Can New York Get an A in School Finance Reform?
Foreword

Founded in 1932, the Citizens Budget Commission (CBC) is a nonprofit, nonpartisan civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments.

This report was prepared under the auspices of CBC’s Education Finance Committee, which we co-chair. The other members of the Committee are: Paul R. Alter, Richard H. Bagger, Stephen Berger, Deborah A. Buresh, Lawrence B. Buttenwieser, Evan A. Davis, Stephen F. DeGroat, Bud H. Gibbs, Kenneth D. Gibbs, Bill Lambert, James L. Lipscomb, Stanley Litow, Robinson Markel, Joel H. Moser, David I. Moskowitz, Lester Pollack, Hector P. Prud’homme, Edward L. Sadowsky, William G. Salter, Howard Wilson, and H. Dale Hemmerdinger, Chair, ex officio.

The CBC created this ad hoc Committee in the wake of the 2003 New York State Court of Appeals decision in the Campaign for Fiscal Equity case. Initially, we believed that the scope of the Committee’s work would be confined to helping public officials identify the most economically effective sources of revenue to fund the Court’s decision. However, as the Committee explored the issues, and as the Governor and State Legislature failed to reach an agreement on an appropriate remedy, we broadened the scope of our work. The Committee recognized that in order for the goal of the Court’s ruling to be achieved – for students to obtain a sound basic education – changes were needed beyond the allocation of more money.

The Committee prepared this report with two goals in mind. The first is to provide the responsible public officials – judges, legislators and others – with sound advice on how to craft a remedy that will be effective and efficient. But the CBC also recognizes that shaping policy affecting so many lives, and costing so many billions of dollars, should involve an informed citizenry who support the eventual outcome. Accordingly, the CBC seeks also to use this report, and a companion conference that took place on December 2-3, 2004, to stimulate informed debate about the options available to New Yorkers for providing their children a sound basic education.

In order to prepare this report, the Committee met nine times between January and November of 2004. Its meetings were focused on research conducted by the staff and expert consultants. This background research has been organized into six Working Papers that are available at the Commission’s website, www.cbcny.org. Unless otherwise indicated, the data sources and estimation methods for figures in this report can be found in those papers.

The research was organized and supervised by Charles Brecher, CBC’s Research Director, and he drafted this report. Anthony Shorris, who teaches at Princeton University’s Woodrow Wilson School of Public and International Affairs and directs the School’s Policy Research Center for the Region, served as a consultant during the Committee’s early meetings. He helped design the research effort on tax policy and accountability. Dwight Denison, Associate Professor at New York University’s Robert F. Wagner Graduate School of Public Service, served as a consultant, helping conduct the analysis of tax revenue options. On the CBC staff, Marcia Van Wagner, Deputy Research Director and Chief Economist, wrote the Working Paper on gambling revenues and collaborated with Professor Denison on the tax revenue
options paper; Jo Brill, Director of State Studies, wrote the Working Paper on educational efficiencies; Selma Mustovic, Research Associate, wrote the Working Paper on lessons from other states and played a critical role in preparing the supporting data and tables for this report and for the analyses of the tax impacts on the 11 selected communities in the Working Paper on tax revenue options. Joseph Andreano, a former Research Associate, assisted Charles Brecher in preparing the Working Paper on capital requirements. Finally, CBC President Diana Fortuna managed the entire process and kept the Committee focused on the issues upon which the Commission has expertise and seeks to enhance the public policy debate.

The research was made possible by generous support from the Andrew W. Mellon Foundation. The printing of the report was supported in part by a contribution by Cheryl Cohen Effron and Blair Effron. The entire effort was significantly underwritten by an anonymous Trustee donation.

Paul E. Francis
Eugene J. Keilin
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The State of New York faces a major challenge stemming from a 2003 ruling by the Court of Appeals, the State’s highest court. It found that the more than one million children in New York City’s public schools were not provided with the sound basic education guaranteed to them by the State Constitution. The Court of Appeals authorized a lower court judge to work with State officials and the plaintiffs in the case, the Campaign for Fiscal Equity (CFE), to remedy the troubling situation.

In the subsequent months, the plaintiffs and the State’s political leaders have not agreed on a suitable remedy for students in New York City, and by extension to hundreds of thousands of additional students in other school districts around the state who also have been denied their constitutional right. In response to the stalemate, the Court appointed a panel of three Special Masters to recommend a remedy. Based on the panel’s recommendation, the judge plans to make a ruling in early 2005. It will then be the duty of the Governor and the Legislature to enact and implement the necessary changes.

One important issue to be resolved is: How much additional funding is needed? Using 2001-02 as a base year, a special commission appointed by Governor George Pataki estimated that a minimum of $2.5 billion more annually is needed – with $1.9 billion of that total needed in New York City. A separate analysis by the CFE concluded that at least $7.2 billion more annually is necessary for operating expenses – with $4.5 billion of that total needed in New York City. The Special Masters, using 2004-05 dollars, recommended $5.6 billion additional in annual operating aid for New York City; extrapolated statewide and put in terms of 2001-02 dollars, this equals an annual increase of $8.4 billion. The CFE also found that about $15 billion was needed statewide in one-time capital expenses to expand and upgrade school facilities. However, as will be explained below, about $12 billion of this is avoidable, leaving at least $3 billion in unavoidable capital costs. If the capital costs are financed by issuing bonds, then the debt service would be about $200 million annually, bringing the total annual needs to about $8.6 billion. The Court will settle the debate over how much is needed, but the outcome is likely to fall within the range of $2.5 billion to $8.6 billion annually, and could be higher if prudent policies regarding the use of capital facilities are not pursued.

