THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

TO:	Subcommittee on State Aid
FROM:	Ken Slentz
SUBJECT:	Development of 2012-13 Regents State Aid Proposal
DATE:	October 7, 2011
AUTHORIZATION(S):	

SUMMARY

Issue for Discussion

Does the Board of Regents have any questions or concerns regarding the draft introduction to the Regents State Aid proposal and the description of directions for State Building Aid? Is this the right information and the right emphasis?

Reason(s) for Consideration

Development of policy.

Proposed Handling

These questions will come before the Subcommittee on State Aid at its October 2011 meeting.

Procedural History

The Regents reviewed legislative action on State Aid to school districts at their May meeting. The Regents and Department sponsored a School Finance Symposium with the educational community on September 13, 2011. The purpose of this consultation was to get a broad reaction from educators, researchers and policymakers to school finance and educational issues. A report of the School Finance Symposium is included for information.

Background Information

Each year the Regents Subcommittee on State Aid develops the Regents State Aid proposal through a series of papers including a review of legislative action for the coming year, a review of the needs of school districts and examination of various program directions and State Aid solutions.

Attachment 1 provides a draft introduction to the Regents proposal on State Aid to school districts for school year 2012-13.

Attachment 2 provides a review of possible directions for improving State support for school construction.

Attachment 3 provides a summary of the School Finance Symposium held September 13, 2011 to discuss options for improving the use of education resources to support high student achievement.

Recommendation

Not applicable.

Timetable for Implementation

This discussion will inform the development of the Regents State Aid proposal which will occur from now until the Regents approve their State Aid proposal in late 2011.

Regents Proposal on State Aid to School Districts for School Year 2012-13

Introduction

The Context for New York State Education

A prolonged economic recession coupled with increased pressure on school districts to raise student performance has resulted in states both embracing education reforms and limiting the growth of education funding. In New York State, the State and its school districts are looking to solve this problem. How can we contain costs while increasing learning opportunities and results? This introduction to the Regents State Aid proposal describes some of the fiscal challenges facing New York State school districts in order to better understand the context within which the Regents State Aid proposal will occur.

The paper reviews legislative changes aimed at promoting reforms and cutting costs, the impact of the withdrawal of federal stimulus funds, major expenditure trends in schools, and demographic changes that affect school districts' financial stability.

A recent School Finance Symposium assessed how school resources can most effectively support high student performance despite constrained State and local support. Panel presentations included options on how school administrators can spend resources differently to support high student performance. The Regents State Aid proposal will complement that discussion by exploring major directions for school funding within an economic recession.

Each year the Board of Regents develops a proposal on State Aid to school districts and advocates for its enactment to educators and policy makers. This *School Finance Symposium* acknowledges the dramatic shift in the economic, political and education landscape over the past five years. In 2006, the State enacted a bold reform of State Aid funding for school districts, featuring a new Foundation Funding formula that was to be phased in, promising large increases in aid over the ensuing four years. In sharp contrast, as of 2011, school districts have experienced three years of frozen funding for Foundation Aid and two years of cuts in General Support for Public Schools and are facing the elimination in federal stimulus funding that mitigated State Aid reductions since 2008-09 by more than $5 billion.

This introduction on *Fiscal Challenges Facing New York State School Districts* lays out the economic picture affecting school district budgets over the near future, including legislative changes impacting district revenues, cost and demographic trends and district responses to these changes, in order to establish the context for subsequent discussions of proposals and changes that have the potential to provide relief.

Revenue-Raising Options Have Been Constrained

The laws of 2011 enacted changes that both place a cap on local revenues for education and limit future general State support to public schools. In contrast to past trends, school districts will be forced to operate within revenue constraints.

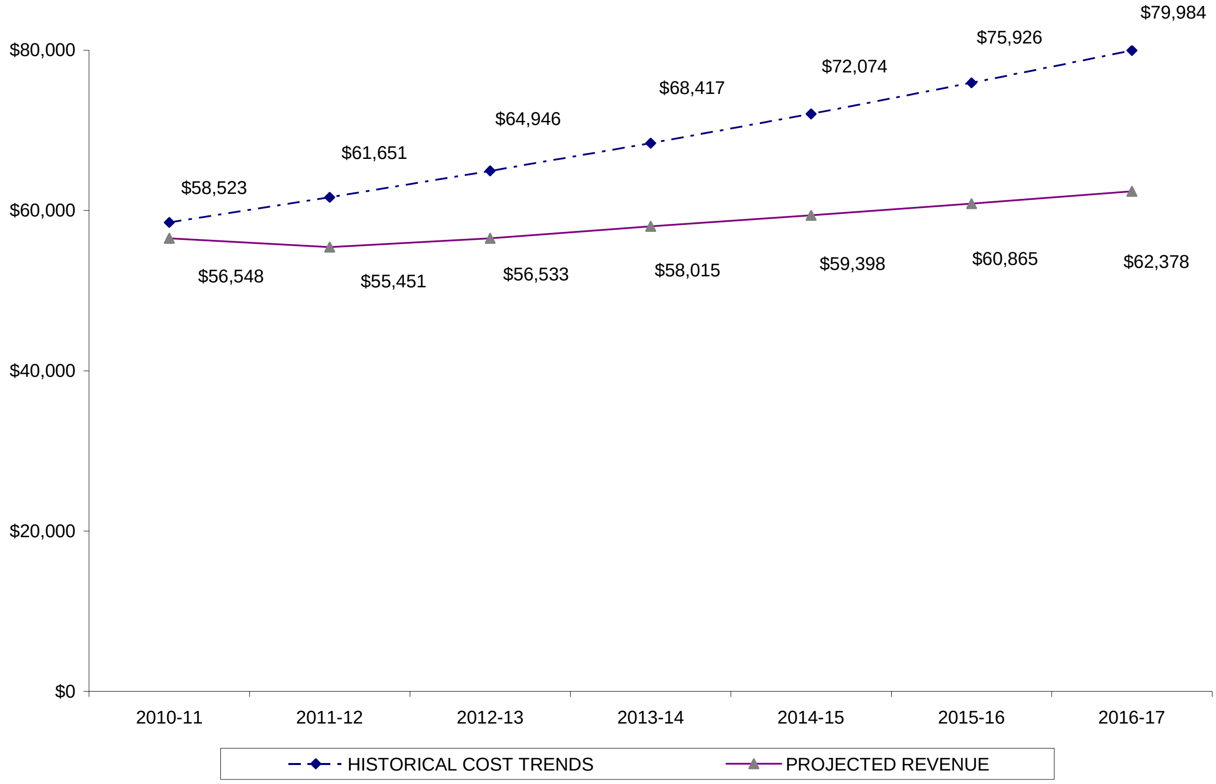
A Tax Levy Cap Limits Local Revenue for Education. Beginning in 2012-13, districts' ability to increase property tax levies will be constrained. Specifically, districts may not increase their tax levy by more than the rate of inflation, as measured by the consumer price index (CPI), or 2 percent, whichever is less. For the 2012-13 school year, the State Financial Plan, supporting the enacted budget, estimates that annual change in the CPI will be 1.8 percent. With a total property tax levy of $19.26 billion (not including the Big Five city districts) for 2011-12, that would mean a maximum annual increase of roughly $400 million per year, not including any overrides and exclusions. Exclusions from the cap include annual pension increases greater than two percent, certain large legal expenses (tort actions), and the local share of capital expenditures.

