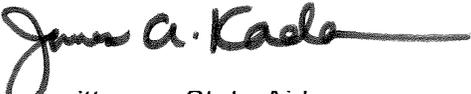




TO: The Honorable the Members of the Board of Regents

FROM: James A. Kadamus 

COMMITTEE: Full Board and Subcommittee on State Aid

TITLE OF ITEM: State Aid to School Districts—Regents State Aid Proposal for School Year 2002-03

DATE OF SUBMISSION: December 11, 2001

PROPOSED HANDLING: Action

RATIONALE FOR ITEM: Policy Development

STRATEGIC GOAL: Goal 2

AUTHORIZATION(S): 

SUMMARY:

Attachment A is the Regents conceptual proposal on State Aid to school districts for school year 2002-03. It is provided for action at the December meetings of the Subcommittee and Full Board. The document incorporates changes to the proposal suggested by members of the Regents Subcommittee in November. I refer you to page 1 for a summary snapshot of the recommendations. At the December meeting, the Regents will hear a summary of public comment and will review details concerning the proposed increase and the impact of the proposal.

Attachment B is an updated schedule of reports considered in the development of the Regents 2002-03 State Aid proposal.

I recommend you take the following action:

VOTED that the Regents adopt the attached proposal as their proposal on State Aid to school districts for school year 2002-03.

Attachments

*Improving the Formulas to Help Students Meet
State Learning Standards
The Regents Proposal on
State Aid to School Districts
For School Year 2002-03*

This Regents proposal on State Aid to school districts for school year 2002-03 examines the state of education funding and student achievement in New York State. It describes the state of education and finance as we enter the new millennium, and presents Regents goals and funding principles. It advances recommendations to improve State funding formulas by:

- ❖ Consolidating many aids into several comprehensive aid programs (for school operation, pupil needs, instructional materials, and instructional equipment);
- ❖ Targeting more aid to high need school districts on the basis of pupil need factors (with a proposed Pupil Needs Aid);
- ❖ Increasing aid available for career and technical education programs;
- ❖ Improving funding for students with disabilities and with learning needs to contain the growth of pupils in special education, increase the number of integrated placements for students with disabilities, and increase supports provided in general education to prevent unnecessary referrals to special education; and
- ❖ Strengthening accountability by improving the quality of data on student achievement and school finance.

The New York State Education Department
The State Aid Work Group
December 2001

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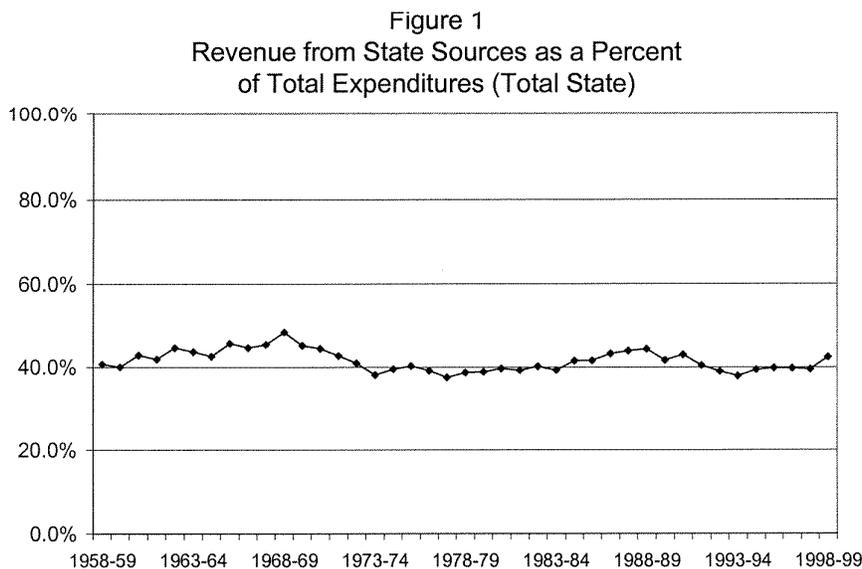
New York is in the middle of an education reform aimed at providing a high quality education to all students, regardless of disability or economic background. This reform has many key components, one of which is school funding, the topic of this proposal. This proposal contains the following major components:

- A discussion of New York State education and funding: past funding goals, changes over time;
- A description of diversity and contrasts in the State in student achievement, school district need and school district behavior, in order to connect this analysis to future State Aid recommendations (policy directions are noted in italics following each subsection);
- Changes in education and school finance that have led to higher standards and higher expectations that are changing the nature of public education in New York State and the nation; and
- State Aid recommendations, including a statement of the underlying Regents goals and funding principles and recent legislative actions.

New York State Education Funding

Compensating for Local Ability to Support Education

School funding in New York State has been motivated by a system in which a majority of funds came from local revenues. Thus the primary purpose was (and continues to be) to provide resources to help offset differences in local ability to pay for education. Over the years, State funding has constituted less than half of school revenues, ranging from 38 to 48 percent of total education revenues. See Figure 1.



This suggests that fiscal capacity continues to be a key factor in State Aid.

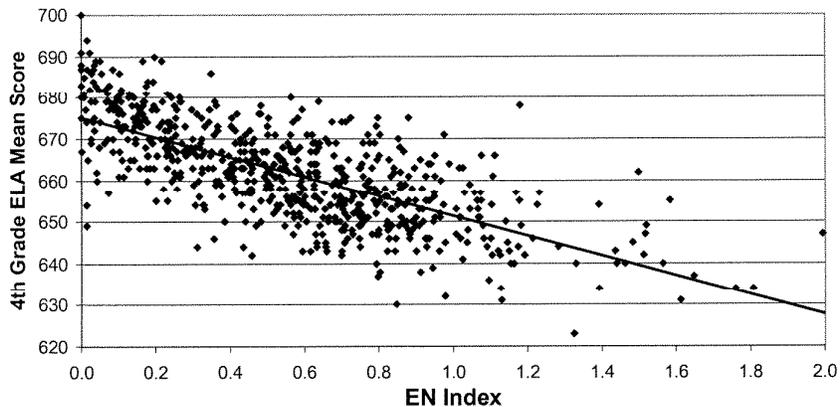
Recognizing Differences in Student Needs

In recent decades, increasing attention has been paid to allocating funds on the basis of student needs. Since the mid-1970s, Federal laws required states to meet the needs of students with disabilities by providing them a free and appropriate education, regardless of cost. State Aid for special education to help support the excess costs of educating students with disabilities now constitutes about 15 percent of State Aid to school districts.

The State also mirrored a national interest in recognizing the additional learning needs (and costs) of students from economically disadvantaged backgrounds. Thus it created State aids for students with special and compensatory educational needs to complement Federal Title I funding. Reforms have occurred in these funding approaches at state and Federal levels.

New York State recognized the unintended incentives of providing supplementary aids on the basis of student achievement and created Extraordinary Needs Aid in 1993, an aid provided on the basis of three student need factors outside the control of school districts: poverty, limited English proficiency and geographic sparsity. Recognition of student needs in New York's funding was done by *adding to* the existing system based on fiscal capacity. The aid system was not redesigned to incorporate aid for pupil needs *within* the existing system.

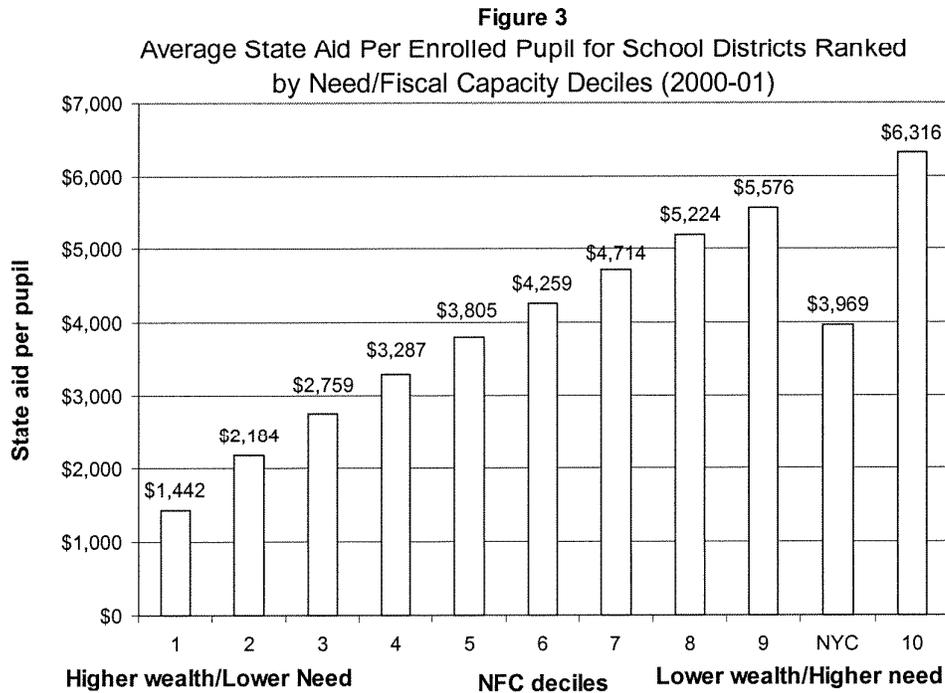
Figure 2
District 4th Grade ELA Mean Scores as a Function of
the Extraordinary Needs (EN) Index



As Figure 2 and countless studies have shown, student achievement is highly correlated with measures of student need, such as the Extraordinary Needs Index illustrated in the figure. The Extraordinary Needs Index measures student poverty, limited English proficiency and geographic sparsity in relation to the State average. The more pupil need, the worse the student achievement. This strong relationship accounts for about half of the variation in the data.

