the RI report...suggests a need for comprehensive empirical analysis of the cost of providing an adequate education” (p. 5). The Center for Educational Equity concurs with that finding. This paper sets forth additional reasons for initiating a process to develop a new formula should be the highest educational priority for the 2025 legislative session and proposes a number of specific steps that should be taken (and not taken) to modify the current outdated formula in the 2025-2026 budget on an interim basis, pending the development of a new school funding formula for the 2026-2027 school year.

The Rockefeller Institute report’s extensive review of the 17-year Foundation Aid formula emphasized that “significant change is warranted” (p. 10), and it recommended a slew of changes for its improvement. *The report examined in detail all the basic components of the current Foundation Aid formula and found every one of them substantially deficient.* Its foreword emphasizes this:

[T]here is no doubt that the Foundation Aid formula needs to change from its current state. It uses old, outdated information that does not reflect today’s student population. It uses outmoded modeling to measure pupil needs and local school district wealth. And it reflects an antiquated concept of what public school districts are expected to do, how student success is defined, and how that achievement is measured. Some of the recommendations in this report may appear at first reading to be too big or too bold, but significant change is warranted. (pp. 9-10)

Logically the report’s conclusions about the gross inadequacy of the current Foundation Aid formula necessitate the immediate development of a new school funding formula. In light of these findings, the state must promptly review the myriad deficiencies in the present formula and undertake a thoroughgoing process to analyze current student needs and determine the “actual cost” *today* of providing a sound basic education to all students in the state. As the report itself acknowledges, this is, in fact, the state’s constitutional obligation: “New York State was directed [by the Court of Appeals, the state’s highest court] to determine the actual cost of [a sound basic education] and enact measures to ensure that level of funding was met” (p. 41).

The Rockefeller Institute itself was actually precluded from reaching this logical conclusion. As quoted in the report, the statute authorizing the study specifically stated that “The results, findings, and recommendations of the study... shall not establish the constitutional minimum cost to provide an opportunity for a sound basic education” (p. 239). Instead, the Rockefeller Institute provided a “menu” of 32 recommendations that the governor and the legislature might consider “in making at least some of those reforms now” (p. 10).

The report does not provide the governor and the legislature any guidance on how to select specific issues to address in the 2025-2026 budget. There is no indication of which items should be

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<sup>1</sup> Rockefeller Institute of Government, *A Review of New York State’s Foundation Aid Education Funding Formula with Recommendations for Improvement* (Dec. 2, 2024).

considered the highest priority or how individual issues might be selected for attention. The give and take of the political process can create unforeseen consequences; piecemeal reforms can create further distortions and inequities in their effects on particular school districts. As the American Institutes for Research (AIR) state in their report #4 for the Adequate, Constitutional, Equitable (ACE) School Funding Project:

[W]e 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. (p. 8)

In short, the major conclusion to be drawn from the Rockefeller Institute’s extensive report is that all 32 of its recommendations should be considered in a holistic process for developing a new school funding formula.<sup>2</sup>

According to AIR, a comprehensive study to develop a new school funding formula needs, at minimum, to include:

- 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 school funding 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. (p. 9)

We recommend that the extensive information and range of proposals set forth in the Rockefeller Institute report, together with all the analyses undertaken by AIR, form the basis for a formula development process that, if it begins promptly, can be completed by the beginning of 2026. This process must also incorporate additional input-oriented from professional-judgment panels and a thoroughgoing public engagement process. (See AIR Report #4, p. 4.)