Cap on Future General Support for Public Schools. The tax levy cap is accompanied by a roughly parallel year-to-year growth in General Support to Public Schools (GSPS) determined by the rate of growth in personal income in New York State. For the 2012-13 school year, growth in GSPS will be limited to a 4.1 percent increase, or approximately $805 million. Based on recent estimates of personal income growth for New York State, State Aid increases are expected to be limited to about $940 million in 2013-14 and $835 million in 2014-15.

Expenditures Continue to Increase

Although school districts have made some progress in modifying overall expenditures, if historical patterns are continued, the rate of growth in school expenditures is estimated at 5.3 percent. The chart in Figure 1 presents the projected impact of the levy and State Aid caps on school districts compared with current cost trends. If total expenditures continue to grow at the rate of 5.3 percent annually, 2016-17 school year expenditures would reach almost $80 billion. Projected revenues, which assume the 2 percent cap on local revenue growth and no growth in federal aid or STAR, will reach only $62.3 billion in 2016-17. Therefore, additional reductions in spending will be necessary if the State is to stay within projected available revenues.

Figure 1: Impact of Caps on Revenues for School Districts (in millions)



Slowing the Rate of Revenue Growth

Property Tax Levy Cap

The new property tax cap law, enacted in Chapter 97 of the Laws of 2011, restricts tax levy increases for local governments, most school districts and other smaller independent entities, such as library, fire or water districts, to no more than 2 percent, or the rate of inflation, whichever is lower.

State law requires localities to calculate their tax levy limits and report their computation information to the Comptroller's office before they adopt annual budgets. All local governments (except New York City) and most school districts statewide must incorporate the tax cap for the local fiscal year or school year beginning in 2012.

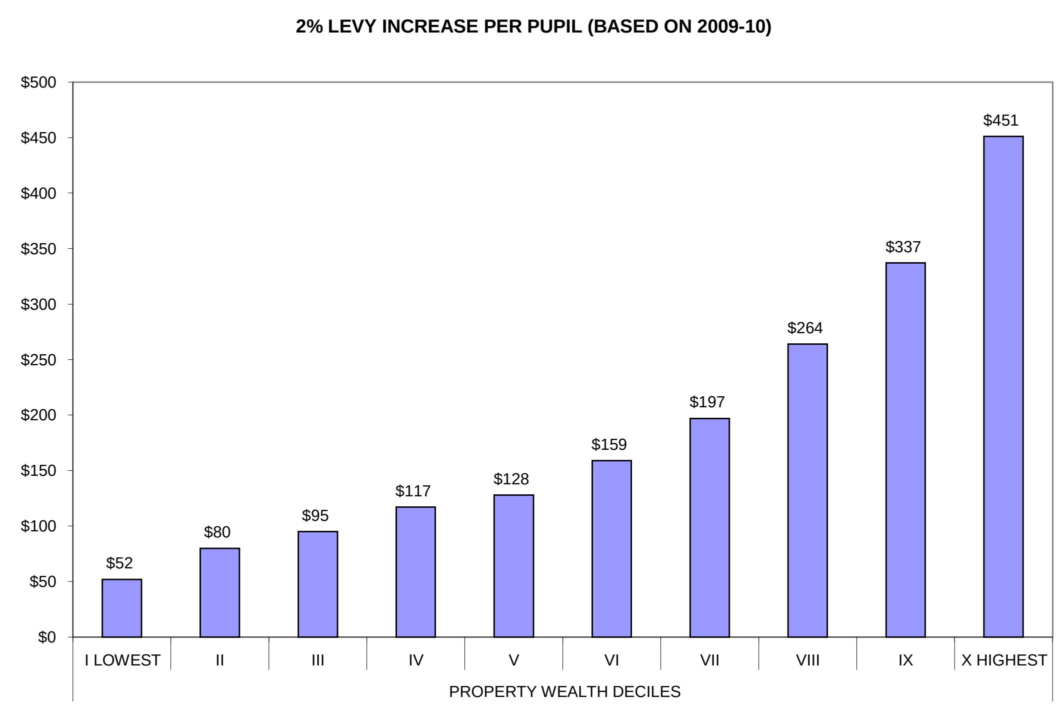
Localities can override the cap with a 60 percent vote either by their local governing body or, in the case of a school district, by the voting public. The Comptroller is also responsible for establishing the requirements for a reserve for any taxes levied in error in excess of the cap and determining the impact on tax caps when local governments transfer functions, dissolve, or consolidate.

For school districts, Education Law §2023-a specifies a "cap" of the lesser of 2 percent or inflation (the tax levy limit), but not less than the prior year's levy. For example, if the law had been in effect for 2011-12, the tax levy limit would have been 1.64 percent. The increase in the levy serves as a threshold or trigger for determining what percentage of voters will be required to approve the budget. Exclusions from the cap include pension cost increases greater than 2 percent, certain large legal expenses (tort actions), and the local share of capital expenditures.

If a district seeks an increase greater than the tax levy limit, approval by 60 percent of voters is required. If the district requests an increase at or under the limit, approval by a simple majority (50 percent plus one vote) suffices. Districts are permitted two chances to obtain voter approval. If voters do not approve the budget, the levy is capped at the prior year levy.

