

Settling School Finance Suit May Cost City Millions

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While a good deal of attention has been focused on how much more state aid the city might receive to satisfy last year's Court of Appeals ruling requiring New York State to overhaul its education funding formula, less notice has been given to how much of the tab the city itself may be required to pay. Based on IBO's review of several recent studies that estimate the cost of complying with the ruling, New York City's contribution to public education would increase by \$950 million to \$3.6 billion a year—the smaller amount alone is nearly twice as much as the city currently spends on parks, cultural affairs, and libraries combined.

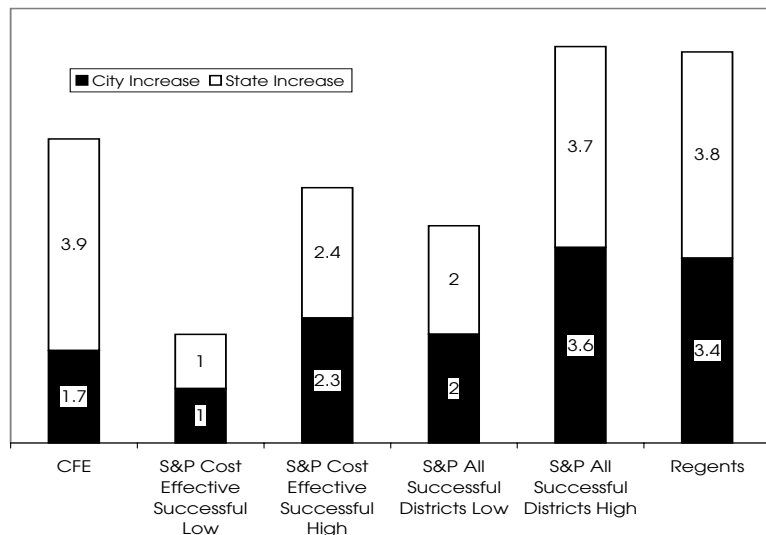
In 2004, New York City is expected to contribute 40 percent of the \$12.7 billion in total education spending on city schools. The state will provide 45 percent and the federal government is expected to provide the remainder. The principle of a shared responsibility for financing education in New York City means that any increase in education spending requires answering two separate questions: how much total spending will increase and how much of that increase will be paid by New York City. This notion was underscored in the Court of Appeals decision, which noted that the state Legislature must determine how New York City and New York State will share that burden: "Other questions about the process—such as how open it is and how the burden is distributed between the state and city—are matters for the Legislature desiring to enact good laws." Funding plans released by Gov. George Pataki and State Senate Majority Leader Joseph Bruno as IBO completed this report proposed \$1.5 billion (Pataki) and \$554 million (Bruno) increases in city-funded spending. Conversely, Mayor Michael Bloomberg's public comments have only assumed more state spending.

Determining the Price of a Sound Basic Education. As part of the court-ordered remedy, New York State is required to determine the cost of a sound basic education for New York City's kindergarten through 12th grade students. Three major studies have recently been published estimating the cost of a sound basic education for students not just for the city, but throughout the state. The studies were sponsored by the Campaign for Fiscal Equity (CFE), which was the original plaintiff in the case, the Governor-appointed Zarb Commission, which relied upon analysis from Standard & Poor's School Evaluation Services, and the state's Board of Regents. Despite differences in approach and methodology, each study concluded that the cost of a sound basic education for all students in the state would be much more expensive than what is currently being spent in New York State.

CFE's cost estimates were developed using professional judgment panels, groups of education professionals from around New York State who designed a set of resources that, in their opinion, would provide students with a sound basic education. The resource designs explicitly

Potential Increases in New York City Education Spending

Dollars in billions



SOURCES: IBO based on Campaign for Fiscal Equity, Part I. An Adequate Foundation for All; Regents Proposal on State Aid to School Districts for 2004-2005; Resource Adequacy Study for the New York State Commission on Education Reform; The New York State Commission on Education Reform Final Report.

NOTES: S&P split based on 2005 state/city shares. S&P estimates are in January 2004 dollars, others are in 2004-2005 dollars. Estimates do not include transportation, debt service, and capital spending. Regents' formula does not include several other categorical aids that are included in the others. Numbers in chart differ from text due to rounding.

matched the spending of the average successful district under the most expensive scenario, spending could be as high as \$18,615 per pupil.

The Regents also used a successful school model to determine the overall cost of a sound basic education. However, the Regents applied only one criterion to determine which school districts are successful. The Standard & Poor's analysis included the Regents' criterion as one of their four measures. Again, spending in these districts was analyzed and adjusted for geographic cost differences and pupil needs, such as poverty, and compared to current district spending throughout the state.

Cost of Delivering a Sound Basic Education. Each of the methodologies led to different estimates of the cost of meeting the court mandate.

Campaign for Fiscal Equity. The CFE sponsored costing-out study presented a range of amounts needed to provide a sound basic education to all the state's students. The subsequent CFE analysis used only one of the numbers presented in the range. According to the analysis, annual education spending must increase by 23 percent, or \$7.2 billion, in

2001-2002 dollars. The city would receive 62 percent of the statewide increase, or \$4.5 billion.