Because State Aid is allocated in part on the basis of fiscal capacity or ability to pay for education and part on the basis of student needs, we assess the relationship of State Aid and a combined measure of school district need: the need/fiscal capacity (NFC) index. We rank all school districts into 10 groups (deciles) according to a measure of their pupil need in relation to their capacity to raise revenues locally. Figure 3 illustrates the strong relationship between school districts' level of pupil need in relation to their fiscal capacity and the State Aid per pupil they receive. The correlation between the NFC index and State Aid per pupil was 0.79, considerably higher than the simple correlation of State Aid and either fiscal capacity (Combined Wealth Ratio) or the need index. Despite these findings, New York City does not fit this picture. Given its pupil need and fiscal capacity, it receives considerably less State Aid

than other districts with similar levels of need to resource capacity. This is due in large part to the fact that the New York City School District deviates from the State norm in its pupil need to fiscal capacity profile. In most districts, high pupil need is related to low fiscal capacity, so that an aid system focussed on fiscal capacity simultaneously compensates school districts with high pupil needs. New York City has extremely high pupil needs and average fiscal capacity; thus the aid system treats New York City as average need. Arraying school districts according to pupil need and fiscal capacity, as in Figure 3, New York City appears to have high need but average State Aid.



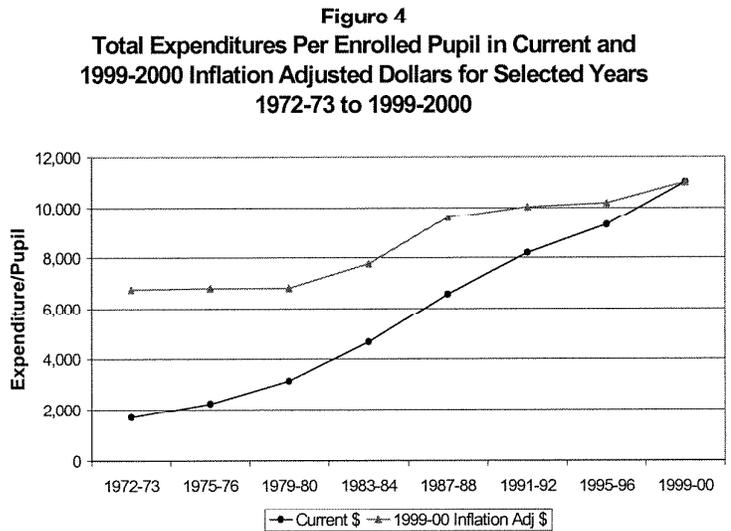
This suggests that student need should be strengthened as a key factor in State Aid.

Reducing Reliance on the Property Tax

More recently, State funds have been provided for property tax relief. These are intended to reduce local property tax burdens on residential homeowners. State revenues for tax relief differ from those provided for school aid in that they have been apportioned on the basis of property value and not on the basis of ability to pay or other measures of school need. At the same time, this property tax relief has, in some measure, been offset by a maintenance of effort requirement for New York City and proposals to extend such a requirement to all five of the large city school districts.

Steady Growth In School Funding

While the State share fluctuated only modestly over the past three decades, the level of education funding in the State has increased steadily. Figure 4 illustrates this dramatic growth in actual dollars and inflation adjusted dollars per enrolled pupil. Accounting for inflation, expenditures increased from almost \$7,000 per pupil in 1972-73 to almost \$11,000 per pupil in 1999-00. New York's spending per pupil is one of the highest in the nation,¹ a phenomenon related in part to a large growth in spending for the education of students with disabilities between 1980 and 1992.²



A State of Diversity and Contrasts

Throughout all of the changes in education and the society of which it is a part, one thing has remained constant: New York is a state of dramatic diversity. This diversity affects education by manifesting itself in many critical areas. Key areas affecting the development of the Regents State Aid proposal are illustrated in the following section of this paper. In most of these illustrations, data is arrayed by need groupings of school districts. The measure of need used assesses each school district's special student needs and ability to provide resources in relation to the State average. This results in three groups of school districts: high, average and low need/resource capacity. The high need/resource capacity school district category is further broken down into four groups:

- New York City
- The large city school districts of Buffalo, Rochester, Syracuse and Yonkers
- Urban and suburban high need school districts
- High need rural school districts

For the purposes of this paper, the terms *high need school districts*, *average need school districts*, and *low need school districts* are used to refer to high, average and low need/resource capacity school districts. Need/Resource Capacity (N/RC) categories of school districts are determined using the definitions reported in Appendix A. When school districts are grouped in other ways (such as the Need/Fiscal Capacity deciles reported in Figure 3), these groupings will be described separately.

¹ *Education Week*. Quality Counts 2001. Volume XX, Number 17, January 11, 2001, page 102.

² See Lankford and Wyckoff, 1995.

Student achievement

Two key indicators of student performance are the New York State Assessment Program (NYSAP) at the elementary and middle levels and the Regents examinations at the secondary level. NYSAP performance is indicated at four performance levels, ranging from severely deficient (Level 1) to advanced (Level 4). Students scoring at Level 3 have demonstrated proficiency in the standards expected for their grade level. On Regents examinations, three performance standards have been set: competency for a local diploma, passing at Regents level and distinction. A score of 55 is required to demonstrate competency for a local diploma; 65 is required to receive credit toward a Regents diploma; and 85 is required for distinction.³ This year's ninth graders will be required to pass five Regents examinations with a score of 65 or higher to earn a Regents diploma. Students with disabilities are required to pass five Regents examinations with a score of 55 or higher to earn a Regents diploma.

Learning is increasing in New York State

Increasingly, evidence is accumulating that shows a serious effort by students, parents, teachers and school administrators to meet the challenge of the new learning standards:

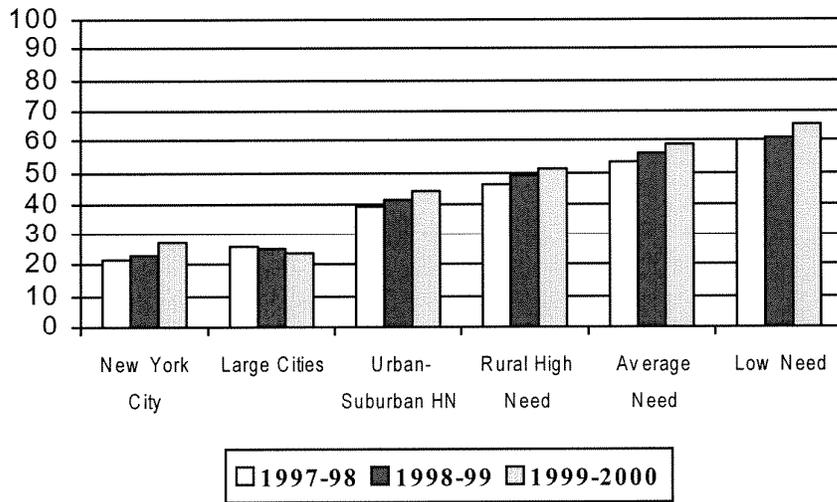
- In June 2000, more students scored 55 or higher on Regents examinations in four of five areas required for graduation than took the examinations in 1996-97: English, global studies (or global history), U.S. history and biology.
- Statewide the percentage of graduates earning Regents diplomas increased from 35 percent in 1989 to 49 percent in 2000.
- The average SAT score for the class of 2000 was 12 points higher than the average for the class of 1993.
- In 2000, 59 percent of fourth-graders in public schools met the standards in English language, an increase of 10 percentage points over the previous year.
- Students with disabilities have increased their participation in and performance on Regents examinations and have increased the number of Regents diplomas earned.

The achievement gap

Despite these gains, too many schools and students have not yet shared in these successes. There is a gap between actual achievement and that needed to meet the standards. Figure 5 shows that, despite progress made towards closing the achievement gap over the past three years by most groups of school districts, high need school districts have the farthest to go to meet State learning standards. The gap is large and many students and schools are involved.

³ This description of the New York State testing program has been excerpted from the 2001 Chapter 655 report, The Annual Report to the Governor and Legislature on the Educational Status of the State's Schools, page 83.

Figure 5
Percent of Graduates with Regents Diplomas



This suggests the importance of focusing funding strategies on low-performing districts.

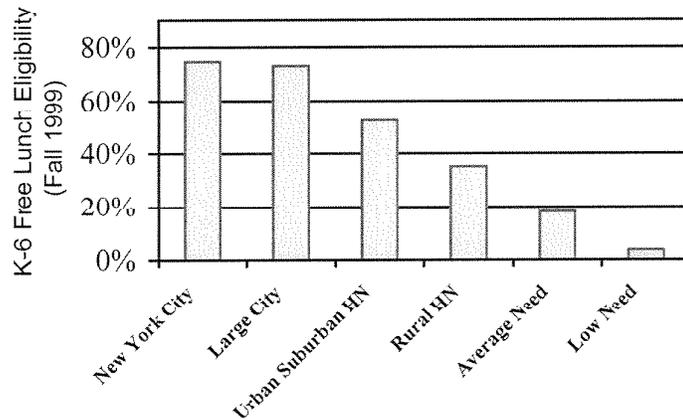
Measures of school district need

New York State school districts face diverse circumstances in terms of the pupils they serve, their ability to raise revenues locally (i.e., fiscal capacity) and the cost of doing business.