Although there is real danger in making piecemeal interim adjustments to the current Foundation Aid formula pending development of a comprehensive new school funding formula, there *are* some actions the governor and the legislature would be well advised to take in their budgetary deliberations this spring. These suggestions will provide stability and interim benefits for

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<sup>2</sup> Indeed, the Rockefeller Institute report itself acknowledges

There also is no way to know which recommendations state policymakers might eventually approve and enact or how districts may behave after having been given revised options, so there is simply no practical and reliable way to predict the final outcome of the reform proposals or to calculate every permutation of their collective impact. (p. 10)

all school districts without affecting relative equities of the current formula's mechanisms, pending the development of a new formula that "encapsulates funding adjustments that are both comprehensive and cost-based (p. 8). Our proposals will help to meet some urgent student needs but will not risk formula distortion or reduce resources for any students. We describe those steps in the next section of this paper.

### **III. ACTIONS THE GOVERNOR AND THE LEGISLATURE SHOULD TAKE IN THE 2025 LEGISLATIVE SESSION**

The first education policy action policymakers should take at the outset of the 2025 legislative session is to authorize the development of a comprehensive new school funding formula for adoption in the 2026 legislative session. Thereafter, we recommend that the deliberations regarding education appropriations for the 2025-2026 school year be guided by the following principles:

- Do no harm – that is, make no formula changes that would eliminate or undermine current programs before a holistic review has been undertaken that can fully assess actual student needs and determine the impact of any changes on district budgets and school funding adequacy and equity.
- Provide additional funding for a limited number of urgent current needs.

#### **A. Do No Harm**

##### ***1. Maintain the Current Inflation Rate***

The addition of an inflation factor was integral to the phasing in of the Foundation Aid formula, which had been expected to be accomplished over four years, but in fact took 16 years. The inflation factor was intended to ensure the "actual dollars" determined necessary to provide all students the opportunity for a sound basic education in 2007 would buy the same level of resources in later years. Throughout this 16-year period, the inflation factor utilized by the state was based on the national consumer price index (CPI).

For the current year, 2024-2025, use of the CPI would have entitled school districts to a 4.1% inflationary increase in their Foundation Aid allocations. However, in her executive budget last year, Gov. Hochul proposed a new inflation factor based on the average of the CPI rates over 10 years. This proposal would have reduced the inflation adjustment for 2024-2025 to 2.4%. The legislature resisted this change but settled for an inflation increase of 2.8%; this percentage was purely a political compromise not based on any credible CPI rate or other valid data source. This change resulted in a net reduction of Foundation Aid in the current state education budget of approximately \$230 million, and forced local districts to contend with the additional costs of inflation with budget cuts or tax increases.

The inflation rate the Rockefeller Institute has proposed uses a five-year average based on the CPI for the Northeast Region, instead of the inflation factor based on the national city CPI rate used in the past (Rockefeller Institute, p. 169). AIR has countered that a CPI-based measure of

inflation may not be the best option because “the costs of maintaining a constant quality workforce [are] not the costs of a gallon of gas or loaf of bread (as captured by the CPI). Alternative methods of calculating inflation adjustments should be considered and evaluated” (p. 5).

Pending a thorough analysis of the actual degree of inflation school districts have experienced in a previous year, the 2025-2026 budget should base inflation on a single year CPI rate, as has always been associated with this Foundation Aid formula, rather than using a measure contrived simply to lower costs like the one the governor proposed last year or an artificial political compromise figure that has no relation to the actual cost increases experienced by school districts.

## ***2. Continue “Hold Harmless” for at Least Another Year***

Approximately 35% of all school districts in the state have been allowed to maintain their past Foundation Aid levels despite drops in student enrollment levels in recent years. This stopgap measure was instituted a number of years ago to avoid negative effects on students in these districts pending a thorough review of the relationship between enrollment declines, student needs, and education costs.

Last year, the governor proposed “transitioning” toward the elimination of hold harmless (sometimes called “save harmless”) by reducing appropriations to some of the affected districts. The legislature rejected that proposal recognizing that the educational needs of hundreds of thousands of students would suddenly be put into jeopardy. The same risk for students and schools exists today. Therefore, neither the governor nor the legislature should consider reducing hold harmless aid before a holistic review of enrollment and student needs has been undertaken as part of the development of a new school funding formula.

