TO: The Honorable the Members of the Board of Regents
FROM: Cosimo Tangorra
SUBJECT: Regents 2015-16 Proposal on State Aid to School Districts
DATE: December 15, 2014

Issue for Decision

Does the attached Regents 2015-16 State Aid proposal reflect the Regents’ priorities for State Aid to school districts?

Reason(s) for Consideration
Policy implementation.

Proposed Handling

This detailed State Aid Proposal will be presented to the full board for approval at the December 2014 meeting of the Board of Regents.

Procedural History

Each year the Board of Regents, through its State Aid Subcommittee, develops a proposal on State Aid to support public education. In developing the proposal for the 2015-16 School Year, the State Aid Subcommittee has reviewed program information and has developed a robust approach to school finance. The recommendations made here would allocate significant new operating funding to school districts through Foundation Aid, it would restore nearly $600 million of the Gap Elimination Adjustment, thus forming the basis of a two-year plan to finally eliminate the Gap Elimination Adjustment, and it will provide important support to several of the Board’s programmatic initiatives.

The Subcommittee hosted a State Aid Symposium in September that brought together program experts in the area of Early Childhood Education and many experts in
education finance. The Symposium made it clear that high quality, consolidated and fully universal early childhood programs are an essential investment for New York’s children. In November, the Education Finance Advisory Group, a group of statewide membership organizations and other school aid stakeholders, was consulted regarding issues facing New York’s schools. The attached proposal presents the results of these discussions.

Based on feedback from the field, the Full Board has focused on Early Childhood Education, Multiple Pathways to graduation and college, career and citizenship readiness, the needs of English Language Learners, support for districts experiencing enrollment growth and the continuing implementation of college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework). The State Aid Subcommittee has aligned its fiscal recommendations with these needs.

The detailed State Aid Proposal comes before the Subcommittee at the December meeting, and the Subcommittee will make a recommendation to the full Board to approve.

Recommendation

I recommend the following action:

VOTED that the Regents adopt the attached report as their proposal on State Aid to school districts for the school year 2015-16.

Timetable for Implementation

Immediate. The Regents State Aid proposal is a recommendation to the Governor and the Legislature. The Governor will issue his budget recommendations in January and ask the Legislature to approve a State budget by April 1.
## ATTACHMENT 1: Regents 2015-16 State Aid Proposal Summary

($ in millions)

<table>
<thead>
<tr>
<th>Program</th>
<th>2014-15 School Year</th>
<th>Regents 2015-16 Request</th>
<th>Regents Change from Base</th>
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<td>General Purpose Aid</td>
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Totals may not add due to rounding.
ATTACHMENT 2

2015-2016 Regents State Aid Proposal

Introduction

In October, the Subcommittee reviewed the Enacted Budget for 2014-2015, noting the Enacted Budget included $22.1 billion in funding for General Support for Public Schools (GSPS). This was a year-to-year increase of approximately $1.12 billion, or 5.4 percent, compared to 2013-2014. Major components of the increase were the Gap Elimination Adjustment Restoration (+$602 million), Foundation Aid (+$251 million), and expense-based aids (+$267 million). In addition to GSPS, the Enacted Budget included a new Statewide Universal Full Day Prekindergarten (+$340 million). For the second consecutive year, the 2014-2015 Enacted Budget school aid increase exceeded the increase recommended by the Board in its State aid proposal.

During its November meeting, the Subcommittee discussed three allocation methods. The first focused on Foundation Aid, leaving GEA deductions outstanding; a second method focused on GEA restorations, which raised concerns about focusing funds on lower need districts. The third method featured a blended approach, called a Transitional Operating Aid Formula, which featured a combination of GEA restoration and new Operating Aid allocated according to the principles underlying Foundation Aid. As it had for its 2014-2015 Proposal, at its November meeting, the Subcommittee directed staff to develop the 2015-2016 Proposal with the blended, Transitional Operating Aid method. The aid recommendations below reflect this decision.