This change not only limits districts' ability to raise revenue, it also heightens the need for the equitable distribution of funding. A percentage cap is affected by the size of the levy, which varies dramatically among New York State school districts. Figure 2 shows the levy increase per pupil that would be allowed under the cap for school districts ranked by property wealth. The wealthiest districts would be allowed a levy increase that is approximately nine times greater than the poorest districts.

Figure 2: Per Pupil Tax Levy by Property Wealth, Under the Tax Cap



Cap on Future General Support for Public Schools.

For the 2012-13 school year and thereafter, year-to-year growth in General Support to Public Schools will be limited by the rate of growth in personal income in New York State. Growth will be limited to $805 million for the 2012-13 school year.

Formula-driven aids for school construction, transportation and shared services continue to grow, and the consequent increases are funded within the overall cap. Based on current trends, those increases are expected to be on the order of $385 million in 2012-13, $415 million in 2013-14, and $445 million in 2014-15. In addition, a portion of the increase is set aside for two new competitive grant programs (see below). Funding for the two new programs is projected at $500 million over the coming years.

In 2011-12, a Gap Elimination Adjustment was also made a permanent part of the State Aid allocations. If growth in formula-driven aids and the grant set aside exceed the allowable increase, the new law provides that the Gap Elimination Adjustment will be increased to contain overall growth within legislated limits.

If programmed increases are less than the limit established by the growth in income, the Legislature may enact provisions to allocate the remaining amount, with specific priorities given to continuation of the extended phase-in of Foundation Aid and reduction or elimination of the Gap Elimination Adjustment. Unless the Legislature and Executive enact a provision, Foundation Aid and the Gap Elimination Adjustment are continued at the previous year’s levels.

New Competitive Award Programs

This year, two new grant programs were established. A $250 million School District Management Efficiency Award Program will reward districts for efficiencies in the administrative component of the budget, in pupil transportation capital and operating expenses and in non-personal service costs in the instructional component of the budget. A $250 million School District Performance Improvement Awards Program will reward school districts for improvement in student achievement especially for historically underserved student populations.

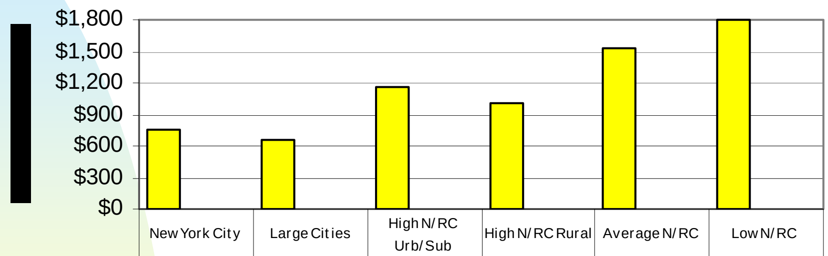
These are competitive grant programs intended as incentives for districts that improve the efficiency of their operations and simultaneously improve student academic performance. Both are conceptually similar to the federal Race to the Top program in that they use competitive grants to reward district performance and stimulate change. The grant programs are a new approach to providing State resources to school districts.

School Tax Relief (STAR)

In addition to school aid, New York State provides property tax exemptions to New York State homeowners. The School Tax Relief (STAR) Program provides Basic and

Enhanced STAR Property Tax Exemptions to New York State homeowners for their primary residence. Basic STAR is available to anyone who owns and resides in their own home. Enhanced STAR is available to senior homeowners whose incomes do not exceed a statewide standard. The State makes approximately $3 billion in payments each year to school districts to compensate them for reduced property tax receipts. Since STAR payments are linked to the value of the properties the program heightens the need for the equitable distribution of funding. Figure 3 provides details.

Figure 3. School Tax Relief (2010-11) by School District Need Categories



	New York City	Large Cities	High N/RC Urb/Sub	High N/RC Rural	Average N/RC	Low N/RC
STAR per Pupil	$762	$656	$1,166	$1,002	$1,530	$1,800
Share of STAR Aid	24.4%	2.4%	8.1%	4.9%	38.2%	22.0%
Share of Enrollment	37.8%	4.3%	8.1%	5.8%	29.5%	14.5%

The Federal “Funding Cliff”

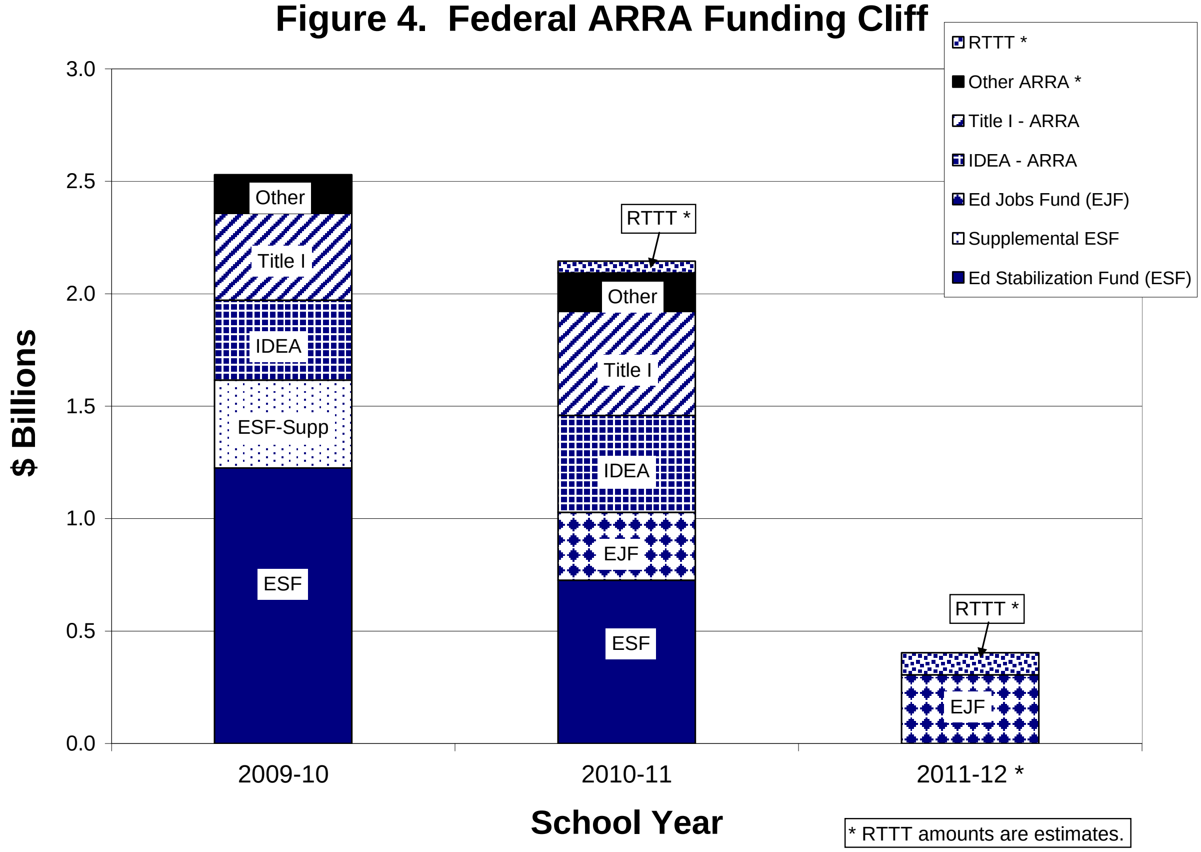
Over the past two years, State Aid has been supplemented with more than $5 billion in one-time infusions of federal American Recovery and Reinvestment Act (ARRA) funding. These included:

