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# How School Aid in New York State Penalizes Black and Hispanic Students

John Yinger

*The Maxwell School, Syracuse University, joyinger@syr.edu*

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## It's Elementary

A Column by John Yinger (EFAP Director)

August 2019

### How School Aid in New York State Penalizes Black and Hispanic Students

The 2019-20 budget for New York State provides an increase in school aid of about \$1 billion, bringing the total school aid up to \$27.9 billion.<sup>1</sup> Despite this increase, state school aid still falls short of the amount necessary to fully fund the foundation formula that was supposed to be phased in starting in 2008.<sup>2</sup> Indeed, the Alliance for Quality Education estimates that full funding requires an additional \$4.1 billion in state aid.<sup>3</sup> Moreover, some components of overall school aid in New York are less redistributive than the foundation aid formula. This column estimates the net impact of these limitations on the distribution of aid to districts outside New York City where Black and Hispanic students are concentrated, compared to districts where White students are concentrated.

In a column posted in February 2018, Emily Gutierrez and I asked whether New York's existing state aid system, including foundation aid and other aid programs, adequately recognizes the extra spending and revenue requirements of high-need districts.<sup>4</sup> To be specific, we compare a district's actual state education aid with a comprehensive measure of its fiscal health. In this context, fiscal health is defined as a district's ability to deliver a given level of educational quality at a given tax rate on its residents, based on factors outside the district's control. Our measure of fiscal health follows the logic of a foundation aid formula.<sup>5</sup> It equals the amount a district must spend to meet the state's student performance target (expenditure need) minus the amount of money the district can raise at a given level of sacrifice by its residents (revenue-raising capacity).

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<sup>1</sup> See <https://www.ny.gov/fy-2020-new-york-state-budget/highlights-fy-2020-budget>.

<sup>2</sup> Moreover, the state has been chipping away at local control over their foundation aid by increasing the "set-aside" for community schools, and, in some districts, for magnet schools and teacher support. A foundation formula is intended to provide school districts with unrestricted funds. This set-aside transforms some of the foundation aid into a categorical grant that must be spent on a specific purpose—in this case on turning schools into community "hubs."

<sup>3</sup> See <https://www.aqeny.org/equity/>. This estimate is dated November, 2018, so the \$618 million increase in foundation aid funding for 2020 brings this gap down to \$3.5 billion.

<sup>4</sup> This column, on which this section is based, is Gutierrez, Emily, and John Yinger. 2018. "How Fair Is New York State's Foundation Aid Formula?", *It's Elementary* column, February. Available at: <https://www.maxwell.syr.edu/cpr/efap/ItsElementary/>.

<sup>5</sup> Our fiscal health calculations and associated foundation aid formula follow the same philosophy as the New York foundation aid formula, but, as discussed below, the details are not the same.

Actual aid in these calculations includes current foundation aid, other school aid programs, and STAR reimbursements. We make no attempt to estimate the impact of specific provisions in the foundation aid program or in any other component of total state aid. These specific provisions include hold harmless rules, arbitrary limits in the foundation aid formula on the expected local contribution, negotiated school aid that supplements foundation aid, and the features of STAR. Our calculations indicate whether the net impact of all these provisions is to pull certain types of districts away from the aid they would receive under a foundation aid formula based on fiscal health.

Our first step in calculating fiscal health is to determine each district's relative costs. These costs include the higher costs of educating students from poor families, with limited English proficiency, or with special needs. They also reflect the higher wages that some districts must pay to attract teachers, holding teacher quality constant, and the economies or diseconomies of enrollment scale in each district.<sup>6</sup> These cost factors are all determined from estimates of an education cost function, which are presented in detail in a November 2017 column by Gutierrez and me.<sup>7</sup> The net effect of all these cost factors is summarized by a cost index, which equals 1.0 in the average district and, for example, 1.5 in a district where costs are 50% higher than average. As discussed below, this cost index must be multiplied by a spending target in the average district to determine expenditure need.

Our second step is to calculate the amount of money a district could raise using the principal local funding source for public education in New York, namely, the property tax. Because the property tax rate in the average district in New York is about 1.5 percent, we set the expected local contribution at this level. In other words, the revenue-raising capacity component of fiscal health is set at 1.5 percent of property wealth per pupil in each district. A smaller expected contribution would lower the fiscal health of low-wealth districts relative to high-wealth districts.

Our third step is to determine New York State's implicit spending target in the average district, which is a component of expenditure need. Because our fiscal health measure is equivalent to a foundation aid formula, we can measure the required state budget for a fiscal-health-based foundation formula at any given spending target. The state's implicit spending target is the one that leads to the same state education aid budget with our foundation formula as the actual state aid budget in 2015.

