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It's Elementary

A Monthly Column by EFAP Director John Yinger
December 2004

Estimating the Cost of an Adequate Education

According to New York State's highest court, the state constitution requires an educational finance system that ensures an adequate education in every school district. Moreover, the Court's June, 2003 opinion in *Campaign for Fiscal Equity v. New York* concluded that this standard was not met for New York City and called for a new education finance system that would provide a "reasonable high school education," the Court's definition of adequacy, for all the City's students. This column asks how much it would cost to bring all districts in the state up to an adequate education.

This cost depends, of course, on the definition of adequacy. The major parties to the *CFE* lawsuit all agree that an adequacy standard should be based on student performance, as measured by the share of students passing the state's standardized tests. The main issue, therefore, is to select a passing rate that is considered to be adequate.

One way to frame this issue is provided by William Duncombe, Anna Lukemeyer, and myself. We develop an index of passing rates based on elementary and high-school math and English tests, with twice as much weight on the high-school tests. The highest value for the D/L/Y index is 200, which indicates that all students pass all tests. The value of this index is 160 in the average district statewide, but only 103 in New York City and only 96 in the upstate big three districts (Buffalo, Rochester, and Syracuse). With this approach, "adequacy" is the value of this index that all districts are expected to reach.

The next step is to estimate what it would cost to bring every district up to various values for this index. I assume that education aid is provided using a foundation formula, which is the type of formula found in the reform plans proposed for New York and in most states. With a foundation formula, aid per pupil for a particular district equals the difference between the foundation spending level for that district, which is the spending level required to meet the performance target, and the local revenue contribution that district is expected to make. My estimates of the foundation spending level are based on a statistical analysis of the relationship between spending and student performance across school districts in the state. As discussed in my next column, these estimates include adjustments for the relatively high costs associated with educating disadvantaged students or attracting teachers into high-wage environments.

The expected local contribution is set at 1.5 percent of the local property tax base, which is below the current property tax rate for most school districts in the state. Thus, my calculations impose a modest increase in the contribution of the districts with the lowest current property tax rates, but otherwise keep the burden on the state.

The final step is to decide whether the education aid reform program involves a “hold-harmless” provision, which guarantees that each district will receive at least as much aid as it did the previous year. This provision raises the cost of reform because it prevents the state from reallocating aid away from districts that do not need it to those that do. This provision has little impact when the performance target is high, however, because a high target implies that most districts will receive an increase in aid.

The results are presented in Figure 1. This figure shows that a low adequacy standard, 110 on the D/L/Y index, could be achieved with no increase in the state aid budget if the reform plan did not include a hold-harmless clause. That is, modest increases in student performance could be achieved in New York City and the other large, urban districts simply by reallocating the existing state aid budget away from low-need districts. With a hold-harmless provision, however, achieving even this low performance target would cost the state over \$2 billion.

A proposal by the New York Board of Regents sets a performance standard roughly equal to the current state average performance, which is 160 on our index. As shown in Figure 1, the cost of achieving this target is much higher, about \$10 billion, regardless of whether or not a hold-harmless provision is included. The proposal by the Campaign for Fiscal Equity is designed to give all students the opportunity to pass all exams. This strikes me as a standard corresponding to a higher value for the D/L/Y index than the current statewide average, perhaps as high as 180. As shown in Figure 1, the cost of achieving this standard is almost \$15 billion.

One way to reduce the apparent budget of an education aid reform plan is to reduce the adjustments for disadvantaged students or for location in a high-wage area below those called for by statistically based calculations. This type of adjustment is illusory, because it involves understating costs that will ultimately have to be paid if a plan’s performance target is to be met. As discussed in my next column, however, this type of illusion appears in the cost estimates provided by both the plaintiff and the defendant in the *CFE* case.

Figure 1 reveals that bringing all districts up to current statewide average performance level will require an increase in state education aid in the ballpark of \$10 billion. Higher standards will require even more funds. The only ways to bring the state’s cost below \$10 billion are to settle for a lower performance standard or to shift a larger share of the financing burden onto local revenues. I do not know what student performance standard the Court of Appeals will accept, but reform plans that add less than \$10 billion to the state aid budget with no significant increase in local revenues cannot bring low-performing districts up to the current statewide average student performance.

Note: The cost estimates in this column were obtained from a spreadsheet program that is available elsewhere on this web page; interested readers can use this program to estimate the cost of their own education reform programs.

Figure 1: Performance Outcomes for Various Aid Budgets