- Education Stabilization Funds
- Education Jobs Fund
- Additional Title I funds
- Additional IDEA funds

While these funds have helped to stabilize school district budgets, the inability of the economy to restore state revenues has created problems for school districts as they attempt to continue current educational programs. Figure 4 shows the stimulus funds provided in 2009-10 and 2010-11 and the drop in these funds beginning in 2011-12. These funds will further decline in 2012-13 when Education Jobs Funds will expire.

In addition, $696 million in federal Race to the Top funds spread over four years will help school districts initiate new reforms to improve student achievement.

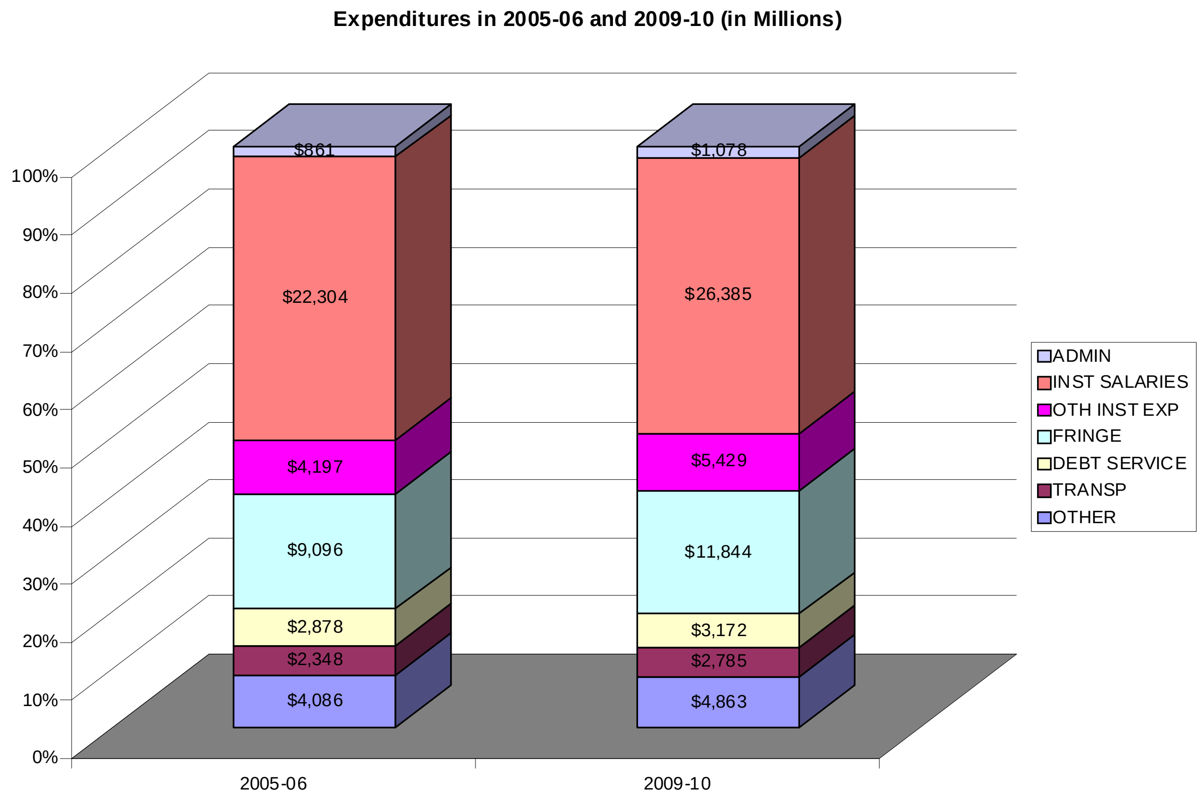
Figure 4. Federal ARRA Funding Cliff



Education Expenses Continue to Increase

An examination of cost drivers in education over the past several years reveals the following trends in major expenditures in school districts statewide. Total expenditures increased from $45.8 billion to $55.6 billion from 2005-06 to 2009-10, an increase of 21.4 percent. Instructional salaries accounted for $4 billion of this increase, a total rate of increase of 18.3 percent. Fringe benefits increased by $2.7 billion, which at 30.2 percent was the highest among the categories of expenditures. Other instructional expenditures, which include expenditures for instructional technology and payments to charter schools increased at nearly the same rate at 29.4 percent; or $1.2 billion. Expenditures for administration increased at a rate of 25.2 percent, resulting in an increase of $200 million. These increases are reflected in Figure 5. Other costs that have significantly added to the cost of education include additional general education programs and programs for students with disabilities; and a large increase in school construction and modernization projects.