The Subcommittee also discussed several emerging policy issues and considered the means by which State Aid can be used to support the Board’s goals, such as support for high quality Career and Technical Education programming that will provide Multiple Pathways to graduation, a more coordinated early childhood system that increases access to high quality programs statewide, improved services for English Language Learner (ELL) students, the inclusion of support for districts experiencing enrollment growth, with additional focused support for the education of recent immigrants, the need to continue to invest in new instructional materials aligned to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework), additional professional development for the State’s teacher corps and regionalization efforts. This Proposal reflects that discussion.

State and School District Fiscal Context

Property Tax Levy Cap

Under the Property Tax Levy Cap, school districts must obtain approval of 60% of the voters in order to 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, plus an allowance for certain increases in pension costs, tort actions and capital costs. If the budget is defeated in the first effort to pass such a budget, a school district can re-submit the same budget, or a revised budget, to district voters. If the new proposed or revised
budget is also in excess of the district’s annual tax cap, the budget must again be approved by 60 percent of the voters. In cases where the district does not have a budget approved by the voters, a contingency budget must be adopted and the tax levy is limited to the prior year’s amount.

Property Tax Freeze Credit

In the 2014-2015 Enacted Budget, a tax freeze credit program was established. The program encouraged school districts and other local governments outside of New York City to comply with the property tax levy cap by providing a rebate to certain residential homeowners in districts that maintained tax levies below the property tax levy cap. For the 2015-2016 school year, residents of school districts which remain under the cap for the second year and which have engaged in a shared services program that results in a savings of at least one percent of the levy for the next three years will also receive a property tax credit. In 2014, 23 districts opted to submit a budget that exceeded the tax cap. The tax levy cap was successfully overridden in 14 districts.

Race to the Top

As the Board of Regents finalizes its recommendations for its 2015-2016 State Aid proposal, it has taken into consideration several other factors affecting school districts. One important change that will occur is that the nearly $700 million in federal Race to the Top funds that have supported many of the costs of the transition to college and career ready standards (including the New York State Common Core Learning Standards in English Language Arts and Math and the New York State Social Studies Framework) will cease in June 2015. That means that the Board’s 2015-2016 proposal will be its first opportunity to support the continuing move toward college and career ready standards in the post-Race to the Top era.

Settlement Funds

The 2015-2016 state fiscal year will provide an opportunity to make one-time expenditures and investments that can place some of our programs on stronger footing, because this year the State will receive approximately $4.8 billion in non-recurring legal settlement funds. The Regents recognize this as a unique opportunity to make approximately $678 million in one-time educational expenditures and investments to bring our instructional programs to the world class standard New York deserves. New York’s educational, business and political leaders have recognized that preparing our students for the workforce is an effort which requires a multi-pronged approach; as we make this transition, there are certain one-time costs that the settlement funds can support. In addition, we recommend using this opportunity to make payments to school districts to discharge the State’s liabilities for commitments already made and move forward with a clean slate.

Programmatic Opportunities for the Use of the Settlement Funds

CTE Technology Facility Construction Fund: The Board of Regents recently took a historic step forward in recognizing the need for Multiple Pathways to graduation, beginning with preparedness for the workforce as the first of several diverse, but critical,
Pathways. Similarly, the Pathways in Technology (P-TECH) program currently being implemented around the State also focuses on linkages to the workforce. Both of these reforms reflect the recognition that our economy, and especially New York’s employment environment, requires workers prepared with a high level of skills to contribute to their workplace immediately. The costs associated with high-tech training centers may exceed the cost allowances in the current building aid program, making it difficult to make investments.