Pupil needs

Student poverty has a pervasive effect on children’s physical, emotional and cognitive health. Research has documented that low-income children are more likely than others to go without necessary food, shelter, and health care; less likely to be in good preschool programs or day care settings; more likely to be retained at grade level, drop out, become teenaged parents, and be unemployed.⁴ Student poverty ranges from less than four percent for low need school districts to almost 75 percent in the State’s five largest cities. See Figure 6.

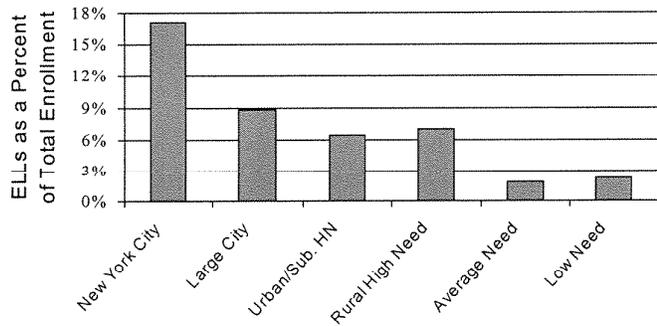
Figure 6
Student Poverty



⁴ As reported in the 2001 Chapter 655 Report, page 70: Clifford M. Johnson, Andrew M. Sum and James D. Weill, *Vanishing Dreams: The Economic Plight of America’s Families* (Washington, D.C.: Children’s Defense Fund 1992).

The same school districts that face greater numbers of pupils living in poverty must also cope with greater numbers of immigrant children learning English as a second language. Commissioner's Regulations Part 154 requires school districts to identify students with limited English proficiency/English language learners (LEP/ELL) who speak a language other than English and either (1) understand and speak little or no English or (2) score at or below the 40th percentile on an English language assessment instrument. Districts must provide additional English instruction to help students become proficient in English, a process which can take up to three years or more. New York State's cities, which have the most student poverty and the poorest student achievement, also have the largest proportions of limited English proficient and English language learners. See Figure 7.

Figure 7
English Language Learners by Location
Fall 1999



Minority students are over-represented in high need school districts. Minority students include Black, Hispanic, American Indian and Alaskan Native, and Asian and Pacific Islander students. Approximately 80 percent of students attending schools in the big five districts in 1999 were minority students. See Figure 8.

Figure 8
Percentages of Minority Students by School District Need/Resource Capacity Category
Fall 1999

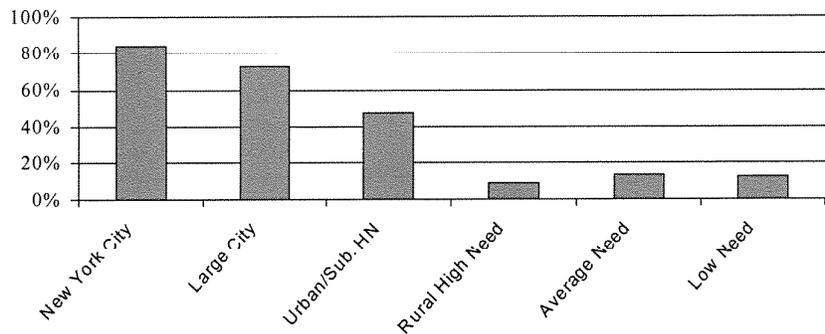
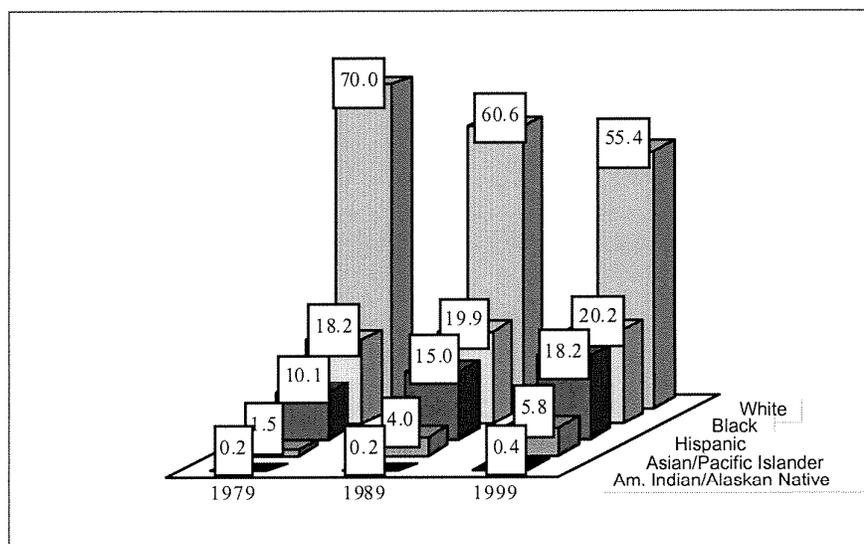


Figure 9
Racial/Ethnic Group Enrollment Trends
In Public Schools: 1979, 1989, 1999



Mirroring population changes in the State, minorities are a growing share of State public school enrollment (see Figure 9). The pattern of concentration of minority students in New York's schools has been consistent over time. Approximately 60 percent of the State's Black and Hispanic students have attended schools where 80 percent or more of the enrollment was minority students. In addition, the percentage of students attending high-minority schools increased from 1995 to 1999. During this period increases in enrollment in high minority schools accounted for virtually all of the increases in public school enrollment.⁵ In 1999, minority students were more likely than White students to attend public schools with concentrated poverty.⁶ Furthermore, numerous researchers have documented the adverse impact of the concentration of low-income students in a school on the achievement of individual students regardless of the individual student's economic status.⁷

Fiscal capacity

The ability of school districts to raise revenues locally is known as school district *fiscal capacity*. More than half of school revenues in New York State have been generated locally through tax receipts (primarily the property tax) levied by school districts or, in the case of the five largest cities, through the funding of an education budget provided by the municipal city government. Fiscal capacity, as measured by the average Combined Wealth Ratio⁸ for the districts in each category, varies from a low of .53 in rural high need school districts to 1.93 in low need school districts (see Figure 10).

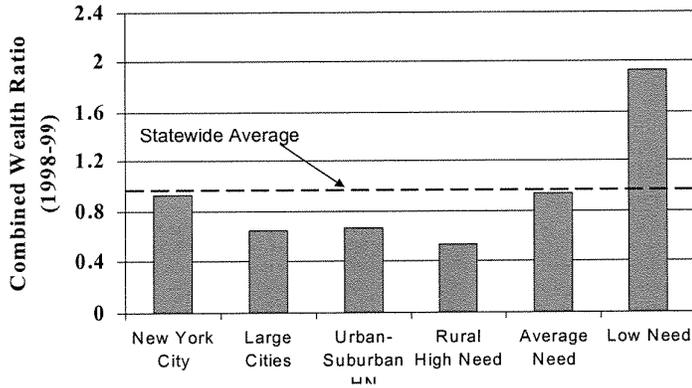
⁵ 2001 Chapter 655 Report, pages 120-121.

⁶ 2001 Chapter 655 Report, page 121.

⁷ Arnot and Rowse, 1987; Evans, Oates and Schwab, 1992; Henderson, Mieszkowski and Sauvageau, 1978; Link and Mulligan, 1991; Rumberger and Willms, 1992; Shavit and Williams, 1985, Summers and Wolfe, 1977, Willms, 1986.

⁸ Combined Wealth Ratio measures a school district's fiscal capacity. It is a measure made up equally of two factors: the property value in the district and the income of residents in the district.

Figure 10
Fiscal Capacity of Groups of School Districts



Source: Combined Wealth Ratio by Need/Resource Capacity Category, as reported in 2001 Chapter 655 Report, Table 3.6.

This suggests that State Aid to school districts should consider differences in local ability to pay for education.

The cost of doing business

New York State school districts face a wide range in the costs required to do their business. That is, \$1,000 will purchase different amounts of educational goods and services, depending on the costs for labor and goods in the surrounding area. Over recent decades, court opinions, blue ribbon panels and researchers have documented these differences, often recommending that State Aid formulas take into account these differences. Figure 11 illustrates different levels of cost and purchasing power for nine regions in the State, based on actual data on wages for 77 professional, non-educational job titles. Non-education job titles were selected in an attempt to reflect the cost in the region of hiring

Figure 11
Professional Cost Index for New York State
by Labor Force Region

Labor Force Region	Index Value	Purchasing Power of \$1,000 by Region
Capital District	1.250	\$800
Southern Tier	1.152	\$868
Western NY	1.155	\$866
Hudson Valley	1.475	\$678
LI/NYC	1.515	\$660
Finger Lakes	1.244	\$804
Central NY	1.218	\$821
Mohawk Valley	1.084	\$923
North Country	1.000	\$1,000

professionals with similar levels of education and experience as teachers. Costs are about 52 percent higher in the New York City-Long Island region than in the North Country.

This suggests that the cost of doing business should be a key factor in State Aid.