The Citizens Budget Commission (CBC) has prepared this report to address two questions fundamental to designing a remedy:

- Where should the money come from?
- What changes other than more money are essential to improving educational outcomes?

With respect to the first question, the report reaches the following conclusions:

- The State, rather than local school districts, should be responsible for raising whatever additional funding is necessary. In addition, the State should play a larger role than it does now in raising the money already being spent on public schools.
If the additional funds required for a sound basic education are less than $3.2 billion annually, then State tax increases can be avoided by (a) using current public school resources more efficiently and (b) generating non-tax revenues from expanded State-regulated gambling activities. Gambling revenues are commonly used by other states and are preferable to higher taxes, which undercut New York’s economic competitiveness. New York already has the highest combined local and state tax burden in the nation.

If the remedy requires more than $3.2 billion annually, then taxes will need to be increased. This report assesses options for meeting this need. The options are not limited to raising existing tax rates; they also include ways of applying those taxes more broadly and fairly. The latter forms of tax restructuring could raise between $1.5 billion and $2.6 billion annually, making it possible to generate between $4.7 billion and $5.8 billion annually before increasing current tax rates.

The report raises the second question – What changes other than more money are needed? – in part because experience in other states demonstrates that money alone will not solve the problem. Among the 19 other states that have dealt with similar court decisions since 1989, several have not yet made additional investments due to protracted battles between the legislatures and courts. Among the others, “success” in terms of generating additional spending for public schools did not automatically equal success in terms of improved educational outcomes. For example, in New Hampshire per pupil spending increased 13 percent in the two years after the key court decision; the corresponding increase in Vermont was 11 percent and in Texas 12 percent. But the returns on these investments have not been clear or pronounced. The national data on student performance on standardized tests is sparse, but the gains in these states are not consistently better than the national trends.

The report, therefore, recommends the following additional improvements:

- A new statewide system of accountability for schools should be established. It should include planning for how funds will be used, reporting on how funds are actually used, reporting on student performance, feedback on the results, and sanctions for unsatisfactory managerial performance. During the initial phase-in of added funding, the State should consider as part of its oversight of financial planning establishing a list of priority programmatic uses for the funds and permitting alternatives only under approved special circumstances.

- The classroom space requirements for a sound basic education should be met through a combination of two measures – redistricting of existing schools and operating existing schools on a year-round schedule. Much of the delay and expense associated with new construction can be avoided with these strategies; they are the source of the $12 billion in savings in capital expenses.

- Teachers should be given financial incentives for better performance. The teachers’ pay schedules should be revamped to make a larger share of compensation conditioned on job performance and to de-emphasize longevity and graduate educational credits.
Financial incentives should be used to overcome shortages in selected teaching job titles. Differentials should be offered to teachers who qualify for specific titles that are suitably deemed in a shortage condition and who agree to work in those schools facing the greatest difficulty securing qualified teachers.

The managerial discretion of principals should be expanded. In addition to using performance pay to provide incentives for teachers to follow a principal’s leadership, principals’ discretion regarding which teachers may transfer to their schools could be enhanced by allowing principals to select teachers for given posts from among multiple candidates rather than forcing the decision to be made on the basis of seniority.
Background

THE LEGAL SETTING

In June 2003 the New York State Court of Appeals, the State's highest court, found that New York City's public schools did not provide a sound basic education as required by the State's Constitution. The Court of Appeals authorized a lower court judge to work with State officials and the plaintiffs in the case representing the children, a group called the Campaign for Fiscal Equity (CFE), to determine how to remedy the troubling situation.

In the 17 months since the Court of Appeals decision, the process of crafting a remedy has not gone well. The plaintiffs and the State's political leaders have not been able to agree on a suitable program to provide a sound basic education to students in New York City and in other school districts around the state who also have been denied their constitutional right.

Due to the inadequate response by the State's political leaders, the responsible Supreme Court judge has appointed a panel of three Special Masters and asked them to recommend a suitable remedy. The panel received amicus curiae briefs from 21 organizations containing advice on how to devise a corrective plan and heard testimony from expert witnesses in recent months. The panel issued recommendations to the judge at the end of November 2004, and the judge plans to make a ruling in early 2005. It will then be the duty of the Governor and the Legislature to enact and implement the necessary changes.

THE FISCAL SETTING

In the 2001-02 school year (the latest for which comprehensive data are available), public schools in New York State had revenues of more than $35 billion or about $12,770 per student. In New York City, the comparable figures are $12 billion and $11,165 per student. (See Table 1.) Both statewide and in New York City, the federal government provided less than 10 percent of the total. Of the nonfederal spending, the State government provided about 51.3 percent of the total among all districts and 55.5 percent in New York City. The remaining nonfederal funds came almost exclusively from local property taxes in the districts outside New York City, while a variety of taxes in addition to the local property tax help the City of New York fund its schools and other services.