In New York, outside of the major cities and in some other districts, we depend on the expertise of the BOCES for the provision of high quality Career and Technical Education. In order to leverage this expertise, we need to provide support for the BOCES to invest in the state of the art training centers that will prepare their students for the workforce. In recent years, it has been difficult for BOCES to gain approval for capital projects – limiting their ability to make the upgrades to their facilities necessary to support the high tech training programs their students need. In order to ensure that our students enter the workplace prepared to compete, we recommend that $50 million in settlement funds be set aside for a CTE Technology Facility Construction Fund. These funds would be allocated in a manner that addresses regional educational and economic needs, in both the BOCES and those districts that do not belong to a BOCES.

**School District Voting Machines:** Recent changes in statute will require that the State’s school districts purchase a large number of optical scanning voting machines to replace the old lever machines. This is a cost driven by a mandate from the state and changing federal requirements, so supporting the costs for the initial purchases is appropriate, especially when the tax cap makes major non-capital purchases very challenging for school districts. Without State support, this unfunded mandated could result in staff reductions. We estimate that an initial round of machine purchases could be made for $30 million.

**Discharging State Liabilities with the Settlement Funds**

**Payment of Existing School Aid Liabilities (Prior Year Adjustments):** We recommend that a portion of the funds be used to support an accelerated payment of certain already-approved school district school aid claims for past years (referred to as “prior year adjustments”). Throughout each school year, districts submit updated data that reflect current pupil counts and actual expenditures on items such as transportation and special education. This data is used to re-estimate payments based upon existing aid formulas. For claims filed under programs such as BOCES, Transportation and Building aid, approved, but late, claims submitted for past years are paid as a prior year adjustment, which is the subject of an annual appropriation by the legislature. In recent years, the annual additions to the prior year claim queue have grown by more than the appropriation, stretching the eventual payment date for the most recent claims out for over a decade. These prior year adjustments currently represent approximately $260 million in outstanding claims upon the State. Payment of these claims would simply accelerate claims made under existing formulas, in many cases by years; it would not represent any change to existing formulas. Accelerating these claims would provide one-time revenue to school districts, but these funds could smooth the transition for
some districts to the post-Race to the Top era. Since the underlying aid formulas are need-weighted, the majority of these funds would be paid to high need districts.

In addition to the $260 million in prior year claims for programs such as Transportation Aid, Building Aid and BOCES, there are approximately $100 million in claims on file for the reimbursement-based special education programs. These payments are made on a lagged basis. These payments are structured slightly differently than the prior year claims, so making these payments would essentially move them forward by one year. This would provide additional one-time cash flow to the districts with claims on file. As with the prior year claims, this advance would take place under existing statutory formulas, and would serve to discharge approved claims on file by districts. Both the $100 million in special education claim payments and the $260 million in prior year claims would represent a fiscally responsible use of one-time funds.

**Acceleration of Prekindergarten Funding Payments:** The current payment schedule required by law has limited the ability of many upstate school districts to participate in the grant process for the new Statewide Universal Full-Day Prekindergarten program. That program was structured in such a way that school districts were required to pay for a majority of the first year of the program themselves before receiving any state funds. For many districts, this was an obstacle to participation. We would recommend that a portion of the settlement funds be used to shift the payment schedule into the State fiscal year in which the school districts actually incur the expenses, in a manner consistent with other aid formulas. This is a one-time adjustment that would ease pressure on districts that are operating programs in 2014-2015, while also removing a hurdle to participation by other districts as the program expands.

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Amount (in $millions)</th>
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</thead>
<tbody>
<tr>
<td>Payment of Existing School Aid Liabilities (Prior Year Adjustments)</td>
<td>$360</td>
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<tr>
<td>Acceleration of Prekindergarten Funding Payments</td>
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<td>CTE Technology Facility Construction Fund</td>
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<td>School District Voting Machines</td>
<td>$30</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$678</strong></td>
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</tbody>
</table>

**State Aid Approach for 2015-2016**

In the section below, we describe the recommended approach to school aid for 2015-2016 in more detail.