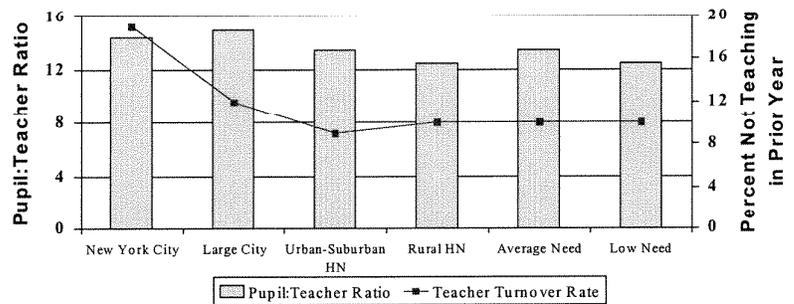
School district behavior

School district response varies from district to district. Not all school districts with the same ability to pay will spend the same amount per pupil. Communities vary in their demand for education and their willingness to support education and respond to student needs. They vary in the level at which they are willing to pay their teachers and in their desire to engage in school building maintenance, renovation and reconstruction. This section examines data related to these phenomena.

Teacher quality

The largest portion of school district budgets is spent on staff salaries. Recent data illustrate the importance of quality teaching to student achievement.⁹ The achievement gains from having quality teachers three years in a row are equal to the loss in achievement attributed to economic disadvantage. Figures 12 and 13 show that teacher resources vary from district to district. Students attending school in high need urban school districts tend to have greater teacher turnover, larger pupil:teacher ratios, lower teacher salaries, and a greater likelihood of having an uncertified teacher.¹⁰

Figure 12
Teacher Turnover and Pupil:Teacher Ratio
(Fall 1999)

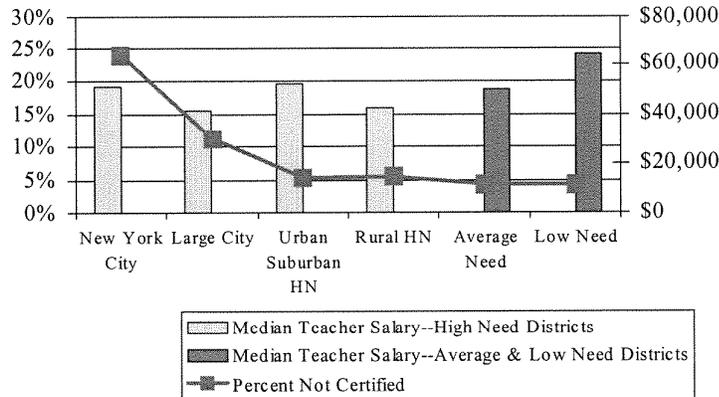


This suggests that quality teaching continues to be a key policy concern in State Aid and education.

⁹ See Rivkin, Hanushek and Kain, 2000.

¹⁰ 2001 Chapter 655 Report, Table 3.8, page 82.

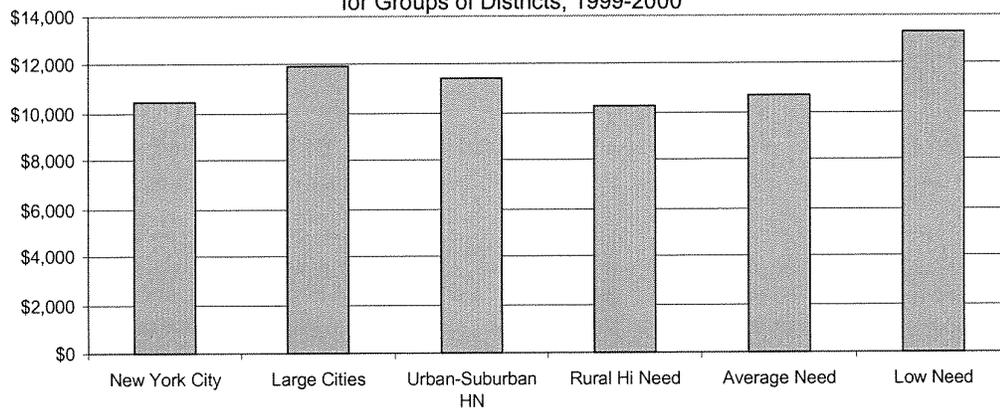
Figure 13
Teacher Salaries and the Percent of Uncertified Teachers
(Fall 1999)



Expenditures per pupil

Low need school districts continue to spend more per pupil than other groups of school districts, more than \$2,000 above the statewide average in 1999-2000. Rural high need

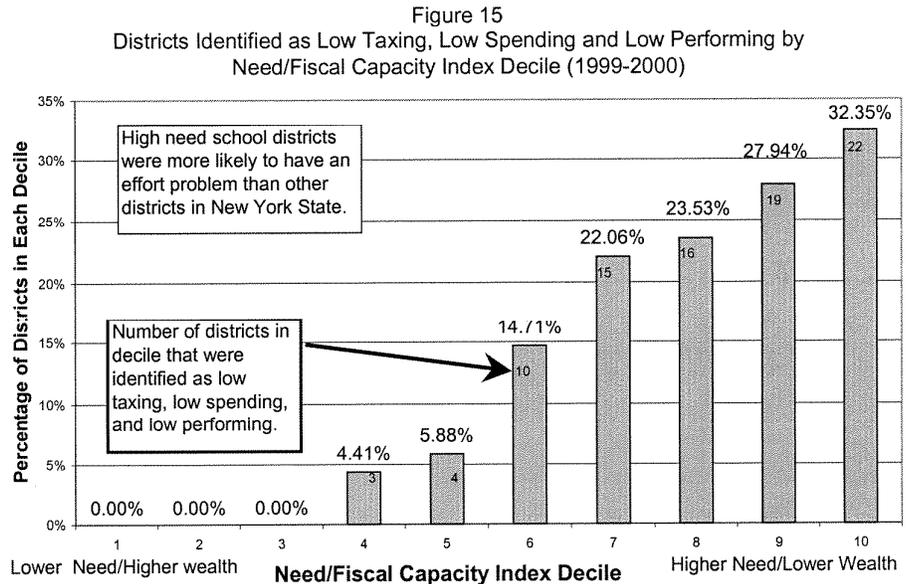
Figure 14
Average Public School Expenditures per Pupil
for Groups of Districts, 1999-2000



school districts spent the least, followed closely by the New York City School District, despite the City's high level of pupil need and high cost of doing business. See Figure 14.

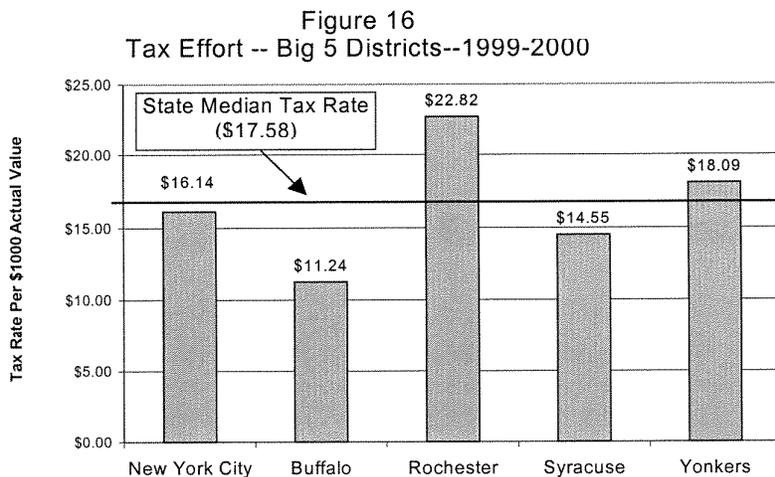
Local effort

Education is a State and local partnership in New York, with more than 50 percent of school revenues coming from local sources and a strong tradition of local control. As the Regents continue to propose a funding system to support high performance for all students, maintenance of local effort will be an important consideration. Figure 15 illustrates that school districts also vary in their local support for education. School districts are ranked in 10 groups according to their pupil need and fiscal capacity. The chart displays the percent in each decile that were identified as low taxing, low spending and low performing. As districts become needier, the likelihood of encountering a district with an effort problem increases.



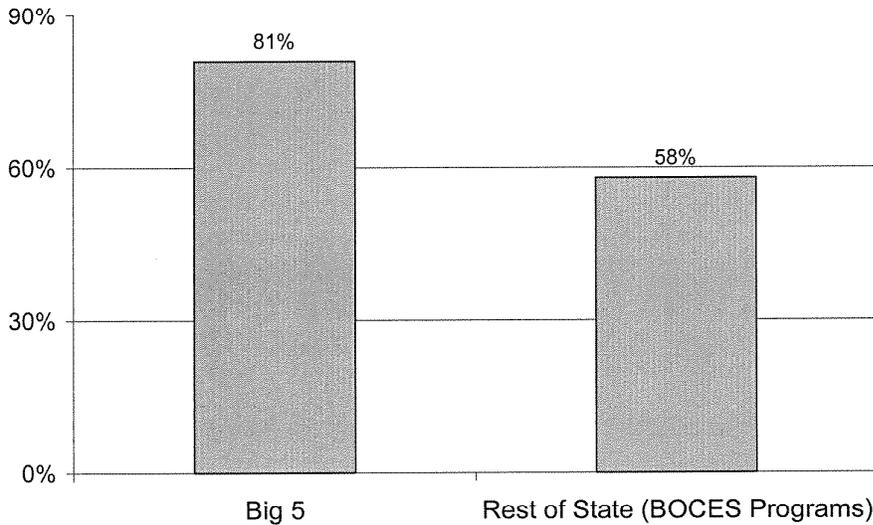
Maintenance of local effort is a special concern in the big five city school districts, which lack independent taxing authority. With many city services competing for scarce local resources, it is important that cities maintain support for their schools. Figure 16 shows that three large city school districts, New York City, Buffalo and Syracuse, provide a tax effort that is below the State median tax rate.

This suggests that local effort for high need school districts should be a key policy concern in education.