The current system for financing public schools creates dramatic disparities in the resources available to students depending on the relative wealth of their community. Table 1 illustrates the inequities using data from 11 selected school districts. The communities were picked to include New York City, the state's other large urban school districts (Buffalo, Rochester, Syracuse, Yonkers, Binghamton and Utica), a poor rural district (Massena), a poor suburban district (Roosevelt), and two wealthy suburban districts (Great Neck and Scarsdale). The clearest point emerging is the great advantage for students and taxpayers in wealthy districts. For example, Great Neck is able to raise $17,381 per pupil in local revenue – nearly four times the statewide average of $4,910 - by imposing a tax rate of $9.20 per $1,000 of tax base – a rate only about three-quarters of the statewide median. That is, in wealthy areas lower tax rates yield higher spending per pupil.
The opposite situation – double disadvantages – prevails in poorer communities. For example, Roosevelt imposes a tax burden higher than the statewide average, but the added effort yields less than three-quarters of the statewide average of revenue per pupil. The dilemma of higher than average tax efforts yielding lower than average resources per pupil characterizes most of the urban districts and the rural district. State and federal aid help narrow the gaps, but significant inequities remain in total revenues per pupil based primarily on the districts’ wealth.

New York City’s fiscal situation differs from those of other urban areas. Its per pupil tax base is greater than the statewide average. Its tax effort for schools is lower than the statewide average, and this explains in part its lower than average total revenues per pupil. But New York and some other cities make a convincing case that the lower effort is justified by the unusually heavy fiscal burden they bear for other services to the indigent, particularly the Medicaid program. When the local tax effort required to finance the localities’ share of Medicaid expenditures is taken into account, New York City’s combined school and Medicaid tax effort significantly exceeds the statewide average – $16.70 per $1,000 versus $14.40 per $1,000.

Given the large sums already supporting public schools, how much more is needed to provide a sound basic education? The answer is hotly debated. Some commentators believe that the current sums ought to be sufficient, if the schools were managed properly. A special commission appointed by Governor George Pataki, known as the Zarb Commission for its chair Frank Zarb, used an analysis conducted by Standard & Poor’s to estimate that a minimum of $2.5 billion more annually was needed to meet acceptable standards statewide, with $1.9 billion of that total needed in New York City. The CFE completed a separate analysis using the judgment of professional educators and concluded that at least $7.2 billion additional annually was necessary to meet operating costs statewide, with $4.5 billion of that total needed in New York City.

### Table 1

<table>
<thead>
<tr>
<th>District</th>
<th>Pupils</th>
<th>Local Tax Base Per Pupil</th>
<th>Local School Tax Effort (in MILS)</th>
<th>Local Revenue Per Pupil</th>
<th>Total Revenue Per Pupil</th>
<th>Local School and Medicaid Tax Effort (in MILS)</th>
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<tbody>
<tr>
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<td>1,068,630</td>
<td>$449,217</td>
<td>10.2</td>
<td>$4,587</td>
<td>$11,165</td>
<td>16.7</td>
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<td>“Big 4” Cities</td>
<td></td>
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<tr>
<td>Buffalo</td>
<td>46,545</td>
<td>167,261</td>
<td>12.6</td>
<td>2,110</td>
<td>12,045</td>
<td>15.3</td>
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<td>Rochester</td>
<td>40,077</td>
<td>173,932</td>
<td>18.3</td>
<td>3,184</td>
<td>12,489</td>
<td>20.6</td>
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<td>Syracuse</td>
<td>24,637</td>
<td>204,731</td>
<td>12.6</td>
<td>2,578</td>
<td>11,076</td>
<td>15.0</td>
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<td>Yonkers</td>
<td>25,091</td>
<td>492,292</td>
<td>9.5</td>
<td>4,661</td>
<td>15,591</td>
<td>10.4</td>
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<td>Other Upstate Urban</td>
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<tr>
<td>Binghamton</td>
<td>6,447</td>
<td>262,550</td>
<td>14.0</td>
<td>3,680</td>
<td>10,889</td>
<td>16.3</td>
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<td>Utica</td>
<td>8,918</td>
<td>194,754</td>
<td>11.0</td>
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<td>9,851</td>
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<td>Massena</td>
<td>2,854</td>
<td>305,688</td>
<td>13.6</td>
<td>4,165</td>
<td>11,717</td>
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<td>Wealthy Suburban</td>
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<td></td>
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<tr>
<td>Great Neck</td>
<td>6,100</td>
<td>1,888,910</td>
<td>9.2</td>
<td>17,381</td>
<td>19,805</td>
<td>9.9</td>
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<tr>
<td>Scarsdale</td>
<td>4,448</td>
<td>1,714,598</td>
<td>8.6</td>
<td>14,757</td>
<td>17,238</td>
<td>9.6</td>
</tr>
<tr>
<td>Poor Suburban</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roosevelt</td>
<td>3,437</td>
<td>256,371</td>
<td>13.5</td>
<td>3,473</td>
<td>11,511</td>
<td>14.2</td>
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<tr>
<td>State Median w/o NYC</td>
<td>1,665</td>
<td>$372,125</td>
<td>12.4</td>
<td>$4,910</td>
<td>$12,770</td>
<td>14.4</td>
</tr>
</tbody>
</table>

* Tax base is an equally weighted average of personal income and real property values. Medicaid data is for calendar year 2001.

Combining the methods used in the two studies and adjusting from school year 2001-02 to 2004-05, the Special Masters recommended an increase in annual operating aid for New York City of $5.6 billion. Extrapolated statewide and put in 2001-02 dollars, this requires an additional $8.4 billion annually.

The CFE also found that about $15 billion was needed statewide in one-time capital expenses to upgrade and expand facilities, of which $14 billion was needed in New York City. The Special Masters recommended capital aid for the City of $9.2 billion over the next five years and a re-evaluation of needs in five years.

