

# **Estimating the Cost of An Adequate Education In New York**

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## Executive Summary

The New York State Board of Regents and Commissioner of Education have identified a set of clear performance standards for students in New York State that matches the knowledge and skills they will need to function successfully as productive citizens in the 21<sup>st</sup> century. To match these standards the New York State Department of Education has developed new Regents Examinations, which all students will be required to pass to graduate from high school, and new examinations in 4<sup>th</sup> and 8<sup>th</sup> grades that serve as important intermediate check points in assessing student progress.

In addition, Judge DeGrasse concluded in *Campaign for Fiscal Equity v. New York* (January 10, 2001) that, “[T]he court holds that the education provided New York City students is so deficient that it falls below the constitutional floor set by the Education Article of the New York Constitution.” (p. 4) He makes it clear that the finance system should provide children the opportunity to become productive citizens able to understand complex issues as jurors and voters, and to obtain “productive employment or pursue higher education.” (p. 15). “In the course of reforming the school finance system, a threshold task that must be performed by defendants is ascertaining, to the extent possible, the actual costs of providing a sound basic education in districts around the State.” (p. 115)

The objective of this study is to develop estimates of the costs of financing the achievement of higher standards. The key tool that employed to estimate the cost of adequacy are education cost functions and cost of education indexes. The cost function approach uses statistical methods to extract from actual data the relationship between characteristics of students, and the cost-of-living in an area and the spending required to meet different performance standards. As long as recent history is a good predictor of the near future, the cost function approach should provide reasonably accurate estimates of the cost of adequacy. The major findings from this study are the following:

### Cost of Education

- The greater needs of students and the higher salaries required to recruit good teachers both significantly raise the cost of education in New York’s large cities. The combination of these factors raises the cost of education in New York City by almost 83 percent, by 58 percent in the Big Four, and by 21 percent in other high-need urban/suburban districts.
- In New York City, over 70 percent of the students are eligible for free lunch and 35 percent of school-age children are estimated to live in poverty. Poverty rates in the Big Four are comparable. These students are estimated to require almost twice the resources as the average student. Poverty and the problems associated with concentrated poverty raises the cost of education in the Big Five by 20 to 30 percent, by 14 percent in the

other high need urban/suburban districts, and by ten percent, on average, in high-need rural districts.

- New York's large cities, and particularly New York City, have traditionally attracted new immigrants into the United States. Children of recent immigrants often face significant challenges adjusting to both a new language and culture. On average, students with limited English proficiency (LEP) require two times the resources as the average student to reach the same performance standards. LEP students are estimated to raise the cost of education in the Big Five by approximately 10 percent over districts without any LEP students.
- Cost-of-living varies significantly within New York State. Higher costs-of-living impacts school districts primarily by raising the salaries they must pay their staff. In addition, the more challenging working conditions faced by many teachers in large central cities makes recruiting good teachers more difficult. Both of these factors raises costs of education in New York City by over 50 percent, in the Big Four by over 30 percent, and in the other high need urban/suburban districts by 14 percent.
- In general, the enrollment size of a district has relatively little impact on costs. The one exception, are districts with enrollments below 1000 students. I estimate that these districts face costs that are almost 10 percent higher than districts with enrollments between 500 and 15,000 students.

### **The Cost of Adequacy**

- Estimating the cost of adequacy requires developing a composite student performance measure. I developed in conjunction with SED staff a weighted average of performance on math and reading tests in 4<sup>th</sup> grade, 8<sup>th</sup> grade, and Regents Examinations. Twice the weight was place on the Regents Examinations than tests in earlier grades, because passage of these tests is required for graduation from high school. The performance index ranges from 0 to 200, with the average district in 2000 receiving a score of 159.5.
- The average performance index in the Big Five was approximately 100 in 2000. To raise student performance to the 2001 standard of 140 is estimated to require per pupil spending of almost \$15,000 in New York City, \$13,000 in the Big Four, and \$11,400 in other high need urban/suburban districts. (This does not include spending on transportation, buildings, and tuition for students in private placements.)
- The additional spending required by these districts to reach the 140 standard compared to their 1999-2000 spending is \$6.6 billion in New York City, \$400 million in the Big Four, and \$135 million in the other high need urban/suburban districts. The total spending increase statewide to reach this standard is estimated to be \$7.2 billion.
- For these high-need urban districts to reach the performance level of 160, will require per pupil spending of \$17,400 in New York City, \$14,900 in the Big Four, and \$12,000 in the other high need urban/suburban districts.

- The additional spending required by these districts to reach the 160 standard compared to their 1999-2000 spending is \$9.2 billion in New York City, \$600 million in the Big Four, and \$427 million in the other high need urban/suburban districts. The total spending increase statewide to reach this standard is estimated to be \$10.7 billion.
- Ninety-two percent of the additional spending will be in New York City with a standard of 140. The New York City share will drop to 86 percent with a standard of 160.

### **An Operating Aid Formula Designed to Finance Adequacy**

- New York's present system of school aid programs are not well suited to reaching the student performance objectives set by the New York Board of Regents. With a number of aid programs with different and often complex aid formulas, adapting these formulas to finance an adequate education will be very difficult.
- Past research has demonstrated that the best operating aid formula to finance higher student standards is a modified version of a traditional foundation formula. In a traditional foundation formula, a district's aid was calculated by taking the difference between a state-set minimum spending level and what the district could raise at a state-set minimum local contribution rate. A *performance foundation formula* modifies the traditional foundation by substituting the spending required in a specific district to meet an adequacy standard for the state-set minimum spending level. The spending required to meet adequacy in a district accounts for differences in student needs and cost-of-living across districts.
- Assuming a local contribution rate of \$20 per \$1,000 of market value, to meet the standard of 140 will require more than doubling the per pupil aid provided to New York City compared to 2000-01 aid, require a 55 percent increase in the aid to the Big Four. By contrast, aid to high-need rural districts would be reduced, aid to average need districts would be cut by 40 percent, and aid to low need districts would be virtually eliminated. The total cost to the state government of additional state aid would be \$3.5 billion.
- If the standard was set at 160 (and local contribution remained 20 mills) required per pupil aid to New York City would increase 1.85 times, aid to the Big Four would double, and aid to other high-need urban/suburban districts would increase over 20 percent. Aid to high-need rural districts and average need districts would decline slightly, and aid to low-need districts would remain far below present aid levels. The total cost to the state government of additional state aid would be \$8.2 billion.
- In addition to these state aid increases, requiring districts to impose a minimum tax rate of \$20 per \$1,000 will lead to increases in local tax effort of 20 percent. Significant tax increases would be required in most types of districts.

- Use of this performance foundation grant will dramatically change the state share of education finance in New York City from 44 percent in 1999 to over 60 percent. In contrast, the state share for low need districts would drop to 1 percent.

**Policy Choices in Financing an Adequate Education:** Financing higher standards in New York will require three components;

- *A better-designed aid system*, which is built specifically to finance an adequate education, and to effectively target aid to the highest-need districts. Assuming that local contribution rates remain reasonable, the state will have to invest in a significant increase in state school aid.
- *A reasonable minimum level of local contribution*, should be required of all districts in order to receive state school aid. It is important that the state aid system include a maintenance-of-effort provision. Otherwise financially strapped districts, such as large cities, will be tempted to cut school tax rates when their state education aid is increased significantly.
- *Improved use of existing resources* in school districts through better management practices, and innovative education programs. The New York State Education Department could play a crucial role in improving district efficiency and effectiveness by expanding technical assistance to districts. Potential areas of expanded technical assistance include teacher recruitment, retention and mentoring programs, program evaluation training and support, and financial management practices.