The local effort that school districts must exert in support of specific programs may vary as well. For example, Figure 17 shows that the local share for career and technical education (CTE) programs is 81 percent of total expenditures for those programs in the Big Five city school districts and 58 percent

Figure 17
Local Share as a Percent of Total Expenditures for
Career and Technical Education Programs



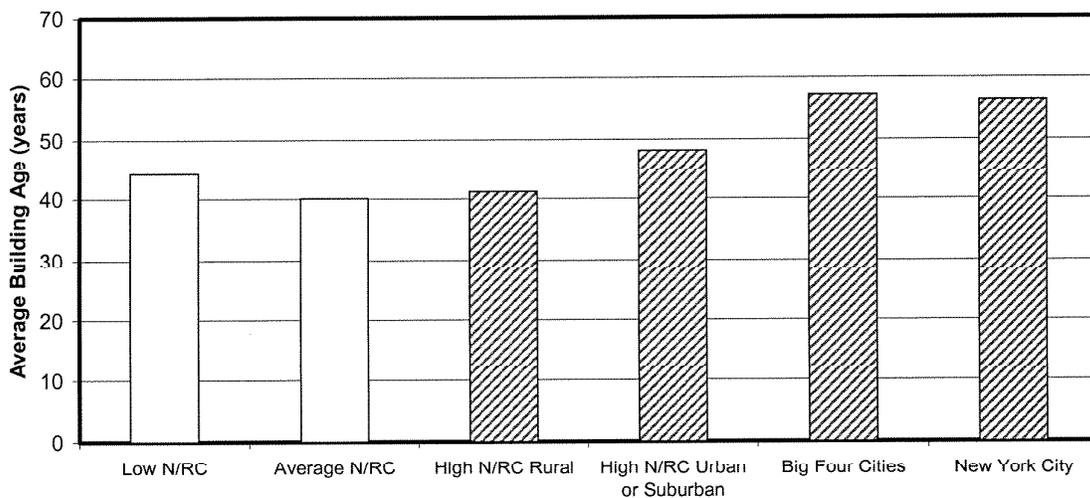
in school districts in the rest of the State (in programs offered by BOCES). The Big Five city school districts must exert a greater local effort in support of CTE programs than districts in the rest of the State.

This suggests that, as CTE programs are used increasingly as a path to higher standards, especially with diversified student groups such as in the Big 5, State Aid formulas should take into account the burden placed on school districts.

School facilities

The State has a large investment in the school infrastructure. The average State share (Aid Ratio) for school construction is 64 percent of costs approved by the State. Due to the advanced age of school buildings around the State and the tendency of school districts to

Figure 18. Age of School Buildings (1999)



defer maintenance of school buildings in the face of budget constraints, there is a general need for school districts around the State to modernize and replace their school buildings.

The need is greater in the high need school districts, especially the urban ones, where average building age is greater and facility maintenance poorer. Figure 18 shows the average age¹¹ of school buildings by need/resource capacity category of school districts.

Legislative changes enacted in recent years have provided a variety of incentives for school construction. These changes include the following:

- A regional cost index (1997) was enacted to meet the school construction needs in the cities;
- For projects approved by the voters on or after July 1, 1998, a 10 percent increase in the Building Aid formula was enacted on top of existing provisions which allowed a choice of the best aid ratio (State share) going back to 1981-82 (1998); and
- For projects approved by the voters on or after July 1, 2000, the protection afforded by the aid ratio choice was reduced by giving districts the choice of i) the current year Building Aid ratio, or ii) the best aid ratio from the 1981-82 through 1999-2000 aid years less 10 percent.

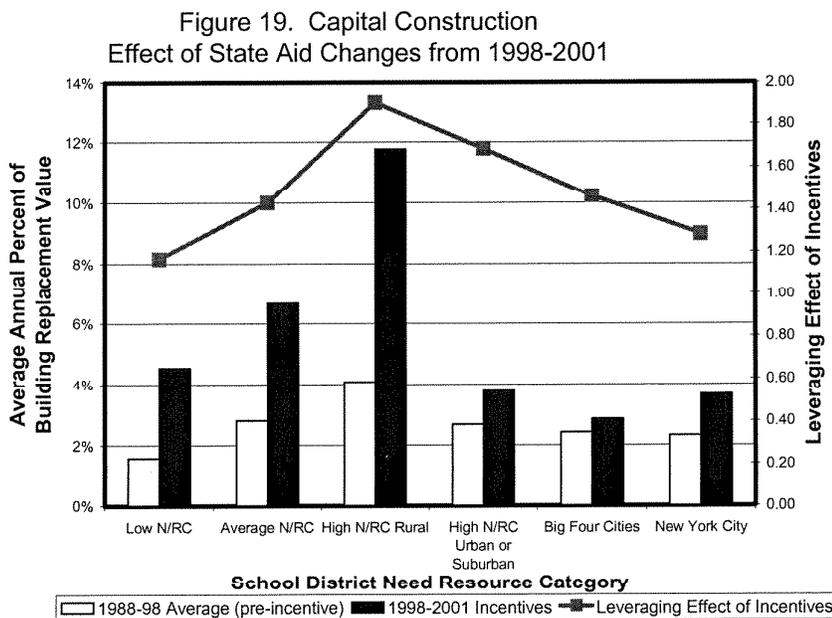


Figure 19 shows the impact of aid changes on school construction by school district need/resource category during the period 1998 to 2001. School construction (as measured by the average annual percent of building replacement value) was greatest in the high need/resource capacity rural school districts, followed by construction in average and low need/resource capacity districts. These State Aid incentives had the least impact on construction in the Big Five cities, and high need/resource capacity urban and suburban

¹¹ Age is calculated as a weighted average based on the construction date of different parts of the building. For example, a building first constructed in 1951 and renovated with a new wing of equal size in 2001 would have an average age of 25 years ((50 years + zero years) / 2 = 25 years average age).

school districts. In the case of New York's five largest cities, school district fiscal dependence on their municipalities may have limited a positive response to these incentives.

Figure 19 also shows the leveraging effect of these State Aid incentives; that is, the additional capital construction that the same local effort purchases. This potential for increased construction with the same local effort was greatest for the high need/resource capacity rural districts, which responded with a high level of school construction. Despite relatively large increases in their ability to leverage local effort, the city school districts did not respond with a level of school construction comparable to that of high need rural, average need or low need school districts.

This suggests that the effective support of school facilities continues to be a key policy concern in developing strategies for apportioning State funds.

Higher Standards, Higher Expectations

Regents Goals

Closing the Achievement Gap

All of education--curriculum, assessment, instruction, funding and management, student and school support, and alternative educational programs--must have one, over-arching goal at this time. That goal is to close the gap between existing student achievement and that needed to meet the Regents learning standards.

In school finance, this over-arching goal can be accomplished over time by realizing the following principles:

Equity. The funding system must be fair for students and taxpayers. State resources should be allocated on the basis of fiscal capacity, costs and student needs. The emphasis is placed on providing a set of inputs to educate students.

Adequacy. State and local resources must be allocated so that all students will receive an education that enables them to meet the Regents learning standards. Resources must be provided in a manner that accounts for the needs of students who require additional time and support to meet these standards. The emphasis is placed on providing resources necessary to achieve desired outcomes.

Accountability. The system includes requirements for the State to identify and assist low-performing schools, and for school districts to put in place and report on effective school practices to remedy identified deficiencies. The emphasis is placed on monitoring achievement and assuring that schools meet the standards or are making adequate yearly progress toward this goal.

Improving the School Aid System

A school finance system capable of supporting school districts in closing the achievement gap must promote several key principles. These principles are:

Transparency. Aid is allocated in a manner so that the general public can understand the system, including its calculations.

Cost-effectiveness. The system includes incentives for school districts to engage in activities that increase student performance with the same or reduced levels of resources used previously.

Sustainability. The system provides for consistent, predictable and timely provision of education revenues.

Legislative Action for 2001-02

Legislative action for 2001-02 provided that the total generated for each school district in the Executive budget recommendations be provided to each school district without regard for individual formulas. It continued Present Law funding for Building and Reorganization Incentive Aids. Growth Aid was funded at Present Law levels based on data on file with the Commissioner as of November 15, 2000. It reformed Building Aid for the 2002-03 school year and after. It provided for some aids¹² as setasides, or deducts, against the lump sum aid allocation.

¹² Limited English Proficiency, Universal Pre-Kindergarten, Early Grade Class Size Reduction and Special Services Career Education Aid.

Improving the Formulas to Help Students Meet State Learning Standards

Regents Recommendations for 2002-03

As incremental changes have been enacted over the years, State Aid calculations have become increasingly complex and the volume of data that must be submitted by school districts has increased significantly. Complexity increases the tendency of school districts to make errors when filing aid claims, and makes it difficult for fiscal planners at the State and local levels to accurately predict State Aid.

In addition, the inclusion of constraints on the allocation formulas has reduced equity and, for many districts, made the actual formulas largely irrelevant. Last year only 47 of 680 school districts (seven percent) were on formula for combined operating aids, and thus received aid according to the formulas without adjustment. Special legislative commissions and task forces¹³ have recommended simplification of the aid system to make it more efficient and effective.

The Regents recommend a framework for making the school aid system more efficient and effective. This framework involves consolidating many aids into comprehensive aid programs for school operation, meeting pupil needs, instructional materials and instructional equipment; and adjusting other aids, such as for special education and school district shared services, to achieve policy goals in the most cost-effective manner. It involves the financial support of programs in the context of comprehensive educational plans with accountability for student results monitored publicly through school report cards and State intervention for low performance.