The amount actually needed should be decided on the merits by the responsible judge based on the evidence being considered in the Special Masters’ hearings. However, it is reasonable to assume that the answer with respect to operating expenses will lie somewhere between the $2.5 billion and $8.4 billion annually proposed by the defendants and the Special Masters, respectively. Substantially more could be allocated to meet capital needs, but because more effective alternatives to the CFE’s capital program are available (and described below), this analysis sets the maximum annual debt service need for new capital investments at $200 million, an amount sufficient to yield about $3 billion in one-time capital expenses. Thus the high end of the range for combined operating and capital expenses is $8.6 billion annually.

In the context of this legal and fiscal setting, this report addresses two questions fundamental to designing a strategy for providing a sound basic education:

- Where should the money come from?
- What changes other than more money are essential to improving educational outcomes?

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2 See, for example, Raymond Domanico, No Strings Attached? Ensuring that CFE Funds are Spent Effectively, Manhattan Institute Civic Report #42, July 2004.

3 The high end of the range of additional costs recommended by the Zarb Commission is $5.6 billion statewide and $4.7 billion in New York City. See The New York State Commission on Education Reform, Final Report, March 29, 2004.


Sources of Funding

If New York’s children require between another $2.5 billion and $8.6 billion annually, where should this money come from? This question is best answered in two stages. First, what should be the division of responsibility between State government and local school districts in raising this money? Since our answer to this question is that the State should bear the responsibility, the second question is: How should the State raise the money?

STATEWIDE VERSUS LOCAL REVENUES

The key conclusions emerging from an exploration of the first question are: (1) The State should bear the full responsibility for raising sufficient new revenue to pay the incremental cost of a sound basic education. (2) The State should play a larger role than it now does in raising the money currently spent on public schools.

In practice and in law, a wide range of answers to this question is possible. As noted earlier, within New York State the nonfederal division of fiscal responsibility now averages 51 percent state and 49 percent local. However, among districts, the State’s share ranges from as little as 4 percent to as much as 91 percent.

FULL STATE FUNDING

A reasonable argument can be made that New York should fund its public schools entirely from State sources (excluding any federal aid). The State could set a per pupil spending level (with appropriate weights for different types of students with different resource needs) and give each school district a sum equal to its targeted spending. This spreads the burden for raising revenues across a wide population group and eliminates disparities among districts in tax burdens and spending levels.

Such a version of “full State funding” may be an appropriate long-term goal. But two cautionary notes are worth sounding. Because this is such a dramatic shift from current practices, there will be predictable secondary consequences with adverse effects on some groups and there may be unanticipated consequences. A predictable secondary consequence is changes in property values as the reductions in local property taxes are capitalized in the value of residential property. Wealthy communities that now require only relatively low tax rates to support excellent schools may find their property values diminished, while other communities see property values rise as their schools get more aid while their property taxes fall. An abrupt change in the major component of many families’ wealth (that is, the value of their home) is not a fair outcome, so such a dramatic shift in school financing should be implemented only gradually and with concern for the equity implications. Harder to anticipate consequences include the implications for collective bargaining between school boards and teachers’ unions as the local boards are no longer responsible for raising any revenue, and the incentives for efficient management as sources of revenue change. For these reasons, full State funding should be considered as a long-run goal, but progress toward that goal should come first in the form of a “uniform local tax effort” policy and the implications of greater State funding in that form should be closely monitored.
UNIFORM LOCAL TAX EFFORT

A uniform local tax effort policy has the following features:

- **The State sets a target per pupil expenditure sufficient to provide an average student a sound basic education.** As already noted, the size of this figure is currently being debated.

- **The State sets a mandatory local tax rate sufficient to yield a target local share of the target expenditures for a district with an average tax base.** The key normative decision involved here is the target local share of mandated spending. Once the target local share is set, the calculation of a mandatory local tax rate is formulaic. The rate is set so that a district with an average sized tax base will raise the target share of targeted per pupil spending. In the calculations, the tax base should be measured on a per pupil, not an absolute, basis. In the illustrative calculations presented below, the tax base is measured giving equal weight to residents’ incomes and property values in the district.

- **The State calculates the mandated expenditure requirement for each district using the average per pupil figure and adjusting for the characteristics of students and the local cost of living.** A particular district’s minimum necessary expenditures are not simply the product of the average targeted per pupil spending and the number of students. The necessary spending should reflect two other factors – students’ actual needs and regional cost of living. Student needs are typically taken into account by assigning weights to students with characteristics that require them to have more or less educational resources than average. In New York such weights have been developed by the State Education Department, and these weights are used in the calculations below.

  An adjustment for cost of living also is appropriate. Defining an appropriate regional cost of living index within a state is a controversial issue, and the New York State Department of education has not used such adjustments in its aid calculations and analyses. However, the CFE, in its analysis of the cost of a sound basic education, applied such measures, and their indices are used in the calculations below.

- **The state makes an aid payment to each district equal to the difference between its mandated expenditure requirement and its mandated minimum tax effort.** If higher spending is desired, the district can raise the tax rate above the state mandated minimum effort and spend the additional funds on its schools.

What would be the consequences if New York State followed this uniform local tax effort policy? Table 2 summarizes the results of a simulation using 2001-02 data for a
uniform tax effort policy with the targeted average per pupil spending set at that year’s median for all districts. Under the new policy, total spending for public schools would increase from the current $35.1 billion by about $2.2 billion or 6 percent as 214 districts increased their spending per pupil to the new minimum. However, even more dramatic under the new policy is the shift from locally raised to statewide sources of revenue. The State’s share would increase by $7.0 billion from $17.1 billion to $24.1 billion; at the same time, local revenues would drop by $4.8 billion.