Figure 5: Increases in Districts' Expenditures, 2005-06 to 2009-10



Note: *ADMIN expenses are for the board of education and central administration.*

Board of Education*. This item consists of expenditures related to the Board of Education. The data displayed were the sum of expenditures for: 1) the board of education, the district clerk's office, and the district meeting; 2) auditing services; 3) the treasurer's office; 4) the tax collector's office; 5) legal services; and 6) the school census.*

Central Administration*. This item consists of expenditures for central administration. Data displayed were the sum of expenditures for: 1) the chief school officer; 2) the business office; 3) the purchasing office; 4) the personnel office; 5) the records management officer; 6) public information and services; 7), indirect costs and other unclassified expenditures and fees for fiscal agents.*

Additional Factors That Affect Spending

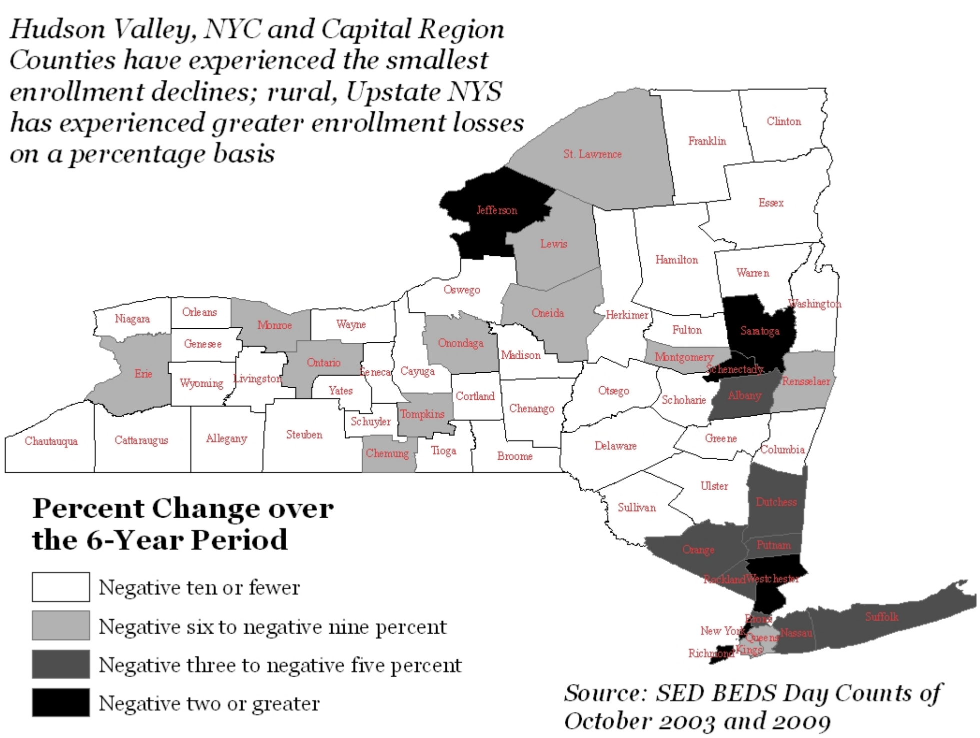
School District Efforts to Address Fiscal Challenges

In the Property Tax Report Card that districts submitted in May 2011, which projected budgeted expenses for the 2011-12 school year compared with the 2010-11 school year that was about to close, districts projected an increase in budgeted expenditures of 1.4 percent. This projection required an average tax levy increase of 3.4 percent. New York State voters passed ninety-three percent of school district budgets, in large part because of the responsible budgets that school districts put forward to voters. Anecdotally, many districts' modest budget increases were accomplished through a combination of negotiated contract changes to salaries and benefits, reductions in non-personnel expenses, attrition and staff reductions.

Enrollment Trends

Declining enrollments are evident in most parts of the state. Declining enrollments can increase the portion of the school budget devoted to pension and retiree health care costs. Figure 6 shows enrollment losses which are greatest in rural New York but are also evident in districts in the Hudson Valley, NYC and Capital Region.

Figure 6: Average Percent Change in Student Enrollment By County, School Year 2003-04 to 2009-10



Mandate Relief Efforts

Statutory and regulatory changes also provided some mandate relief to school districts in 2011 and are listed below.

Statutory Mandate Relief:

- Preschool Census every other year, rather than annually;
- School bus planning based on actual ridership;
- Flexibility in auditing claims by allowing a deputy claims auditor and risk-based claims auditing;
- Comptroller review and report on effectiveness of risk-based claims audit methodology;
- Shared superintendent program for small districts;
- Regional transportation services;
- Mandate Relief Council; and
- Regional transportation pilots

Regulatory Mandate Relief Enacted by the Board of Regents:

- Emergency repeal of requirement for school facility report cards in 8NYCRR 155.6;
- Emergency repeal of requirement for school bus idling reports in 8NYCRR 156.3(b);
- Flexibility with scheduling school bus driver safety training in 8NYCRR 156.3(h);
- Proposed repeal of 8NYCRR 136.3(e) relating to vision screenings for hyperopia; and
- Proposed amendment to 8NYCRR 80-4.3 to provide additional certification flexibility with regard to the assignment of teachers in school districts and BOCES to provide for more cost-efficient operations.

This year, the Board of Regents discussed and supported a number of important mandate relief measures. A comprehensive legislative package was introduced (S.5816) and included some of the provisions that were adopted this year. The Board will continue to advocate for these legislative changes and will evaluate additional special education options.

Statewide Proposals Support Greater Efficiency

In addition to legislative and regulatory changes related to mandate relief, in 2008 two executive commission reports proposed greater sharing of services and consolidation of school districts to make local governments more competitive and reduce the property tax burden. The *Local Government Efficiency and Competitiveness* and *Property Tax Relief* commissions, headed by former Lieutenant Governor Stan Lundine and (then)

Nassau County Executive Thomas Suozzi, respectively, proposed numerous recommendations supporting district reorganization and shared service opportunities.