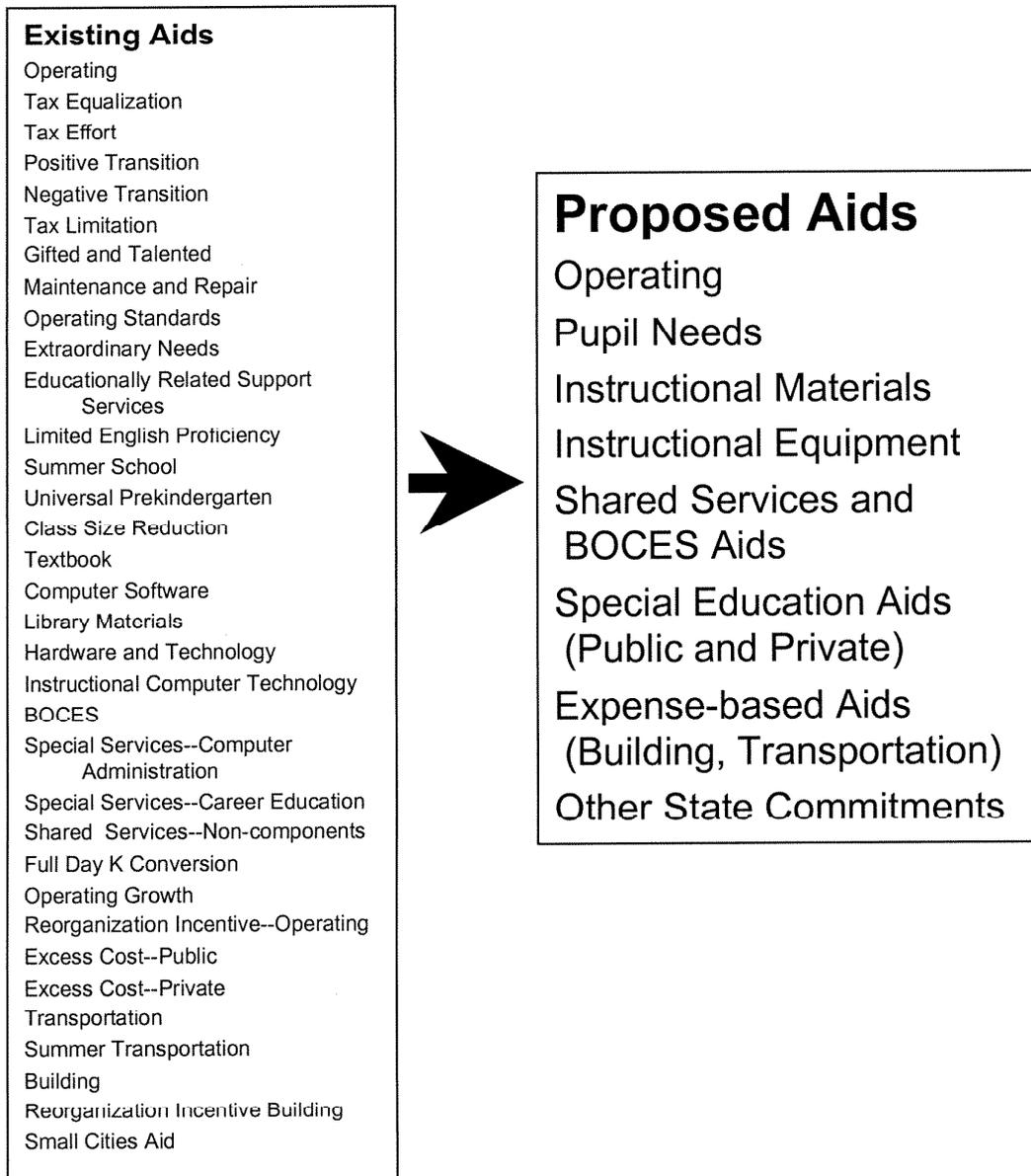
The Regents recommend resources be allocated in a manner that is fair to students and taxpayers and that allows students to meet Regents learning standards. The number of formulas should be reduced and formulas should be allowed to direct State Aid to school districts without adjustment. Figure 20 graphically illustrates this proposal. The factors used in the formulas should be those that research demonstrates are effective and objective drivers of aid to localities, that can be demonstrated to achieve key policy objectives. Simplification of aid formulas and the components used in aid formulas should be conducted under the following guidelines:

- Consolidate aids for similar or overlapping purposes.
- Aid similar expenses the same way.
- Allow formulas to run without capping.
- Provide aid to transition to the new funding system for a limited, reasonable period of time.

Aid programs should be consolidated and simplified in the following areas:

¹³ See for example, Fleischmann (1972), Rubin (1982) and Salerno (1988).

Figure 20
Improving the Formulas to Help Students
Meet State Learning Standards



New Consolidated State Aid System

Operating Aid

The Regents recommend consolidating all aids provided for general school operation and maintenance into a comprehensive Operating Aid. This aid should be used, for example, for expenditures for the salaries of administrators, teachers and non-professionals, fringe benefits, utilities and maintenance of school facilities. This comprehensive Operating Aid should be adjusted and simplified as follows:

- Simplify aid formulas for school operation by combining existing aids used for school operation;
- Adjust this new consolidated Operating Aid for regional cost differences;
- Allow the formula to flow without capping; and
- Provide aid to districts on an equitable basis and help districts manage year-to-year changes in aid.

Pupil Needs Aid

The Regents recommend consolidating aids that provide support for students placed at risk by poverty or limited English into a new Pupil Needs Aid. This aid would ensure that students have support for the additional instruction and help needed to meet the standards and is to be used as a supplement to Operating Aid. The State will provide oversight in terms of how funds generated under this aid are spent as part of the System of Accountability for Student Success (see below).

Many students need additional instructional time at some point in their education. Some students, including those from poverty backgrounds and with limited English, may have a greater need for additional instruction to meet the same learning standards as many of their economically advantaged peers. Research studies¹⁴ have documented the positive impact that a variety of 'extra time' educational programs have on the achievement of economically disadvantaged students. Additional instruction can come in the form of before and after school programs, programs for speakers of languages other than English, pre-kindergarten programs, and academic intervention services of an instructional and support service nature. Resources should be provided to assist in supporting the costs of additional learning time needed as identified in school improvement plans. Aid for school operation (that is, Operating Aid) should provide basic support for the education of children, and should be responsive to different levels of school districts' ability to pay. Pupil Needs Aid should help districts meet the additional learning needs of students, and should be responsive to different levels of pupil needs in districts.

The provision of services to limited English proficient students/English language learners (LEP/ELL) is a critical component of a high standards educational program. School districts are required to provide services to all limited English proficient students, as specified in Part

¹⁴ See for example, Summers and Wolfe, 1977; Jencks and Phillips, 1998; Mosteller, 1995; and Hanushek, 1998.

154 of Commissioner's Regulations. They may use Pupil Needs Aid to assist with the expenses of providing these extra services.

In order to verify the effectiveness of these services for LEP/ELL students, the State Education Department will monitor student achievement results from:

- Annual tests of ESL and native language arts
- State assessments in grades 4 and 8 and in
- Cohort analyses of Regents examinations, as a part of the System of Accountability for Student Success.

For school districts with unsatisfactory school results the Commissioner will set performance goals for the achievement of LEP/ELL students and will require districts to specify the strategies and resources employed to achieve these goals. School districts will be required to document the effectiveness of the specific research-based strategies chosen.

Expenditure for school staff represents a majority of school spending and has the potential of having the greatest direct impact on student achievement. Research continues to document the powerful effect of quality teachers on student achievement and the tendency of schools with concentrations of students from poverty backgrounds to lack teachers who are experienced, well-paid, educated and credentialed to teach. Schools with concentrations of students from poverty backgrounds tend to have students with greater learning needs and larger class sizes. They tend to have greater turnover in administrators whose sustained efforts can help to recruit and retain qualified teachers to support school improvement plans aimed at closing the achievement gap. Pupil Needs Aid should be targeted to school districts with high pupil needs, in order to ensure the availability of resources to support the recruitment and retention of qualified teachers and principals in high need schools.

In recognition of the documented achievement gains for economically disadvantaged students who receive quality preschool education and the effective targeting of Universal Pre-kindergarten grants to high need school districts, school districts will be required to continue existing Universal Pre-Kindergarten programs.

In addition, aid should be provided for prekindergarten pupils through the State Aid formula. This will provide all districts with the option of offering students an early educational grounding, and will institutionalize existing pre-kindergarten programs, insulating them from unanticipated year-to-year fluctuations in funding.

Instructional Materials Aid

This aid would help school districts meet expenditures for textbooks, computer software, library materials and on-line services. This aid would provide flexibility in funding to assist school districts in their different stages of moving to instructional materials and services in electronic format. Although this aid is consolidated, schools need a well-equipped library to support students' achievement of the Regents learning standards. Therefore, it is critical that school districts use a portion of the consolidated funds (Textbook, Computer Software and Library Materials Aids) to purchase school library media program resources.

The consolidated Instructional Materials Aid would complement a proposed Public School Library Support Aid, advanced as a legislative and budget proposal separate from the Regents State Aid proposal. The Public School Library Support Aid proposal is intended to respond to the needs of public school students in school districts with concentrations of student poverty for access to library materials and services provided by qualified staff.

Instructional Equipment Aid

This aid would consolidate hardware and instructional computer technology aid.