As these figures suggest, a uniform tax effort policy would involve substantial shifts in funding from local property taxes to statewide revenues. Thus, while more quickly achievable than full State funding, it still should be implemented gradually over a multi-year period and its impacts monitored carefully.

However, providing students with the money for a sound basic education should not wait so long. The purely incremental cost of paying for the target spending levels should be met much more quickly. To accomplish this in a way consistent with the longer-run goal of a more rational statewide funding policy, the incremental cost of a sound basic education should be paid for fully by statewide revenues. That is, the State, rather than local school districts, should bear full responsibility for raising the additional funds needed for a sound basic education.

The CBC recommendation for full State funding of the incremental costs is based on the longer-run goal of increasing the State share of all education funding, and that goal is rooted in five considerations.

- Increased State funding is consistent with long run national trends that recognize the merits of greater state funding. States are increasingly recognizing the merits of more reliance on statewide funding. In the early part of the twentieth century, more than 83 percent of school revenues came from local tax sources. However, as shown in Table 3, the states’ role in funding public schools has grown considerably over the past 75 years. The state share of all school revenues grew from less than 17 percent in 1930 to nearly 40 percent in 1950, remained at about that level for the next 20 years, then rose in the 1970s to reach about 47 percent. Since 1980, the state share has increased slowly but steadily to approach 50 percent at the beginning of the 21st century.

  The leading motivation for an increased state share of funding is greater equity in the resources available to students. Because of historic reliance on local property taxes to

<table>
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<th>SCHOOL YEAR</th>
<th>LOCAL*</th>
<th>STATE</th>
<th>FEDERAL</th>
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<td>1919-20</td>
<td>83.2%</td>
<td>16.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>1929-30</td>
<td>82.7</td>
<td>16.9</td>
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<td>1939-40</td>
<td>68.0</td>
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<td>42.8%</td>
<td>49.3%</td>
<td>7.9%</td>
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</table>

* Includes 2.4 percent from nongovernmental private sources (gifts and tuition and transportation fees from patrons).

Note: Beginning in 1980-81, revenues for state education agencies are excluded. Beginning in 1988-89, data reflect new survey procedures and may not be entirely comparable with earlier years. Detail may not sum to totals due to rounding.

fund schools, it was easier to raise money in districts with more wealth than those with less wealth. In a rich district a lower tax rate can yield more money than a higher tax rate in a poorer district. To overcome this inequitable pattern, states have generally sought to make funds available to districts through formulas that give proportionally more aid to poorer districts. These state efforts are imperfect, due both to limited resource commitments and to political incentives to continue to favor wealthier districts.

- New York State currently lags most other states in its state share of funding. In New York, the State provides 49 percent of nonfederal revenues used for public primary and secondary education, compared to a national median of 56 percent. This places New York 34th in a ranking of the 50 states by state-sourced revenue for schools. (See Table 4.)

New York ranks 24th among the states in the degree of disparity. There is a statistically significant negative correlation between the degree of disparity and the share of spending provided by the state, suggesting some benefit in terms of equity from the increased state share of spending. However, the correlation is far from perfect, indicating that state equalization programs are not always well designed and other factors play a role in determining the disparities among districts.

- Larger state shares of funding contribute to less inequity in spending among districts in a state. The “disparity index” in Table 4 reflects the variation in per pupil spending among districts in a state. It is the ratio of the standard deviation in per pupil spending to the mean level of per pupil spending; higher ratios indicate wider disparities in spending among districts. New York ranks 24th among the states in the degree of disparity. There is a statistically significant negative correlation between the degree of disparity and the share of spending provided by the state, suggesting some benefit in terms of equity from the increased state share of spending. However, the correlation is far from perfect, indicating that state equalization programs are not always well designed and other factors play a role in determining the disparities among districts.

- New York currently has high local taxes, but low or average state taxes, compared to other states. Relative to economic resources, state-level taxes in New York State are slightly less burdensome than the

### Table 4
Nonfederal Revenues for Public Elementary and Secondary Schools by Source and State, 2000-01

<table>
<thead>
<tr>
<th>State</th>
<th>State Share</th>
<th>Local Share</th>
<th>Index of Disparity</th>
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</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>99.4%</td>
<td>0.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>84.5%</td>
<td>15.5%</td>
<td>17.1</td>
</tr>
<tr>
<td>Vermont</td>
<td>76.4%</td>
<td>23.6%</td>
<td>19.5</td>
</tr>
<tr>
<td>North Carolina</td>
<td>73.5%</td>
<td>26.5%</td>
<td>8.6</td>
</tr>
<tr>
<td>Delaware</td>
<td>72.5%</td>
<td>27.5%</td>
<td>7.7</td>
</tr>
<tr>
<td>Michigan</td>
<td>71.3%</td>
<td>28.7%</td>
<td>12.5</td>
</tr>
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<td>70.7%</td>
<td>29.3%</td>
<td>11.9</td>
</tr>
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<td>70.1%</td>
<td>29.9%</td>
<td>8.7</td>
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<td>70.1%</td>
<td>29.9%</td>
<td>34.7</td>
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<td>30.3%</td>
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<td>6.3</td>
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</tr>
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<td>10.8</td>
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<td>34.4%</td>
<td>13.6</td>
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</tr>
<tr>
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<td>49.8%</td>
<td>17.5</td>
</tr>
<tr>
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</tr>
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<tr>
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</tr>
<tr>
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</tr>
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<td>58.0%</td>
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<td>Missouri</td>
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<td>58.0%</td>
<td>14.7</td>
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<tr>
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</tr>
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<td>Pennsylvania</td>
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<td>12.8</td>
</tr>
<tr>
<td>Maryland</td>
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<td>8.5</td>
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<td><strong>44.9%</strong></td>
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<td><strong>Median</strong></td>
<td><strong>56.2%</strong></td>
<td><strong>43.8%</strong></td>
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</table>