Using the results from the costing-out study, CFE commissioned a second study to design new funding formulas. Under CFE's proposal, a typical local school district would be expected to cover 48 percent of its per pupil cost, net of federal aid and tuition from other districts. The 48 percent share would be adjusted, however, to account for each district's average property value and income relative to other districts in the state. A poorer district would pay less than 48 percent of the total, while a wealthier district would pay more than 48 percent. The state would pay the remainder.

Under this formula, New York City would contribute \$7 billion and New York State would contribute over \$9 billion to the city's education budget alone, in 2004-2005 dollars. For New York City, this would be roughly a \$1.7 billion, or 32 percent, increase over IBO's projection of the 2005 city contribution and \$3.9 billion, or 70 percent, over IBO's projected 2005 state contribution. CFE does not recommend that the city and state reach this level immediately, but proposes that the education budget increase, in equal increments, over four years until it reaches the above level.

recognized that pupil needs vary across school districts; for example, districts with high concentrations of poverty or students in need of bilingual education require more resources. The resource designs were priced by district, according to each district's pupil need and geographic cost factor and then compared to current district spending. CFE found that only 163 districts out of 680 across the state were spending at what the study considered an adequate level. New York City is one of the districts where education expenditures fell below the adequacy standard.

Standard & Poor's cost estimates—which provided the basis for the Zarb Commission's report—applied an empirical, successful schools model. Standard & Poor's identified school districts which met four different measures of academic success, two based on high pass rates on New York State Regents' and other annual state exams, and two of which required meeting future criteria under the federal No Child Left Behind law. Standard & Poor's then determined how much these high-achieving districts were spending and compared those amounts to spending in the rest of the state, after adjusting for geographic cost differences and differences in student needs between districts. For example, per pupil spending in New York City is currently \$11,806, but if the city

Zarb Commission/Standard & Poor's. The Zarb Commission recommends that an additional \$2.5 billion to \$5.6 billion in January 2004 dollars be spent on education in New York State. Although the Commission did not explicitly indicate what analysis determined the dollar amounts presented, the commission's range of estimates matches the range of Standard & Poor's estimates that are based on "cost-effective" successful school districts. Cost-effective estimates are derived from the expenditures of only those successful school districts that spend less per pupil than the median-spending successful school district in the state. The cost-effective methodology was developed and also used by the Regents. However, even though regional cost differences have been accounted for, very few successful districts from Nassau and Westchester counties appear in the cost-effective model. Therefore, those successful school districts that compete with New York City for teachers and students are not included in the Zarb Commission's estimates of increased spending. A second set of estimates based on spending in *all* successful school districts is included in Standard & Poor's report, but not in the Zarb report. Not surprisingly, these estimates are higher, with the required statewide increase in total state and local education spending ranging from \$6.0 billion to \$10.3 billion.

The portion of the spending increases that would be designated for New York City schools ranges from \$1.9 billion to \$4.7 billion using the cost-effective methodology or \$4.0 billion to \$7.3 billion using the all successful school methodology. Neither Standard & Poor's nor the Zarb Commission provide a formula for how much local school districts should pay, although the Zarb report emphasizes that local contributions will increase. Based upon expected state and city spending in 2005, IBO estimates that New York City would be responsible for nearly half of the increase. For the cost-effective estimates this implies an increase in city spending of anywhere from \$950 million to \$2.3 billion. For the all successful school estimates this implies an increase of \$2.0 billion to \$3.6 billion.

Board of Regents. The Regents propose that over six years New York State education spending increase by up to \$6.0 billion, measured in 2004-2005 dollars. The first year (2004-2005), the statewide increase would be \$880 million. This proposal is different from both the CFE and the Zarb report, because the increase of \$6.0 billion is the state's responsibility alone—local contributions are calculated separately. New York City would receive 43 percent of the increase, or \$378 million, in year one, increasing to 64 percent, or \$3.8 billion, when the plan is fully implemented. In addition to these state funding increases in education spending, the Regents also provide a formula

outlining the expected local contributions.

The formula is based on the property value and income of a school district. It is the Regents' policy not to release district-specific information, so all calculations included are IBO estimates based on the description in the Regents' proposal. Local districts with average per pupil income equal to the statewide average are expected to pay an additional \$15 per \$1,000 of per pupil property value in the district. Because New York City's average income per pupil (weighted for poverty) is less than the state average, New York City's contribution would be slightly less than \$15 per \$1,000 for a total of \$3.4 billion—which represents 65 percent of the city's projected contribution in 2005. The \$3.4 billion may somewhat overstate the increased city contribution. The proposal increases the funding for a specific set of state aid formulas, most of which do not have a required local contribution. To the extent the city budget currently includes some funding for these programs, that money is already part of the projected \$3.4 billion.

Conclusion. A key question regarding increased funding for New York City schools is who is going to pay. The Court of Appeals decision implied that increasing the required New York City contribution for its schools will be part of the solution. Under the decision it is the state Legislature's responsibility to redesign the funding formulas to ensure that more money is spent on city schools and there is little doubt that the state will require New York City to contribute what it considers a fair share of the increased spending. The court gave the Legislature to July 30 to develop a new financing plan.

Although none of these studies are likely to be fully implemented in their current form and whatever solution does emerge is likely to involve a multi-year phase-in, the implications of these studies is that state and local spending on education is likely to increase significantly in the coming years. These potential spending increases would come due in a period when the city already faces large projected budget deficits. Absent a significant change in the city's long-term economic and revenue outlook, paying the city's share of a CFE solution will pose a major fiscal challenge.

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