Shared Services Aid and BOCES Aid

Aid for career and technical education is provided primarily by two formulas: Special Services Career Education Aid for the Big Five city school districts and BOCES Aid for career and technical education programs provided to students from school districts in the rest of the State at BOCES. As noted above, these formulas require different levels of local effort to support career and technical education. The Regents recommend the State continue BOCES Aid and make available more aid to support career and technical education programs in our highest need school districts. The formula should provide similar fiscal incentives for career and technical education programs around the State. This would provide fiscal incentives to offer career and technical education programs throughout the various regions of the State, consistent with labor market expectations and circumstances of each region. In the long term, shared services for professional development and computer technology could be enhanced according to this approach.

Existing aid for special services for career and technical education programs in the Big Five city school districts would be increased to provide fiscal incentives comparable to that provided for career and technical education programs offered to districts in the rest of the State through Boards of Cooperative Educational Services. The aid would go to Big Five city school districts that incur expenses for career education services within the district or purchased from BOCES.

Shared Services Aid should provide greater State support for career and technical education programs. Regents policy encourages rigorous programs of career and technical education as a path to a high school diploma. It offers the promise of using vocational curriculum to close the achievement gap and raise student performance. This career and technical education policy allows school districts to meet graduation requirements through integrated courses, specialized courses or a combination. It provides a level of instructional enrichment not readily available in traditional instruction. Career and technical education programs can build local capacity by creating learning experiences that improve student performance and assist students in meeting State standards. Numerous studies have shown that students who are provided with multiple instructional strategies, differentiated instruction and real world application of academic content areas are motivated and enthusiastic about learning.¹⁵ By effectively engaging students in learning, career and technical education programs may also contribute to improving the working conditions of teachers and principals.

Other Aids

Other aids would be left separate for the following reasons:

- Aids that serve specific priorities (aid for special education, aid to prevent unnecessary referral to special education, regional education services provided through BOCES, school construction, school transportation, etc.); and
- Aids for expenses that have a near-term impact on school districts so that the State has determined they should be aided in the same year as they are incurred, such as Growth Aid.

¹⁵ See for example Grubb, Davis, Lurn, Plihal, and Morgan., 1991; Grubb, and Stasz, 1991; and Berryman, Flaxman, and Inger, 1999.

Other Priorities

The following recommendations address Regents priorities for other areas.

Ensure effective support for students with disabilities and students with learning needs

Students with disabilities have been an integral part of the State's move to higher learning standards and have responded with considerable success. For example, more than three times the number of students with disabilities passed the Regents exam in English in 2000 than passed in 1997. Despite these gains, the performance of students with disabilities continues to be considerably below their non-disabled peers. There continue to be challenges related to the number of students identified as disabled and in the provision of special education services in the least restrictive environment (including the over-representation of minorities in special education.) Reform of funding formulas should help to:

- Contain the growth in the classification rate;
- Reduce separate placements;
- Encourage integration; and
- Ensure a supportive general education environment in general education.

While general education students will receive State support from the proposed Operating and Pupil Needs Aids, additional support is needed for the critical function of preventing unnecessary referrals to special education, now provided by Educationally Related Support Services Aid. This aid should be continued.

In addition the Regents recommend adjusting the Building Aid cost allowance for lease space in school districts to encourage integrated programming for students with disabilities. This would provide a fiscal incentive for school districts to add space or maintain current leases for such programs, thereby assuring that students with special needs can be educated in the same schools their general education peers attend.

Ensure maintenance of local effort for education

The failure of school districts to either maintain local tax effort or to respond to State Aid increases by lowering tax rates has been a concern of the Regents. Despite fiscal incentives, maintenance of local effort can be a formidable challenge to some school districts. In New York State, a district's capacity to achieve a given spending level involves a state and local partnership. Any diminution of local tax effort in high need school districts, particularly if local tax effort is "inadequate" to begin with, poses a significant policy concern. Since local effort tends to be a greater problem for school districts with high pupil need and limited fiscal capacity, every effort must continue to be made to ensure that State Aid to school districts is reflective of school district fiscal capacity, pupil needs and costs.

State Aid formulas that recognize variations in wealth and provide incentives for low wealth districts to make greater tax effort can be effective in reducing the number of low taxing districts.

Accountability

In May 2000, the Board of Regents adopted Commissioner's Regulations to implement a System of Accountability of Student Success (SASS), which expanded upon the Education Department's previous program of registration review for the lowest performing schools. SASS aligned accountability for schools with the accountability required for students. It established adequate yearly targets for all schools not meeting the standards, not just the worst performing schools, and it further integrated State and Federal accountability programs. SASS established a mechanism by which schools could be determined to be in need of improvement or making rapid progress based upon performance trends over time.

School accountability is a way to account for the State's investment in education. The System of Accountability for Student Success has recently developed a system to:

- Set building targets to recognize differences in schools;
- Implement school improvement plans, supported by comprehensive planning, where student performance targets are hardest to achieve; and
- Provide greater flexibility for schools meeting the standards and greater oversight for schools with poor student achievement.

A uniform system of State accountability must use accurate, consistent and trustworthy data on local finances, demographic information and indicators of student performance that can be validly compared across districts of the State. Such a system contributes to equal educational opportunity for all by ensuring that policy decisions are data-driven and equitably applied.

State test results are used by State Education Department staff, the Board of Regents, legislative and executive branch staff, school district personnel, researchers, parents and the general public to assess State and local progress and the efficacy of programs and expenditures for education. The quality of the tests, the validity of the test results and the accuracy and timeliness of the reporting of these results are instrumental to ensuring that State testing programs inform and improve instruction.

Almost \$14 billion in State Aid is devoted to public schools in New York State, and that sum is primarily allocated on the basis of information provided by the districts themselves. If aid is to be distributed appropriately, that information must be accurate and verifiable. In order to ensure this, the State Education Department staff must implement a rigorous data quality assurance program.

Likewise, the State must provide a strong, after-the-fact monitoring presence. A small amount of funding is provided for audits by the Office of the State Comptroller. The State Education Department must also build its auditing capacity.

The Regents propose to link funding provided for the State Education Department's operations directed toward holding schools accountable with the total amount of General Support for Public Schools. One-tenth of one percent of General Support for Public Schools should be appropriated each year to support such efforts. This funding will be used to strengthen the capacity of the State Education Department to:

- Improve the quality of data on student achievement and school finance;
- Ensure the integrity of data used to generate State Aid;
- Provide a strong best practices auditing presence to verify that aid is being used appropriately and effectively; and
- Strengthen a State Aid Management System to collect, edit and audit data from school districts that is used to distribute \$14 billion in State Aid.

In this manner, a predictable and stable level of funding will improve accuracy of data and accountability for the entire elementary, middle, secondary and continuing education system. It will ensure that New York State's assessment system remains state-of-the-art and in compliance with Federal assessment, reporting, and accountability requirements.

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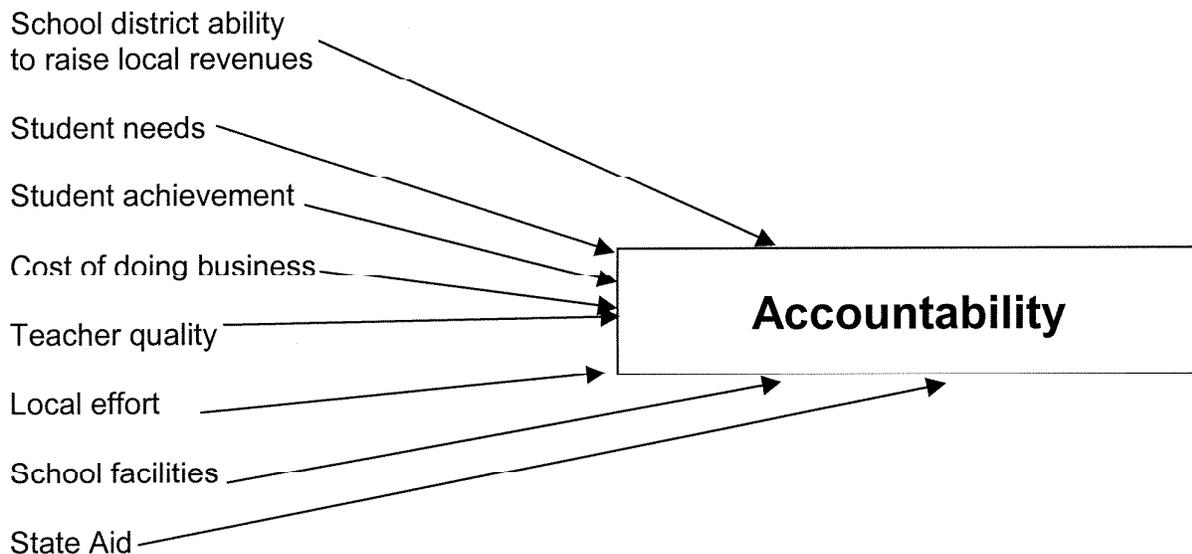
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APPENDIX A
Summary of Contributing Factors
and Policy Directions to Address
the Resource and Achievement Gap

Contributing Factors	Policy Directions
Limited school district ability to raise revenues locally	Keep fiscal capacity as a major State Aid factor
Concentrated student needs	Strengthen student needs as a major State Aid factor
Student achievement gap	Examine funding needed to meet specific performance targets
High cost of doing business	Introduce cost as a key factor in State Aid
Less qualified teachers	Treat recruitment and retention of qualified teachers as a key policy concern for State Aid and education
Insufficient local effort	Treat as a key policy concern, especially for high need school districts
Inadequate school facilities	Continue to treat the effective support of school facilities as a key policy concern
Large local effort required for career and technical education programs in the Big Five city school districts	Provide similar fiscal incentives for school districts around the State to offer career and technical education programs as a path to a high school diploma.