*The Index of Disparity is a coefficient of variation. The value is calculated by dividing the standard deviation of adjusted spending per pupil by the state’s average spending per pupil. Figures adjusted to reflect regional cost differences and weighted for student needs.

average of the 50 states. In fiscal year 2000, the State of New York collected $68 for every $1,000 in personal income, 98 percent of the national average. This placed New York State 29th nationally in its state-level tax burden. (See Table 5.)

However, local government taxes in New York State are far more burdensome than elsewhere in the country. New York State residents and businesses pay their local governments, including school districts, $73 for every $1,000 of personal income, fully 171 percent of the national average. The high local tax burden pushes the combined state and local tax burden in New York to the highest in the nation, more than a quarter higher than the national average.

New York's local taxes are so high primarily because of policies set by the State. Unlike other states, New York requires its localities to pay a significant share of Medicaid and public assistance costs. This requirement accounts for about one-quarter of the difference between New York's local tax burden and the national average. The below-average share of education spending provided by the State accounts for another quarter of the difference. Most of the remaining difference is accounted for by fringe benefits (often driven by State mandates) and above-average wages provided to public employees in New York, public safety spending, and debt service.

The adverse impact of State mandates, particularly the mandated local share of Medicaid costs, is especially evident in New York City. In fiscal year 2004, the City spent fully $4.3 billion in mandated aid to the State to pay for Medicaid. If it did not bear this burden, the City would have had these funds available for other purposes and could have covered nearly all the cost of even the higher estimate of the cost of a sound basic education.

The relatively low statewide tax burden, and the high local tax burden attributable largely to State mandates, support the conclusion that additional education funds should be raised from statewide taxes rather than through additional local mandates. Adding to the already high local tax burden is likely to force cuts for necessary services other than education or force tax increases that harm the localities' economic viability.

### Table 5

<table>
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<th>State</th>
<th>State Taxes</th>
<th>Percent of U.S. Avg</th>
<th>Rank</th>
<th>Local Taxes</th>
<th>Percent of U.S. Avg</th>
<th>Rank</th>
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</table>

U.S. Total: $69 100% $43 100%

Statewide funding is more consistent than local funding with principles of public finance. The “public benefits” of education are not confined to a local district and are spread among residents of the entire state. Economists make a distinction between private benefits enjoyed by individual consumers and “public” benefits enjoyed by the broader population. To the extent benefits are private and can be restricted to the individual purchaser, the payment should come from private purchases. To the extent the benefits cannot be restricted to specific consumers, the payments must come from a collective purchase (usually a tax levied by government), because such a service is not likely to be paid for fully by an individual consumer.

In deciding which level of government should finance a service, economists look to the geographic scope of the public benefits produced. For example, defense should be paid for by the federal government because it benefits everyone in the country. In contrast, a small park used primarily by individuals and families in a specific city should be financed by local taxes.

In contemporary society, the geographic scope of the public benefits from elementary and secondary education is broad. Americans are highly mobile, and the benefits of a mobile and productive labor force are national in scope. Similarly, the benefits of an informed electorate capable of making wise electoral choices are national in scope. These facts would suggest a large role for the federal government in financing elementary and secondary education. However, this is not the case. Federal funds account for less than 8 percent of public school revenues. (Refer to Table 3.)

Historical factors account for the divergence between current practice and economic logic in the financing of public schools. When public schools were established in the middle and late 1800s, the national government had limited taxing power and its role was restricted by prevailing interpretations of the Constitution. The federal government began making grants to states to support vocational education in the early 1900s, but generally avoided funding public schools until landmark legislation in 1965. The programs passed that year, in particular Title I of the Elementary and Secondary Education Act, provided federal funds to states to help support services to disadvantaged students. This initiative expanded and, by 1980, federal funding grew to reach nearly 10 percent of public school revenues. Since then other funds have grown more rapidly and the federal role has dropped to less than 8 percent.

In the absence of a large federal role, the major decision about public school funding is the division of responsibility between a state and its local jurisdictions. The states have almost uniformly created local school districts, typically with elected boards, to run schools, and these units have also typically been empowered to levy property taxes to support the schools. The economic logic of the public benefits of elementary and secondary education suggests that the bulk of the nonfederal funding should come from state government rather than local taxes.

**SOURCES OF STATEWIDE REVENUES**

If the State is to fund the additional cost, the necessary second stage question is – Where should the State get the money? There is no popular answer, but the question must be addressed if education is to be improved.
THE TWO EXTREMES

A common tendency in thinking about budget problems is to frame the options as either cuts in existing programs or higher taxes. These are available choices, and they should be considered. But the choice is not necessarily one versus the other, and these are not the only options. They should be taken simply as the starting point in the search for acceptable revenue sources.