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<sup>6</sup> Costs per pupil are relatively high in very small districts. Some districts could lower these costs through consolidation. See Duncombe, William D. and John Yinger. 2010. "School District Consolidation: The Benefits and Costs." *The School Administrator* 67 (5) (May):10-17. We do not consider consolidation in our calculations.

<sup>7</sup> Gutierrez, Emily and John Yinger, Updated Pupil Weights for New York's Foundation Aid Formula *It's Elementary Column*, November 2017. Available at: [https://www.maxwell.syr.edu/cpr/efap/It\\_s\\_Elementary/](https://www.maxwell.syr.edu/cpr/efap/It_s_Elementary/).

These steps lead to a measure of fiscal health equal to a district's expected local contribution minus its expenditure need. This need, also called the foundation amount, is defined as the state's implicit spending target multiplied by the district's cost index. The associated aid formula brings all districts into spending-revenue balance by setting aid equal to expenditure need minus the expected local contribution. To avoid "recapture," defined as negative aid, the minimum aid amount is set at \$1,000 per pupil. The funding shortfalls facing majority-Black and majority-Hispanic districts would be considerably larger without this assumption.

The results of these calculations lead to three principal conclusions, which are discussed in detail in our previous column.

First, state aid does not fully compensate low-health districts for their disadvantages. To be specific, a \$1 increase in the need-capacity gap leads to only a \$0.62 increase in state aid. Moreover, the expected gap between fiscal-health-based aid and actual aid per capita is \$5,488 higher in a school district with 100 percent of its students eligible for a free lunch than in a school district with no student poverty.

Second, many large and/or high-need districts receive far less aid than warranted by their fiscal health. Actual aid falls short of fiscal-health based aid by \$3,495 per pupil in Rochester, \$4,930 per pupil in Syracuse, \$6,612 per pupil in Binghamton, \$7,924 per pupil in Schenectady, and an astonishing \$13,214 per pupil in Yonkers. Buffalo is the only high-need district that receives more actual aid, almost \$2,000 per pupil, than aid based on fiscal health.

Third, the districts that receive more aid than warranted by their fiscal health alone are, on average, remarkably similar to the average district overall. Their average enrollment is slightly smaller (2,160 pupils compared to 2,403 pupils), their free lunch share is slightly lower (33.3 percent compared to 38.3 percent), and their per-pupil wealth is virtually identical. The advantageous aid received by these districts, in other words, cannot be explained by factors related to their fiscal health.

Overall, educational aid in New York State has an equalizing impact, but this impact falls far short of giving the neediest districts the aid they need to meet the state's implicit student performance standards.

Fiscal health is an appealing base for a state educational aid program because it summarizes a district's fiscal situation based on factors outside its control. By offsetting each district's fiscal disadvantages, an aid program based on fiscal health could play a major role in helping New York meet its constitutional requirement to ensure that all districts provide an adequate education.

A focus on fiscal health also provides compelling evidence that the New York State education aid system shortchanges districts with relatively high concentrations of Black and Hispanic students. To be specific, Figure 1 shows that the median Black or Hispanic student

goes to school in a district in which actual aid falls 19 percent below aid from an equal-cost formula based on fiscal health. In contrast, the median White student goes to school in a district where actual aid exceeds fiscal-health-based aid by 7 percent.<sup>8</sup> The comparable figure for Asian students is 22 percent above fiscal-health-based aid. The formulas that determine state aid in New York obviously do not include race or ethnicity directly, but this evidence shows that their net impact is to place Black and Hispanic students at a severe disadvantage.

State policy makers may, of course, want to incorporate factors other than fiscal health into the foundation aid formula. Because fiscal health is such a fundamental measure of a district's ability to deliver a quality education at a given sacrifice by its residents, I believe that any additional factors in the aid formula should have widespread support and a clear justification—considerations that appear to be missing for the current aid formulas.

New York State's education aid programs overall deviate from the aid that districts other than New York City would receive based on their fiscal health, which is a measure of their ability to deliver a high-quality education at a reasonable tax rate based on factors outside their control. These deviations place a severe burden on high-poverty school districts. In addition, these deviations result in a system in which the median Black or Hispanic student attends a district that receives less state aid relative to the district's needs than does the district attended by the median White student. To minimize this inequity, deviations from a fiscal-health-based foundation formula should be eliminated unless they promote a clear, fair policy objective.

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<sup>8</sup> This figure also shows that only about 29 percent of schools with a White or Asian majority receive aid that is 19 percent or more below the fiscal-health-based aid target.

**Figure 1. Actual Aid Compared to Aid Based on Fiscal Health, NY School Districts (Excluding NYC), 2015, by Ethnicity**