**APPENDIX B
NEED/RESOURCE CAPACITY CATEGORY DEFINITIONS**

The need/resource capacity index, a measure of a district's ability to meet the needs of its students with local resources, is the ratio of the estimated poverty percentage¹⁶ (expressed in standard score form) to the Combined Wealth Ratio¹⁷ (expressed in standard score form). A district with both estimated poverty and Combined Wealth Ratio equal to the State average would have a need/resource capacity index of 1.0. Need/Resource Capacity (N/RC) categories are determined from this index using the definitions in the table below.

Need/Resource Capacity Category	Definition
High N/RC Districts	
New York City	New York City
Large City Districts	Buffalo, Rochester, Syracuse, Yonkers
Urban-Suburban	All districts at or above the 70th percentile (1.1855) which meet one of the following conditions: 1) more than 100 students per square mile; or 2) have an enrollment greater than 2,500 and more than 50 students per square mile.
Rural	All districts at or above the 70th percentile (1.1855) which meet one of two conditions: 1) fewer than 50 students per square mile; or 2) fewer than 100 students per square mile and an enrollment of less than 2,500.
Average N/RC Districts	All districts between the 20th (0.7693) and 70th (1.1855) percentile on the index.
Low N/RC Districts	All districts below the 20th percentile (0.7693) on the index.

¹⁶ **Estimated Poverty Percentage:** A weighted average of the 1998-99 and 1999-2000 kindergarten through grade 6 free-and-reduced-price-lunch percentage. (An average was used to mitigate errors in each measure.) The result is a measure that approximates the percentage of children eligible for free- or reduced-price lunches.

¹⁷ **Combined Wealth Ratio:** The ratio of district wealth per pupil to State average wealth per pupil, used for 1998-99 aid.

APPENDIX C

Description of 2000-01 Formula Aids to School Districts

Operating	Unrestricted aid to school districts for school operation and maintenance. Uses a per-pupil formula equalized for school district fiscal capacity. Provides a small amount to help districts with additional spending up to \$8,000 per pupil. Subject to the transition adjustment.
Tax Equalization	Unrestricted aid for districts that are taxing above the State average tax rate but cannot raise enough revenue, even with State Aid, to meet their approved operating expenses per pupil. Unequalized and the tax rate threshold has not increased, allowing districts below the 90 th percentile to receive aid. Subject to the transition adjustment.
Tax Effort	Unrestricted aid for districts where residential tax levy exceeds 3% of adjusted gross income and property wealth per pupil is less than twice the State average. Formula uses a ceiling per pupil. Subject to the transition adjustment.
Positive Transition	Generally operates to cushion districts from year-to-year declines in three computerized aids, (operating and tax aids.) If data changes result in lower estimated aid, districts are guaranteed at least the amount received in the previous year. Disequalizing, as it benefits districts that should have aid reduced due to wealth declines or a more progressive formula, but also protects districts experiencing declines in student population that may not affect costs.
Negative Transition	These same aids have any formula-driven increases relative to the base year capped at a certain percent and as a percentage share of total aid in the protected year. This adjustment to aid is also disequalizing as it prevents districts from receiving operating aid increases generated by increasing need or declining fiscal capacity.
Tax Limitation	This unrestricted aid, similar to tax effort aid, is available to districts with a tax effort ratio over 3.9%. It also uses a ceiling amount per pupil and is district wealth equalized.
Gifted and Talented	Categorical aid for approved programs. Flat amount per pupil multiplied by 3% of total district attendance. Not equalized.
Maintenance and Repair	A pro-rated amount of a statewide pool adjusted by the district's relative building age, adjusted for long term enrollment growth. Not equalized, categorical per pupil.
Operating Standards	Categorical aid to help students meet higher learning standards. Addresses poverty, based on extraordinary needs (EN) percent (poverty, LEP, sparsity) and pupil wealth. Districts receive extra aid if their year-to-year increase in graduates with Regents diplomas exceeds 5%.
Extraordinary Needs	Unrestricted general aid to meet the needs related to educating populations with a concentration of poverty, LEP or geographical sparsity. Highly equalized per pupil aid adjusted by percent of students in poverty and the district's relative income wealth.

Educationally Related Support Services	A targeted, two-tier aid meant to provide approved support services to students to maintain their placement in regular classroom settings. Tier I is equalized using the district's operating aid ratio (minimum .25) and Tier II with their public excess cost aid ratio. Both are applied against a set percentage of the total pupil count.
Limited English Proficiency	Categorical per pupil aid for approved programs serving pupils scoring below 40% on an English Language Assessment. Equalized by being based on operating aid per pupil.
Summer School	Additional aid for summer school pupils in eligible programs to improve performance. Equalized by operating aid ratio and extraordinary needs.
Universal Prekindergarten	Targeted per pupil grant in approved programs prorated to meet statewide appropriation. District eligibility determined by unserved children. Equalized by operating aid ratio and EN percent.
Class Size Reduction	Targeted aid to add K-3 classes in districts with greater than 20 pupils per K-3 class in 1993-94. Grant per classroom based on teacher salary and start-up costs. Equalized by fiscal capacity and EN percent.
Textbook	Unequalized reimbursement of expenses up to a flat grant per pupil maximum.
Computer Software	Unequalized reimbursement of expenses up to a flat grant per pupil maximum.
Library Materials	Unequalized reimbursement of expenses up to a flat grant per pupil maximum.
Hardware and Technology	Expense-based reimbursement up to a ceiling amount per pupil for computer hardware and educational technology equipment. Equalized to an extent by use of the district's current year building aid ratio which reflects its relative property wealth. Local share not required.
Instructional Computer Technology	Expense-based reimbursement for capital outlays, debt service or leases for computer technology equipment. Property wealth-equalized selected building aid ratio.
BOCES	Expense-based aid for districts that are components of BOCES to obtain services. Equalized by either the district's tax rate or relative property wealth per pupil.
Special Services— Computer Administration	Expense-based aid up to a maximum per pupil for computer expenses. Equalized for district fiscal capacity. Only Big 5 Cities are eligible.
Special Services— Career Education	Expense-based aid up to a maximum per pupil for career education expenses. Equalized for district fiscal capacity. Only Big 5 Cities are eligible.
Shared Services— Non-components	Expense-based aid for districts that are not part of a BOCES for instructional support services. Property wealth per pupil equalized. Prorated to a statewide total.

Full Day K Conversion	One year unrestricted aid on a current year basis for approved programs in districts that agree to convert to full day kindergarten programs. Equal to operating aid per pupil.
Operating Growth	Additional unrestricted operating aid for districts that experience year-to-year enrollment growth above 0.4 percent.
Reorganization Incentive-Operating	Additional unrestricted operating aid for districts that have reorganized within the past 14 years. Up to an additional 40 percent of operating aid is provided, depending on reorganization year and is scaled down after 5 years.
Excess Cost--Public	Targeted per pupil aid for students with disabilities in public school- or BOCES-run programs. Wealth equalized and pupil weighted in relation to service intensity. Additional aid for moving from a restricted placement into general education setting. Additional aid for pupils in very high cost programs.
Excess Cost--Private	Wealth equalized per pupil aid for students with disabilities that the public school places in private school settings or State-operated schools for the deaf or blind.
Transportation	Expense-based aid for approved capital and operating expenses for transportation of pupils. Property wealth equalized with a choice of aid ratios and sparsity adjusted.
Summer Transportation	Transportation aid was expanded to cover summer school programs to help students meet higher learning standards. Districts with approved programs are eligible for aid up to a maximum State total.
Building	Expense-based aid for construction and financing of approved building projects. Choice of property wealth equalized aid ratios back to 1981-82, depending on date of voter approval. Up to an additional 10 percent incentive was provided for projects approved on or after July 1, 1998. Allowable construction cost adjusted for regional cost differences starting in 1998.
Reorganization Incentive-Building	Similar to Reorganization Incentive-Operating aid, an additional amount of aid (25 or 30 percent depending on year of reorganization) is provided for building projects related to reorganization. A maximum of 95% of approved building expenses can be aided in total by Building and Reorganization Building aid. The district's selected building aid ratio applies.
Small Cities Aid	Unrestricted transition aid for small cities that were subject to constitutional tax limits before 1985. Intended originally to phase out at a 2 percent annual rate, have been held harmless since 1994-95. Not equalized.

Schedule of Reports and Topics
Development of the
Regents Proposal on State Aid
to School Districts for School Year 2002-03

Date	Reports/Topics
March 2001	A description of three methods for estimating the cost of meeting the standards A scholarly paper on the three methods Timeline for reports on the Regents State Aid proposal
April 2001	A primer on State Aid to school districts Review of legislation enacted for 2001-02 as it becomes available
June 2001	Update on research to support State Aid proposal Reaffirm Regents goals for the 2002-03 proposal
July 2001	No meeting on State Aid
September 2001	Cancelled
October 2001	Review draft introduction to the Regents proposal Review proposal directions State budget update, pertaining to school aid
November 2001	Review draft of conceptual proposal Seek public comment on proposal
December 2001	Action on final proposal with the dollar amount recommended and the overall distribution of aid
January 2002 – April 2002	Legislative advocacy