Spending less on other programs. The State of New York’s annual budget is currently in excess of $100 billion, with more than $78 billion allocated to services other than education. There is no doubt substantial sums can be saved by cutting these other programs. In previous studies the CBC has itself identified as much as $4.6 billion annually that could be saved in the Medicaid program without harming medical care for the indigent, and as much as $96 million annually that could be saved from the State’s prison system without endangering public safety. It is reasonable to believe that a major portion of the $7 billion sought by the CFE for better education could be financed by sensible cuts in other areas of State spending.

But one unpleasant reality makes it self-deceptive to believe the new money needed for our children’s education can be raised by savings in other State services. The State of New York is able to spend in excess of $100 billion annually because it is running operating deficits and is going ever more heavily into debt. In the current fiscal year the State has an estimated deficit of $1.1 billion and its debt will grow by $3.6 billion to an outstanding total of over $50.4 billion – more than every other state in the nation except California. For the fiscal year that will begin April 1, 2005, the State faces a projected budget gap of at least $6.0 billion – before any new money is allocated for meeting the Court’s requirement for a sound basic education.

Because the State of New York is in such a dismal fiscal condition, the CBC recommends (as it has repeatedly in the past) that the substantial feasible and desirable savings in programs outside education be reserved for balancing the budget and reducing debt. The new expenditure needs created by the Court’s mandate for a sound basic education should be financed in other ways.

Higher tax rates. If spending cuts cannot finance a sound basic education, then one must consider tax increases. The billions needed could be raised by higher rates for the existing broad-based State taxes – the personal income tax and the sales tax. Alternatively, the State could establish a new State property tax to supplement the property tax levied by local governments.

The current State sales tax rate is 4.0 percent; the State personal income tax has a progressive rate structure with the rate at the top bracket (over $40,000 annually) at 6.85 percent and the average effective rate at 4.9 percent. Some local governments add a local sales tax and, in a few cases, a local income tax. While the State rates place New York State near the middle of the 50 states for these particular tax burdens, the combined state and local rates in some parts of New York State, and especially in New York City, are among the highest in the nation.

New York, like most states, does not have a state-level property tax. However, its local gov-
ernments rely heavily on this tax. As a share of personal income, local property taxes in New York State ranked ninth among the 50 states; on a per capita basis New York ranked fourth.

These broad-based taxes differ in their incidence. As shown in Figure 1, unlike the other two options, the New York State income tax is progressive. Among higher income households, income tax liabilities as a percent of income are more than four times greater than for the households with the lowest income. In contrast, for both the sales and property taxes, the higher income households pay less as a share of income than do lower income households.

A reasonably accurate rule of thumb is that each 0.2 percent increase in the effective personal income tax rate will yield $1 billion annually and that each 0.5 percent increase in the sales tax rate also yields $1 billion annually. Given the value of real property statewide, a property tax rate of $11 per $10,000 of market value would also yield $1 billion annually.

These rules of thumb suggest the impact of relying on each of these taxes to raise the funds for a sound basic education. If the additional amount were the adjusted sum recommended by the Special Masters, $8.6 billion, then the State sales tax would have to rise from 4.0 percent to 8.3 percent, the average effective rate of the State income tax would have to rise from 4.9 percent to 6.6 percent (and the highest bracket to 9.1 percent), or there would have to be a new State property tax of $94.60 per $10,000 of market value. If the additional amount were the Zarb Commission’s lower $2.5 billion, then the new sales tax rate would be 5.25 percent, the new effective income tax rate would be 5.4 percent, or the new property tax would be $27.50 per $10,000 of market value. It should be stressed that these increases are alternatives; not all three would be required and combinations of lesser raises in each tax could raise the same total.

The combined impact of significantly increased school aid and taxes would vary widely by household and school district. The impacts on households in 11 selected communities and the State aid received by the school districts serving the same 11 communities are summarized in Table 6. It is assumed that $8.6 billion is raised through the alternative taxes and that this total is distributed to school districts based on their share of the funding gap identified by the CFE. While the income tax is more progressive than the
sales or property tax, all three measures yield significant redistribution of funds. The households in the wealthier communities pay substantially more in new taxes, but receive no new school aid. In Scarsdale, for example, a new income tax would mean an increase in taxes that averages over $13,600 per pupil to be paid by the families of those students (and other Scarsdale residents) in order to benefit other districts. The poorer communities benefit, because their new aid is greater than the new taxes paid by their residents. The other urban school districts also fare well, because they are beneficiaries of new money mandated by the CFE case. New York City also gains, because the significant new aid it would be due under the CFE plan is far in excess of the new taxes its residents and businesses would pay. However, it should be noted that even in communities with a significant net gain, the figure is a net one that requires the residents to pay substantial additional State taxes.

