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It's Elementary

A Monthly Column by EFAP Director John Yinger
April 2008

Reform in New York State's Education Aid Formula?

The main operating aid formula for New York State's public schools was dramatically changed and simplified for 2007-08. Although the 2006 ruling by the Court of Appeals in *Campaign for Fiscal Equity vs. New York* did not require changes in aid for any districts other than New York City, elected officials decided to alter the way it provided aid to all districts. Additional revisions were proposed by Governor Patterson for 2008-09.¹ This column examines the recent aid formulas and asks whether the state is moving toward a fairer distribution of its education aid.²

The changes in the formula in recent years, including those proposed for 2008-09, have been accompanied by changes in the size of the state aid budget. These changes are not the subject of this column. Instead, I look at the distribution of aid to different types of districts relative to the overall state average aid per pupil.

My focus is on the main operating aid program. When the state aid formula was revised for 2007-08, many small categorical aid programs were merged with the main operating aid program. To compare the distribution of aid in 2006-07 and in 2007-08, therefore, it is appropriate to include these small categorical aid programs in the 2006-07 calculations. For 2007-08 and for the 2008-09 proposal, the calculations are based only on the main operating aid program, which provides the vast majority of the state's education aid.

New York uses a foundation aid formula. With this type of formula, a district's aid equals the difference between the foundation amount and the expected local contribution, all expressed in per pupil terms. The foundation amount is an estimate of what each district needs to spend to reach the state's

¹ Changes to the state aid formula were included in the budget that was passed in April, 2008. These changes appear to be close to those proposed by the Governor, but final details are not yet available.

² I am grateful to William Duncombe and Phuong Nguyen for help with the calculations used in this column.

performance standards, whereas the expected local contribution increases with a district's capacity to raise revenue, usually measured by its property wealth.

The aid formula implemented in 2007-08 and updated for 2008-09 improved the calculation of the foundation amount by adding new provisions for the costs of educating disadvantaged students and of hiring teachers (issues discussed at length in previous columns). In contrast, the new formula also added complex provisions to the calculation of the expected local contribution that moved it away from a clear measure of a district's fiscal capacity.

As a point of reference, therefore, I also calculated the aid distribution using a standard need-based foundation aid formula. This formula is based on a district's expenditure need and its wealth. The calculation of expenditure need adjusts for the higher wages some districts must pay to attract teachers and sets the extra weight for a student from a poor family at 100 percent and the extra weight for a student with limited English proficiency at 50 percent. These weights are close to those estimated by scholars. This formula also sets the expected local contribution in the foundation aid formula at 1.56 percent of a district's so-called combined wealth ratio, which combines income and property wealth.

The results of these calculations are presented in the attached figure. Three clear lessons emerge from this figure:

First, outside of the large cities, recent changes in the aid formula have moved state aid amounts closer to those provided by a need-based foundation formula.³ These calculations indicate, therefore, that recent changes in the education aid formula represent real reform, that is, real movement toward an aid formula based on district need and capacity, not on political expediency.

Second, recent aid changes still leave large cities in the state with a much smaller relative aid amount than they would receive with a straightforward need-based formula. The simple formula calls for aid per pupil to New York City that is 22 percent above the state average, compared to 11 percent above the state average in the 2008-09 proposal. This result may seem surprising given the requirement of additional aid to New York City imposed by *Campaign for Fiscal Equity v. New York*. This case was decided in the fall of 2006 and the extra aid for New York City appeared in 2007-08. Recall, however, that the relatively small aid increase imposed by this court case (see my January 2007 column) was combined with a large increase in the state aid budget for other districts. Between 2006-07 and 2007-08, therefore, New York City's relative aid per pupil increased by less than 1 percentage point.

³ Strictly speaking, the recent changes have moved away from a need-based foundation in the case of upstate suburbs, too. As the figure shows, however, the aid to these districts has been and remains very close to the need-based amount.

This lesson is even more striking for the upstate big three districts, Buffalo, Rochester, and Syracuse. The 2008-09 proposal gives aid per pupil to these cities that is 89 percent above the state average (a decline of 2 percentage points from the aid provided in 2006-07), whereas a straightforward need-based formula would give them aid that is 106 percent above the state average.

Third, despite recent improvements in the calculation of the foundation amount, the state aid formula still favors downstate districts at the expense of upstate districts. Except for New York City and the upstate suburbs, every category of downstate district receives a higher amount of aid per pupil relative to the state average than it would receive under a need-based foundation formula and every category of upstate district receives a smaller amount. This outcome reflects the changes made to calculation of the expected local contribution in the state's foundation formula, changes that heavily favor the downstate districts.

These differences are quite dramatic. The relative aid for both downstate small cities and downstate suburbs, for example, is more than 20 percentage point higher under the 2008-09 proposal than it would be with a need-based foundation formula. Careful examination of the relative needs and capacities of upstate districts compared to downstate districts, and the treatment of those needs and capacities in the aid formula, should be high on the agenda of state policy makers.

This analysis indicates that New York State is moving toward a need-based education aid formula, which is clearly movement in the right direction. Nevertheless, this movement is still relatively modest, largely because of political compromises introduced into the calculation of the expected local contribution. These compromises place large cities at a great disadvantage and heavily favor downstate districts over upstate districts. Further revisions to the state aid formula are needed in order to bring the state's neediest districts up to the state's expressed student performance standards and to promote the fair treatment of all regions in the state.

Changes in New York State's Education Aid Formula