## ***3. Maintain Current School District Fund Balance Reserve Practices***

New York State law permits school districts to retain no more than 4% of their budget in reserve for unexpected expenses or long-term programmatic needs. In 2022-23, about one-third of the school districts in the state exceeded the 4% limit, and, on average, the statewide year-end fund balance retention rate was 6.5%. Last year, the governor sought to limit these reserves. To deal with this issue, the Rockefeller Institute has advanced recommendations for raising the reserve cap under certain circumstances but requiring the additional reserve funds to be expended for specified purposes, like committing to spend the surplus over 5 years as set forth in a plan approved by local voters and NYSED. A thorough analysis must be undertaken as part of the new formula development process to determine why so many districts have deemed it necessary to establish larger rainy-day reserves and whether the proposals put forward by the Rockefeller Institute or other suggestions may be justified by the evidence. In the meantime, no changes should be made to present practices.

## ***4. Delay Unfunded State Mandates***

In recent years, the state has enacted legislation or regulations that require substantial expenditures by school districts without providing any increase in Foundation Aid or other state operating aid to pay for these additional requirements. Prime cases in point are (a) the class size mandate that requires New York City Department of Education to reduce class sizes substantially

over a five-year period (for the 2025-2026 school year, the cost to the city of this mandate is likely to be up to \$500 million); and (b) the electric bus mandate that prohibits all school districts from purchasing buses with gas combustion engines after 2027 and requires all bus fleets to be fully electric by 2035. Electric buses cost approximately \$350,000-\$400,000 each, more than twice the cost of conventional buses, and school districts must incur additional costs for creating and maintaining charging stations.

The Rockefeller Institute report recommends that the state fully underwrite the costs of the electric bus mandate (p. 19). The current schedule for complying with the electric bus mandate should be delayed one year while this recommendation or possible alternative ways of financing this major expense are considered. Similarly, in regard to the NYC class size mandate, the state should either delay the implementation of the mandate for a year pending a full consideration of its financial and programmatic impacts or, if the mandate is to proceed as scheduled, the state should reimburse the New York City Department of Education for its costs.

### **5. *Reject Any Updates of the “Successful Schools” Methodology***

The Rockefeller Institute report correctly points out that the base Foundation Aid amount in the current formula—the starting point for determining the “actual cost” of providing the opportunity for a sound basic education—is fundamentally flawed. This foundational amount is calculated based on the average expenditures of a set of “successful” school districts identified in years past using scores on certain standardized tests that are no longer administered. The Rockefeller Institute proposes to update the identification of the pool of “successful” districts utilizing current standardized test scores, specifically test scores on math and ELA tests in grades 3-8, and to include the top performing 50% of school districts (p. 162).

However, there is a larger problem with the methodology itself. As the AIR report points out,

1. Successful schools analyses provide no insights into the additional costs associated with student needs or district characteristics
2. Increasing the pool also means that the average outcome level of that pool decreases (thereby lowering the base foundation rate amount)
3. New York’s successful schools approach is based only on “instructional spending,” thereby omitting several large categories of spending that school districts incur. (p. 4)

The “successful schools” methodology is considered unreliable and has been wholly [rejected as invalid by most fiscal policy experts](#). Other methodologies, such as the state-of-the-art cost function and professional judgment methodologies AIR utilizes consider the full range of quantitative and qualitative data that need to be taken into account to create a valid estimate of educational costs. A determination of a revised base funding amount should await completion of this type of comprehensive analysis.

