POLICY OPTIONS TO IMPROVE
SCHOOL FINANCE EFFICIENCY AND
EQUITY IN A TIME OF AUSTERITY

Schools and Youth Panel
The State of Upstate New York
June 9, 2011

William Duncombe, Professor of Public Administration
The Maxwell School of Citizenship and Public Affairs
Syracuse University (duncombe@syr.edu)
School Districts Caught Between a Financial Rock and Hard Place

- Increasing standards → Not likely to change with reauthorized ESEA.
- Declining enrollments and property values.
- Declining/stagnant state aid.
- Property tax cap will constrain future growth in property tax revenue.
- Pension and health care costs are increasing rapidly.
- Maintaining status quo is not financially viable for many upstate districts.
Policy Changes Are Required at State and Local Levels

- Improving efficiency of education service delivery.
  - Reduce compensation costs
  - Alternative service delivery approaches
- Improving efficiency/equity of revenue system.
  - Improving property tax system.
  - Better targeting state aid.
- Significant reform will require policy changes at both state and local level and sacrifice (no magic bullets)
Expenditure Stylized Facts

• Compensation costs represent 75% of total spending and 85% of current spending in median school district.

• Employee benefit spending per pupil is double the national average and neighboring states.

• Employee benefit spending growth is 80% above inflation and twice the U.S. average. Above all comparison states except Massachusetts.

• Benefits represents over 27% of total compensation.
Per Pupil Compensation Spending in Median District: Percent Above National Average (2009)

Per Pupil Compensation Spending in Median District: Percent Increase from 1999 to 2009 (Inflation-adjusted)

Salaries

- U.S. Average: 2
- New York: 9
- New York Downstate: 12
- New York Upstate: 8
- Connecticut: 2
- Maryland: 24
- Massachusetts: 11
- New Jersey: 2
- Pennsylvania: 2

Employee Benefits

- U.S. Average: 41
- New York: 78
- New York Downstate: 67
- New York Upstate: 82
- Connecticut: 50
- Maryland: 62
- Massachusetts: 98
- New Jersey: 54
- Pennsylvania: 37

Expenditure Policy Changes: Reducing Employee Benefit Spending

• Pension policy choices:
  • Increase employee contributions/reduce benefits (i.e., add another tier.)
  • Change type of pension plan for new employees.

• Health care policy choices:
  • Remove health care for current and retired employees from local bargaining—employees enroll in state government plan.
  • Increase employee contributions.
  • Reduce health care costs or reduce health care benefits.

• Evidence indicates that teachers do consider compensation differences in their location decisions.
Enrollment in Median School District and Share of Districts with Less Than 1000 Students

Expenditure Policy Changes: Evidence on Cost Savings by Increasing District Size

• Cost function research indicate significantly higher costs in small districts especially when enrollment is below 1,000 students.

• Our evaluation of school district consolidation in NY indicates potentially large savings by consolidating small districts but in fact most cost savings have not materialized.

• Significant cost savings will require reduction in staff → administrative costs represent only 6% of total spending (9% in districts with less than 300 students).
Expenditure Policy Changes: Alternative Services Delivery Arrangements

- Merging of multiple district (e.g., county districts)
- Regional provision of support services (e.g., regional transportation system). Key question is what role should BOCES play?
- Cooperative service agreements (e.g., purchasing).
- Virtual service collaborations for business services or virtual classrooms for specialized courses.
- Evidence on cost effectiveness of these alternatives is thin. Need to encourage districts to explore and evaluate different collaboration approaches.
- Will require balancing improving efficiency and local control.
Per Pupil Revenue in Median District: Percent Above National Average (2009)

Per Pupil STAR Revenue Compared to Other State Aid
By New York State Regions in 2009

Based on simple average of district values. Source: NYSED, Fiscal Profile
Revenue Policy Changes:
Reforming Property Tax Relief

• Reform STAR:
  • Get rid of ‘sales price differential’: This provides higher exemptions to downstate school districts. Undermines school finance equity.
  • Decouple STAR from district spending by setting fixed tax rate for reimbursement: Presently, can increase STAR revenue by raising local tax rates. We have found that this has lead to significant increase in property tax rates.

• Replace STAR with a “circuit breaker.”
  • Better targeted to low income households including renters.
  • More efficient way to reduce property tax burdens on low-income households. Can provide more relief at lower cost to the state.
Reduction in Actual Per Pupil Foundation Aid in 2010-11 Compared to Fully Phased-In Foundation Program

Note: Fully phased-in aid is based on estimated total aid from a fully enacted Foundation Aid divided by actual enrollment in 2009-10. Actual aid for 2010-11 is Foundation Aid and the Gap Elimination Adjustment.
Source: NYSED, state aid files.
Revenue Policy Changes: Reforming State Aid

• Equity of state aid system has deteriorated since 2007. High need districts have experienced larger cuts in absolute dollars.

• Foundation aid should be targeted to high need districts:
  • Low need districts: receive $650 million in aid (5%)
  • Average need districts: $3.1 million in aid (24%)

• If all foundation aid to low need districts and 50% of aid to average need districts was redistributed to high need districts, could raise total aid by 24%.
Conclusions

• Many upstate districts are headed toward financial insolvency unless significant policy changes occur.

• State government and local districts will need to work collaboratively to develop and evaluate policy reforms. Evaluation is crucial since evidence on many of these reforms is thin.

• While the financial crisis has provided an opportunity to improve the efficiency of local governments in NY, the required policy changes will require sacrifice and difficult tradeoffs.

• Very important to consider economic development impacts of any major reforms.