School Reorganization Process

The authority of the Commissioner of Education to restructure school districts is currently limited to proposing and/or approving reorganizations. Some type of local approval, such as a mandatory referendum, a permissive referendum, school board approval and/or approval of a district superintendent of schools is required in all reorganizations. Approval of the district superintendent of schools is required in partitioning school districts under section 2218 of Education Law. Both Commission reports noted earlier made recommendations to changing State law and granting the Commissioner additional authority in this area. Additionally, while the Commissioner may propose reorganizations at any time, there are defined steps that must precede such action. These include: a feasibility study by the school district boards to determine the costs and benefits as well as the implementation process; a public information process; and a public support undertaking which can take the form of petitions or straw polls, i.e., advisory referendums. Once the Commissioner has proposed school district reorganization, the procedures that must be followed vary depending on the type of reorganization, though most reorganizations end up in a public referendum. Under this existing legal framework, the State has experienced only three school reorganizations in the last decade.

Policy Questions

The new resources described in Figure 1 above represent the maximum amount of General Support to Public Schools that is likely to be available for discretionary purposes. It is a relatively small amount, and is not sufficient to support the elimination of the Gap Elimination Adjustment and the phase-in of Foundation Aid, let alone other Regents priorities. This will force difficult priority choices in the development of the Regents State Aid proposal. It must address questions such as:

1. Should the Regents propose more aggressive cost-containment in the expense-based aids in order to free up resources and use those resources towards the phase in of the foundation formula?

2. Should the Regents propose more aggressive mandate relief, such as special education requirements that do not negatively impact the education of students with disabilities?

3. Given the future limitations on state aid and the tax cap, should the Regents propose greater equity through a redistribution of resources from higher wealth school districts to lower wealth school districts?

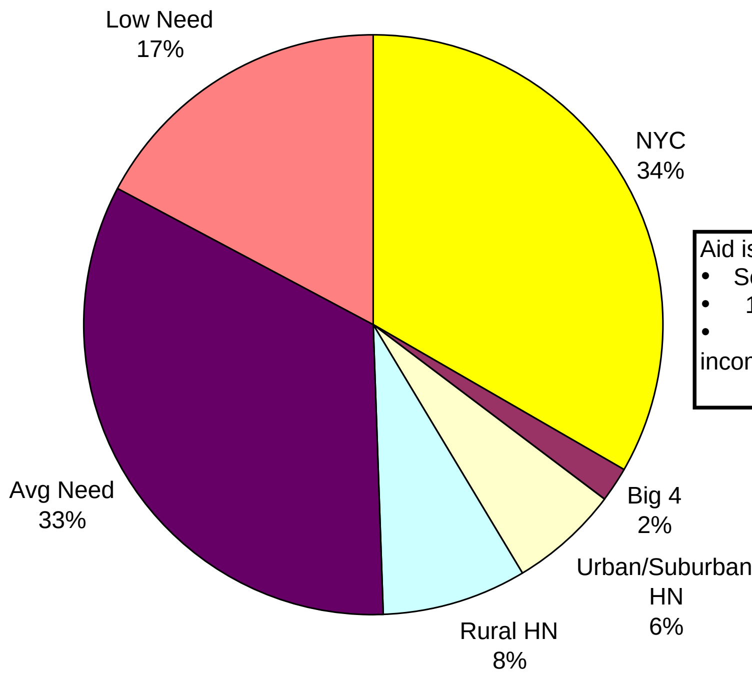
4. Should the Regents propose a more progressive Gap Elimination Adjustment (GEA) that would mitigate the effect of the GEA for low and average wealth districts?

Increased Accountability for Sound and Sustainable School Buildings

Formula driven aids, such as Building Aid, continue to grow while State revenues needed to sustain the P-12 educational system are dwindling. The cost of Building Aid in 2010-11 was estimated to be approximately $2.4 billion, which represents an increase of approximately 10 percent each year since 2005-06. While increases in Building Aid continue at an unsustainable rate, the total amount for General Support to Public Schools (GSPS) declined by 3.3 percent for the current school year. If State revenues continue to be constrained and as the State pays more to support the continual increase in Building Aid there is a commensurate reduction in funds available to support education costs overall.

It is imperative that the State move toward ensuring there is a balance between State support for school construction and State support for instruction. Toward this end, the State needs to modify the incentives that exist within the current funding approach. Building Aid formula enhancements, such as aid ratio enhancements and the choice of building aid ratios, have driven up the cost of school construction and diminished the accountability of the funding system. In 2010-11 approximately $446 million of the total cost of Building Aid was due to formula enhancements of which $223 million reflects aid to low need and average need districts. Figure 1 shows the distribution of Building Aid attributed to formula enhancements to groups of school districts.

Figure 1: The Distribution of Building Aid Attributed to Formula Enhancements



Aid is apportioned as follows:
- Selected aid ratios: 36%
- 10% incentive aid: 60%
- High-need supplement, low-income aid ratios and other: 4%

This analysis presents two options. Scenario A is a full restructuring of Building Aid that changes State support from an entitlement program to a foundation approach that provides a school construction allowance to school districts each year. If a full restructuring of Building Aid is not desired, Scenario B presents options for modifying Building Aid to contain costs within the current funding system.

Scenario A: Restructure Building Aid

The current cost allowance formula for Building Aid determines the maximum cost to be aided when a district undertakes a capital project. The formula is considered complex and has multiple moving parts making it difficult to determine the appropriate maximum cost allowance for an adequate facility. It can impede long range planning and force districts to design spaces at odds with their educational program goals in order to secure the greatest amount of State funding.

One approach to modifying Building Aid is to significantly restructure the method by which aid is distributed; an approach more conceptually similar to Foundation Aid that provides the aid necessary to provide the opportunity for a sound basic education to all students.

The proposed formula would use average school construction costs per pupil over the past five years to establish a per student amount. This per student amount would be distributed to districts annually, adjusted by the aid ratio of the district and their Regional Cost Index. Districts could opt to use these designated funds for construction, or maintenance, and establish reserve funds for the purpose of saving for future maintenance and capital projects.

This simplified approach has several advantages. Most significantly, it will allow the State to establish a limit for school facilities expenditures. It is especially important during these economically challenging years that the State's share of Building Aid be both contained and predictable. The predictability of the funds will also benefit district planning and stabilize the huge investment that the local taxpayers and the State have already made in school infrastructure. The State and local investment alone totals over $50 billion since 1998.