**Major Aid Programs:**

**Operating Aid:** In November, the State Aid Subcommittee discussed three potential approaches to general purpose operating aid. These could be described as GEA-restoration focused, Foundation-focused and a blended model. After those discussions, the Subcommittee directed staff to develop an allocation approach to incorporate both a
GEA restoration and to continue the Board’s traditional emphasis on providing additional funds to school districts with higher levels of student need and fewer local fiscal resources, the Foundation approach. The Regents propose that $1.123 billion in additional general operating aid be provided to school districts. This $1.123 billion represents a $597 million restoration of the Gap Elimination Adjustment, and an increase of $526 million in Foundation Aid.

**Reimbursement-based Aids:** The October discussion presumed that for the 2015-2016 school year reimbursement-based aids (Transportation Aid, Building Aid, BOCES Aid and Special Services Aid) would be paid according to the formulas that are currently in statute. Based upon the current formulas, these programs will generate $307 million in additional aid for 2015-16. Recommendations that will enhance reimbursement for Career and Technical Education programs reimbursed through BOCES and Special Services Aid will be described in a section dedicated to fiscal support of specific policy initiatives below. However, it should be noted that while those recommended enhancements to the reimbursement of Career and Technical Education programs would affect the reimbursements for services provided by BOCES during the 2015-2016 school year, the funds would not flow until a year later.

**Instructional Materials Aids:** As schools align their instruction to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework), they will experience costs for replacement and renewal of textbooks and other instructional materials. The existing instructional materials aids program is based upon per pupil reimbursement amounts that have not been increased for many years. The Board recommends that spending on Instructional Materials Aids be increased by $51 million to accommodate the transition to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework).

**Targeted Funding to Address Current Policy Concerns of the Board**

In October, the Subcommittee discussed several emerging policy goals and directed staff to develop a proposal that reflects these concerns. The 2015-2016 Regents State Aid Proposal recommends fiscal support of the following programs.

1. **Increase Support for Career and Technical Education (CTE) Pathways to Graduation**

   During its October meeting, the Board of Regents voted for the Multiple Pathways Initiative, which will provide multiple pathways to graduation, including a 4 + 1 option which will allow students to take four Regents exams and a comparably rigorous CTE exam. In the current fiscal environment, the statewide implementation and success of this historic initiative will require enhanced support for high quality Career and Technical Education programs.
Components of a comprehensive CTE aid package include:

- **Enhanced Special Services Aid for CTE Pathways programs Operated by the Big Five Cities and Non-component School Districts.** The Board recommends that the recommended base amount used to calculate the reimbursement for CTE programs provided by districts that are not components of BOCES will increase by 40 percent for 2015-2016 services and 20 percent annually for three years afterward. This aid program is paid on a current year basis, per pupil, so $66 million in additional funds would be available in 2015-16 to support new student enrollments in career and technical education programs in the large cities and other districts that do not belong to BOCES;

- **Enhanced BOCES Aid for CTE Pathways programs.** Instructional salaries eligible for BOCES Aid have remained at $30,000 since 1992. The equivalent salary in 2014 dollars would be approximately $51,000. Since the flat reimbursement amount has not kept pace with inflation, it may have reduced the ability of school districts to send their students to high quality programs offered by the BOCES. Parallel to the recommendation for the Shared Services program, the Regents recommend that the aidable salary for BOCES CTE programs be doubled, with 40 percent of the gap funded for services provided in 2015-2016, and 20 percent annually for three years thereafter.

The Board also notes that increasing the BOCES salary cap for all salaries and not just those for teachers in career and technical education programs would be an effective way to encourage the regionalization of services, especially in districts experiencing declining enrollments. Staff estimates suggest that the cost of full implementation of an across-the-board change would be $67 million at present service levels. Such a change would be accompanied by increased opportunities for students to participate in specialized coursework that might be difficult for individual districts to offer. At present, because career and technical education programs are the first of the Multiple Pathways to receive Board approval, we focus our recommendation on those programs. BOCES aid is a reimbursement-based program, so it is paid on a one-year lag. As a result, the additional costs of this recommended increase in the reimbursements for career and technical education will first affect the 2016-17 budget; and

- The Board also recommends the launch of new opportunities for students to access CTE Pathways programs statewide (with a particular focus on 21st century jobs in high demand and closely linked to regional economic development).