### **B. Fund Urgent Current Needs**

## 1. Homeless and Migrant Students

In 2023-2024, more than 146,000 students in New York City—more than 12% of all students in the city—did not have permanent housing at some point during the school year.<sup>3</sup> Statewide, in 2022-2023, 6.4% of all public school students were homeless, and three-quarters of all counties saw an increase in their percentage of homeless students between 2018-2019 and 2022-2023.<sup>4</sup>

The impact of homelessness on student learning is profound: In the 2022-23 school year, half of all students living in temporary housing in New York City—including 67% of students living in shelters—were chronically absent, meaning they missed at least 18 days of school. Proficiency scores of students in temporary housing on state ELA and math exams were more than 20 percentage points lower than their peers. And students in shelters dropped out of high school at a rate three times higher than those in permanent housing.<sup>5</sup>

Although the current Foundation Aid formula provides extra funding for students with disabilities, English learners, and students from low-income families, it does nothing to support the enormous extra costs that New York City and other school districts incur in attempting to meet the extraordinary needs of students experiencing homelessness.

These needs are urgent. Pending the development of a new school funding formula that fully considers these and other needs, a minimal 12% extra weighting per student in temporary housing and for migrant students should be included in the Foundation Aid appropriations for 2025-2026.<sup>6</sup>

## 2. Student Mental Health Needs

School districts around the state are dealing with an unparalleled student mental health crisis. The Rockefeller Institute report stated,

In testimonies offered at each of the public hearings held by the Rockefeller Institute, stakeholders repeatedly noted that the need for student mental health services has increased to an unprecedented and unforeseen level. Nowhere in the state's Foundation Aid formula does there exist an aid adjustment calculation for districts facing the costs incurred by providing these critically important health services. (p. 17.)

To begin to address these critical student needs, the Rockefeller Institute proposed two immediate solutions: First, increase state grant funding for school based health centers (SBHCs) that currently provide vital mental services to more than 250,000 students from low-income

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<sup>3</sup> Claire Fahy, *1 in 8 N.Y.C. Public School Students Was Homeless Last Year*, New York Times, Nov. 18, 2024.

<sup>4</sup> Emelie Munson, *Number of Homeless Students Grows Across New York*, Albany Times Union, Nov. 30, 2024.

<sup>5</sup> Julian Shen-Berro, *1 in 8 NYC students experienced homelessness last year, a record high*, Chalkbeat, Nov. 18, 2024.

<sup>6</sup> This figure is based on the extra weighting for students in temporary housing in New York City's internal Fair School Funding formula, a figure that is also used by other states such as Colorado in its extra weighting for homeless at risk students.

families in some of the state’s highest-need communities.<sup>7</sup> Second, use the cooperative shared-services, or “Co-Ser,” approach currently in place at every BOCES to ensure the provision of student mental health services across the state (p. 18).

Although a full analysis of the current mental health needs in New York State’s schools must be undertaken as part of a thorough new formula development process, the urgent need to provide greatly expanded post-pandemic mental health services for hundreds of thousands of students throughout the state cannot be put on hold for another year. Accordingly, the practical actions suggested by the Rockefeller Institute should be put into effect as part of the 2025-2026 budget process. Specifically, state aid grants to SBHCs, which have been reduced from \$24 million to \$17 million in recent years (p. 18), should be increased to at least \$50 million in 2025-2026, and the 5-year plan proposed by the Rockefeller Institute for bringing a mental health “Co-Ser” plan to scale should be commenced at the beginning of the 2025-2026 school year.

#### **IV. CONCLUSION**

After six months of detailed study, the Rockefeller Institute’s report provides extensive evidence detailing why New York State needs to develop a new school funding system to replace the outdated, inequitable and inadequate Foundation Aid formula that no longer meets constitutional requirements. The governor and the legislature should initiate a process for developing a new formula as the first order of educational business in the 2025 legislative session and avoid the unintended consequences of tampering with the existing formula except to respond to urgent needs, pending the development of a new adequate, constitutional, and equitable formula for 2026.

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<sup>7</sup> For a detailed discussion of SBHCs in New York State, see <https://cee.tc.columbia.edu/media/centers-amp-labs/cee/publication-pdfs/CEE-SBHC-Report-Supporting-Better-Learning-final-1.pdf>