Another advantage of this simplified formula would be the role of the local taxpayer in supporting future capital projects. This would be especially relevant in those cases where districts had difficulty getting voters to authorize a specified amount of capital funding. Under this simplified method, districts would have the latitude to undertake projects as big, or as small, as their reserves and the local taxpayers could afford with less uncertainty. This provides districts that struggle to invest in facilities with a predictable revenue stream specifically for the purpose of infrastructure improvement.

Finally, this approach would encourage the efficient and effective use of public resources to meet school capital needs. School districts would use the funds for locally determined needs which would not be influenced by idiosyncrasies in the funding formula.

Scenario B: Modify Building Aid

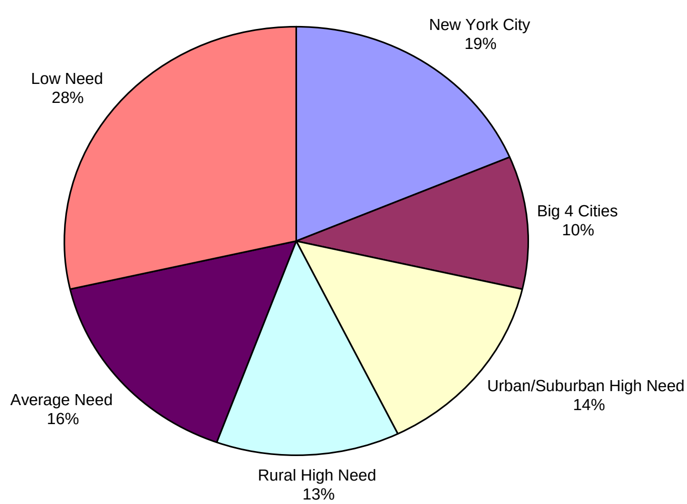
Even without a full restructuring of Building Aid, there are several options for controlling costs while continuing to provide students with sound and sustainable school buildings. Modifying some existing funding provisions would facilitate a more targeted disbursement of State funding for capital construction. Some options include:

Eliminate Incentive Aid

In 1998 school districts uniformly received a ten percent increase in their State reimbursement rate for Building Aid. This "ten percent incentive aid" was enacted to spur capital investment in public school facilities and supporting them in becoming 21st century learning centers, as well as to eliminate problems associated with deteriorating facilities caused by aging structures and deferred maintenance.

School districts across the State took advantage of this incentive and in many districts State funds enabled significant infrastructure expansion and modifications with only a small local taxpayer match. Since the incentive was enacted in 1998, the State has approved over $50 billion in public school infrastructure. The goal of encouraging school districts to invest State and local funds in their facilities has been accomplished and the additional State expense, i.e., the ten percent incentive, should be eliminated. It is estimated that once implemented this measure will save the State $296 million annually. Figure 2 shows the distribution of 2011-12 Building Aid due to the ten percent incentive.

Figure 2: 2011-12 Distribution of Building Aid Attributed to 10% Incentive

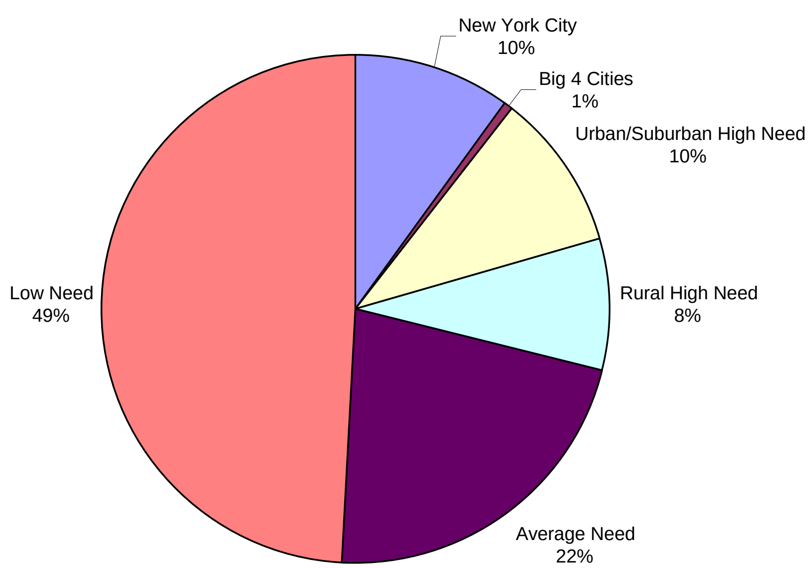


Eliminate the Selected Building Aid Ratio

School districts are given the option of selecting their most favorable Building Aid ratio, or the State's share of funding capital projects, dating back to 1981-82. In many cases, the ratio selected does not reflect the district's current fiscal capacity. Those districts that have experienced an increase in wealth over the past 30 years can avoid paying their fair share of capital projects by passing on an increased share to the State. Alternatively, districts that have grown less wealthy over time opt to use the current building aid ratio as it results in a greater State share for capital construction. This results in the State paying more than needed to compensate districts for their ability to raise revenues locally.

Eliminating the selected aid ratio will require all districts to use their current aid ratio thereby reimbursing all districts according to their current fiscal capacity. In order to not retroactively change a district's reimbursement schedule, it is recommended that the selected Building Aid ratio be eliminated for new projects beginning in 2012-13. It is estimated that eliminating the selected Building Aid ratio will save the State approximately $175 million annually. Figure 3 presents the distribution of 2011-12 Building Aid attributed to aid ratio choices.

Figure 3: 2011-12 Distribution of Building Aid Attributed to Aid Ratio Choices



Discontinue State Support for Excessive Amounts of Incidental Costs

Another economic inefficiency results from the “incidental cost loophole” in which districts are allowed to implement large incidental projects for relatively small construction work. The problem stems from the method by which the Department calculates a district’s allowable incidental costs associated with capital projects. Specifically, a Maximum Cost Allowance (MCA) or reasonable cost estimate is established for each project. The Department also calculates an incidental cost allowance which provides funding for construction related costs, including consulting and attorney fees, construction management, costs of publishing, advertising and public bidding, land acquisition and site work, etc. An incidental cost allowance of 20 percent is permitted for elementary schools and 25 percent for secondary schools. Therefore, a large high school project with an MCA of $50 million would generate an incidental cost allowance of $12.5 million for ancillary activities. Currently, state law would permit such a district to spend a minimum of $10,000 in capital costs (of the entire $50 million in MCA) to be eligible for the entire incidental allowance of $12.5 million, and thus the term, “incidental cost loophole”. In the current economic climate it is unreasonable to continue to allow districts to access the full amount of the incidental costs tied to the MCA for a capital project without embarking on the project. The funds generated by this loophole have been used to pay for projects and activities that are not directly related to the instruction of students. It is estimated that eliminating the incidental cost loophole will save approximately $100 million or more annually.