**2. Expand Access to Full-Day Prekindergarten Funds by Aligning Components of the four Pre-K programs**

The 2014-2015 Enacted Budget made a significant and important investment in the state’s prekindergarten program by dedicating an additional $340 million in the 2014-15
school year. Based upon the Executive’s construct of $10,000 per pupil, the Board recommends expanding our investment in early childhood programs by $251 million in 2015-16 as the first step of a multi-year plan to move to a consolidated and truly universal full day program. The Board recommends that the State move toward aligning the four existing Pre-K programs and ensuring a program that possesses the following elements:

- Combined with year one funding, provide broader geographical balance, in order to continue the phase-in of high quality programs statewide. This proposal would add nearly $70 million to the $300 million provided in year one to New York City, while adding over $180 million to the $40 million provided to the rest of the state last year;

- Permanence of funding and ongoing administration by the agency best equipped to operate early childhood care and education programs that are linked to success in the school age system;

- An approach to reimbursement that recognizes many districts’ cash flow constraints, and does not diminish statewide access due to timing of payments;

- The development of a payment methodology that effectively incentivizes all school districts to participate in a truly universal program;

- Flexibility in financing so that districts are able to begin programs mid-year if they discover the need and be reimbursed proportionately (on a prorated basis);

- Consistent rigorous quality standards, up to date and streamlined data reporting methodologies, and regulations regarding staffing and facilities; and

- Strong mechanisms to ensure and support quality services to children and their families and effective evaluations of programs. These mechanisms should include QUALITYstarsNY.

3. Support English Language Learners’ (ELLs) Success

New York State schools currently educate over 200,000 ELL students. More than 160 different languages are spoken by these students. In order for these students to succeed in meeting rigorous academic standards, the state needs to provide schools with the appropriate tools, such as home language assessments, professional development and instructional materials so that teachers can provide instruction that will enable students to meet our academic standards. Currently, funding for ELL students is provided in the foundation aid amount by including the count of ELL students in the pupil need weighting and in state categorical funding of $13.5 million. Furthermore, the federal Title III, Part A program provides more than $59.8 million annually to New York State. The recent research-based changes to the standards for provision of educational services to English Language Learners require a substantial investment to support
those services. The Board of Regents recommends an additional $86 million in aid for districts serving ELL students.

Additional state funding could be used to support:

- Team teaching approaches that ensure that English Language Learners have complete access to the rigorous Common Core Learning Standards. This approach would match teachers with training and certification in bilingual education with content area teachers;

- Materials and instructional resources that are linguistically, age and grade appropriate and aligned to the Common Core Learning Standards;

- High-quality supports and feedback to educators to improve their instructional practice, including instructional coaches;

- Substantial and sustained opportunities for all teachers and administrators to participate in meaningful professional development that addresses the needs of ELLs, including development in both their home and their new language.

4. Financial Support to School Districts Experiencing Increases in Enrollment

The Board is aware that several of the State’s school districts have experienced enrollment increases recently for which existing formulas have not provided the level of per pupil aid received in districts without growth. The Board recommends a two-tiered approach to addressing enrollment increases. The first tier would be a $30 million program that would apply for all students, granting districts an equivalent of their operating aid during the year in which a student is new to the school district.

In addition, some of the State’s school districts have been affected by a significant increase in the number of recent immigrant children served in their schools, many of whom are unaccompanied by their parents. These new arrivals may require substantial support as they adjust to the new environment, and any child who resides in our state has a right to educational services in general, with the recent research-based changes in regulations around services to English Language Learners setting a new and higher bar for those services. In addition to the $30 million recommended to support general enrollment growth, the Board proposes that an additional $10 million be provided to school districts, on a current year basis, to address the needs of incoming students who are English Language Learners, as demonstrated by the same metric used to identify those students, the NYSESLAT.

5. Professional Development

The Board of Regents recommends $80 million in targeted funding for instructional improvement programs. Some of these funds would be used to extend the Strengthening Teacher Leader Effectiveness (STLE) program for additional rounds of the STLE grants. STLE has been a central part of the effort to prepare teachers and
school leaders to teach college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework). Since the summer of 2012, there have been four rounds of STLE grant funding. The program has benefited approximately 500,000 students, 42,000 teachers and nearly 1,000 principals in 221 LEAs, representing one-third of the state’s school districts. An additional portion of the funds will used to expand the cadre of teachers prepared and certified to address the needs of English Language Learners.

6. Support for Regional Secondary Schools

The Board of Regents has long promoted the provision of certain key services on a regional basis. In the 2015-2016 State Aid Proposal, the Board recommends the authorization of regional secondary schools, which represent a flexible approach to the concept of reorganization. Regional secondary schools have been used in rural areas of other states, including Massachusetts, to ensure that students in rural communities retain access to specialized coursework, such as Advanced Placement course work or Career and Technical Education programs. This regional approach will help rural communities adjust to declining enrollments while maintaining community identity through the continuing role of the local elementary school.

7. Encourage School District Reorganization and Expanded Regionalization of Services

School district reorganization provides the opportunity for two or more contiguous school districts that meet prescribed criteria to merge into a single district. The State has long provided incentives for reorganization through additional Operating and Building Aid. In recent years, multiple efforts to reorganize have failed, with differential tax impacts on the reorganizing districts often cited as a cause for the failure. While the 2014-2015 Enacted Budget included a provision that will make it easier for some school districts to reorganize by phasing-in impact on tax rates of newly reorganized school districts, there are still a number of statutory and fiscal barriers to mergers.

The Governor recently proposed that $500 million of the settlement funding available to the state be provided to local governments to promote shared services and consolidations. In agreement with this concept, and in order to encourage reorganizations that are beneficial to students, the Board of Regents recommends that the formulas that are used to incentivize reorganizations be enhanced to help ease changes in tax rates for reorganized school districts. This could include linking the Reorganization Incentive Aid formula to Foundation Aid, rather than the 2006-2007 Operating Aid. In addition, the state could provide additional incentives for regionalization of services.

We also note that the use of the BOCES to provide regionalized services for which they are designed would be enhanced if the $30,000 cap on all instructional salaries were increased over time, as we have recommended occur this year for salaries in career and technical education programs.
Conclusion

The Regents 2015-16 State Aid Proposal takes a strategic approach to school funding for the coming school year. The Proposal builds on the State’s past investments in:

- High quality early childhood education ($251 million in new support);
- Professional development for school staff ($80 million in additional funds);
- Career and technical education:
  - $66 million in increased Special Services Aid for 2015-16;
  - Changes to the reimbursement rules for BOCES offering career and technical education programs in that school year; and
  - $50 million in capital funding for new, state-of-the-art career and technology education facilities.

The Board also confirms its commitment to:

- Serving the needs of English Language Learners ($86 million in a new dedicated funding stream, as well as $10 million in new support for districts experiencing growth in their ELL enrollment) and
- Assisting the transition to college and career ready standards (including the NYS Common Core Learning Standards in English Language Arts and Math and the new NYS Social Studies Framework) through additional spending on instructional materials ($51 million).
- Supporting districts experiencing enrollment growth ($30 million in new support for general enrollment growth, along with the $10 million for ELL growth mentioned above).

The general operating aid recommendations increase Foundation Aid by $526 million at the same time they reduce the remaining Gap Elimination Adjustment amount by $597 million. This GEA reduction amount lays the groundwork for a plan to eliminate the GEA in full within two years. The Board of Regents recommends approximately $2 billion in new State aid to support New York’s students, which would bring the total State support to $24.3 billion.