It is recommended that any incidental costs permitted be tied to the *actual* cost of the construction project or that the State allow the loophole only for site improvements that relate to the infrastructure of the facility such as paving, safety, storm damage, etc. It is also recommended that a process be established via research and investigation, whereby exceptions would be allowed where structural issues might have a greater incidental cost than the actual construction cost.

Achieve Additional Savings from Sustainable Design and Building Practices

Long term savings can be achieved by adopting cost beneficial strategies that make the most efficient use of resources, including sustainable construction and long life cycle products. Requiring that districts select long lasting materials, such as high quality flooring, when constructing or renovating a facility makes good economic sense and provides the greatest cost benefit ratio. Currently, the amortization period the State uses may not necessarily reflect the useful life of the improvement of the building.

During these difficult economic times the State must be more strategic with its limited resources on building improvements or facility related purchases without a reasonable useful life. This is especially relevant when the improvement, or facility related expenditure, is rendered useless before the minimum time period for reimbursement (fifteen years) is reached. Therefore, it is recommended that a capital expense have a minimum useful life of 15 years in order to be eligible for Building Aid.

In addition, districts that adopt sustainable construction practices will require fewer State and local resources in the future. It is also cost-effective to require that school buildings comply with high performance design standards, such as the *best value based on life cycle cost*. Studies have shown that high performance school designs potentially save 20 times the initial investment over the life of the improvement as a result of energy efficiency, life cycle cost, low maintenance, and other items.

Support for high performance schools must be in concert with the practical application of implementing more far reaching energy savings approaches. State resources are most effectively used when there is a mutual benefit to both the State and the local entity. While renewable energy such as wind, geothermal, biomass and other green energy forms may be appropriate from the prospective of becoming more energy self-sufficient, the returns on investment make these impractical for using Education funding. For example, solar and wind systems have 80 year financial paybacks and geothermal heating systems cost the State 300 percent of a traditional high efficiency heating system. It is proposed that the State will pay State Aid on the reasonable amount of a traditional system. Should the locality choose to invest in reusable energy sources such as those mentioned herein, they would bear the costs of these projects.

School Finance for High Achievement:
Improving Student Performance in Tough Times

A Summary

The New York State Education Department conducted a School Finance Symposium on September 13, 2011 in the Huxley Museum Theater at the Cultural Education Center in Albany. The symposium focused on a paper prepared by the State Education Department on fiscal challenges facing school districts, and presentations by education researchers Marguerite Roza and Stephen Frank about rethinking education resource use for greater student achievement and a summary of the session. The following is a summary of the symposium.

- Materials prepared for the session are posted online at www.p12.nysed.gov/mgtserv/.

- Seventy-six persons attended the symposium including representatives of educational associations and interest groups, practitioners, researchers, representatives of the Legislature and Executive branch, Department staff and 12 members of the Board of Regents.

- Regent Tallon opened the symposium noting that it was a forum for sharing ideas. Times have changed. Let's leave with a better understanding of the factors that influence the educational environment.

- Commissioner noted our future depends on education and asked participants to think about the choices at the state and local level and what would best benefit students.

- Burt Porter (NYSED) presented data on fiscal challenges facing school districts. They are faced with how to manage a sizable gap between revenues and expenses while meeting the needs of students. He noted that for 2012-13, approximately $370 million will be available for school districts after expense-based aids and new grants are paid. The fiscal challenges are unprecedented.

- Bob Lowry (NYSCOSS) noted that school leaders are holding down taxes and spending. Two-thirds of districts are concerned about diminishing reserves. Small school districts are especially concerned that one can't cut what one doesn't have. Districts have eliminated about five percent of their positions. More affluent communities are more concerned about the local tax cap while poorer districts are more concerned about the state aid cap.

- Questions and comments concerned the distribution of resources and the widening gap between have and have-not school districts.

- Marguerite Roza (Gates Foundation) presented three scenarios—slow cuts, tinkering around the margins and total redesign. Education is changing rapidly. Districts have many options for using resources differently.

- John Sipple (Cornell University) described tools to facilitate long range financial planning using data that will help people make strategic decisions.

- Discussion included how states can remove barriers to school finance that support student learning such as waivers for innovation and revising formulas to remove process driven factors. States can also feature model programs. Ms. Roza noted that states systematically under fund poor students.

- Stephen Frank (Education Resource Strategies) discussed the need to get rid of structural cost inefficiencies over time and at scale. This can involve 30 to 40 cents on the dollar in some school districts. Job embedded collaboration for teachers, formative assessments, new compensation structures for teachers, and using class sizes strategically are some promising strategies. Also promising is redirecting special education dollars to strengthen early education. NYS has higher than average special education placements as a percent of total enrollment. Co-teaching in NYS is more expensive than other models around the country.

- Student time is the biggest resource and New York requires less time than other states. We need to think of alternatives to the traditional classroom model.

- Michael Rebell (Teachers College, Columbia University) examined the issues in terms of the provision of a sound basic education (SBE) to all students. Budget cuts ignored the impact on providing an SBE. That's been left out of the conversation. We need to add an evaluation of whether changes will reduce service below the level of an SBE. We must be careful that flexible uses of class sizes don't deny students an SBE. The incidence of special education in New York is too high. Response to Intervention is an example of a great approach. We need to work to bring special education numbers down but must ensure dollars are available to support student needs in general education. We need to redefine what a sound basic education is.

- Regent Tallon closed the session with thanks to Department staff, panel members and participants for devoting time to the symposium. His goals were to introduce in a clear way the very different financial circumstance in which we find ourselves, and to begin a discussion about the financial dimension of the debate about how our education community moves forward.

- Commissioner King closed the session with a challenge to go into this academic year with a commitment to improve education for New York State students.

- The Department invites comments from interested parties; you may submit them by email to: EMSCMGTS@mail.nysed.gov.