The foregoing analysis highlights the reason for avoiding rate increases in broad-based taxes

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>PUPILS</th>
<th>NEW AID (DOLLARS IN THOUSANDS)</th>
<th>NEW AID PERSONAL INCOME TAX</th>
<th>TAX INCREASE ALTERNATIVES (DOLLARS IN THOUSANDS)</th>
<th>GAIN/LOSS PER PUPIL*</th>
</tr>
</thead>
<tbody>
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<td>NEW YORK CITY</td>
<td>1,068,630</td>
<td>$5,328,865</td>
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<tr>
<td>“Big 4” Cities</td>
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<tr>
<td>Buffalo</td>
<td>46,545</td>
<td>188,704</td>
<td>4,054</td>
<td>42,441 69,902 44,679 3,142 2,552 3,094</td>
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<td>183,549</td>
<td>4,580</td>
<td>38,443 51,990 41,757 3,621 3,283 3,538</td>
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<td>Syracuse</td>
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<td>101,014</td>
<td>4,100</td>
<td>24,403 41,280 29,149 3,110 2,425 2,917</td>
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</tr>
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<td>Yonkers</td>
<td>25,091</td>
<td>25,912</td>
<td>1,033</td>
<td>71,342 46,071 66,243 (1,811) (803) (1,607)</td>
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<tr>
<td>Other Upstate Urban</td>
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</tr>
<tr>
<td>Binghamton</td>
<td>6,447</td>
<td>26,637</td>
<td>4,132</td>
<td>8,842 15,947 8,807 2,760 1,558 2,766</td>
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</tr>
<tr>
<td>Utica</td>
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<tr>
<td>Great Neck</td>
<td>6,100</td>
<td>0</td>
<td>0</td>
<td>53,683 41,038 62,303 (8,801) (6,728) (10,214)</td>
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<td>Scarsdale</td>
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<td>0</td>
<td>60,572 39,116 28,978 (13,618) (8,794) (6,515)</td>
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<td>Poor Suburban</td>
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<td>Roosevelt</td>
<td>3,437</td>
<td>18,347</td>
<td>5,338</td>
<td>4,097 3,132 4,784 4,146 4,427 3,946</td>
<td></td>
</tr>
</tbody>
</table>

* Gain (loss) is new aid minus new taxes paid by district residents.

as the primary source of new revenues. Such increases would put New York State at a competitive disadvantage in terms of its tax burden. Increases of the magnitude required by the CFE’s spending goal would move New York State from 18th to eighth in terms of its income tax burden among high earners (and push the combined State and local income tax rate for those in New York City literally off the charts), from 37th to highest in its sales tax rate, or from ninth to first in the property tax burden. In addition, this would be accomplished in a way that makes some communities now spending relatively large sums on their schools clear “losers” economically, paying greatly increased taxes while receiving no new benefits.

If spending cuts are not a feasible solution and tax rate increases are an economically harmful one, then what should be done? Three preferable options can go a long way toward solving the problem – educational efficiencies, non-tax revenues, and changes in tax structures.

ELIMINATING EDUCATIONAL INEFFICIENCIES AND MISALLOCATIONS

While savings in other parts of the budget should not be diverted to pay for better schools, the educational system itself should be a source for self-improvement through greater productivity. To the extent inefficiencies can be reduced, the savings can lower the added cost of a sound basic education. Three types of inefficiencies and misallocations can be eliminated to yield significant savings.

Misallocated aid. Current State aid programs misallocate funds by giving money to wealthy districts that can raise sufficient funds from their own local tax bases even while imposing property tax rates below statewide norms. If the state followed the uniform local tax effort policy described earlier, many districts would be entitled to less State aid than they now receive.

The amount to be saved would depend on the target spending level selected (and other factors), so a precise definition of currently misallocated aid is not possible. However, the order of magnitude is suggested by a simulation of the uniform local tax effort policy applied to aid in school year 2001-02 with the target level set at the then current median per pupil amount. Under that scenario 450 districts would have their aid reduced by a total of nearly $1.5 billion, even though total aid would have to rise from $17.1 billion to $18.7 billion. Because the new court-required target for per pupil spending will likely exceed the current median, a reasonable estimate of the potential savings from recouping misallocated funds is about half that sum.

This order of magnitude for potential re-allocation is suggested by the analysis of the CFE. The CFE includes as part of its spending requirements $750 million in aid to 189 districts under “hold harmless” provisions of aid formulas. These provisions are included only to prevent political opposition from relatively wealthy districts whose aid would be cut, despite the lack of objective need. Such political considerations should not be the basis for raising taxes and should not be part of the definition of the cost of a sound basic education.

Better use of teacher time. In the New York City schools, about one-third of all teacher time is spent on duties other than classroom instruction. This includes teachers assigned to
administrative duties, preparation periods, sabbatical leaves, and teachers serving as union representatives. While some of these assignments are worthwhile, a reasonable reduction of non-instructional time in the form of fewer preparation periods, elimination of sabbaticals and released time for union work would yield annual savings of about $350 million annually.

**Consolidation and administrative savings.** Outside New York City, the multiplicity of small school districts creates unnecessary overhead expenses. Studies have shown savings from consolidation of small districts ranging from 8 percent to 2 percent of pre-merger costs (depending on how small the district is) among districts with fewer than 1,500 students. New York has 323 such districts including 25 with fewer than 300 students. Consolidation of small districts and caps on administrative expenses would yield savings of more than $125 million annually.

In these ways, savings from within the school system can generate about $1,225 million annually to fund the added costs of a sound basic education. These should be the highest priority ways to increase resources. In addition, vigorous efforts should be made to find other savings opportunities. School transportation services, food services, and use of paraprofessionals should be reviewed to determine if new efficiencies could be implemented.

**GAMBLING REVENUES**

Eliminating inefficiencies should be the first source of new resources, and raising tax rates should be the last. Between these two steps is a third possibility – non-tax revenues. The measure in this category with the greatest potential has been identified by Governor Pataki – gambling. The State can raise significant sums by authorizing new forms of gambling and, in effect, taxing the gross receipts of these games. Governor Pataki has proposed raising $2 billion annually by authorizing new sites for housing video lottery terminals and taxing spending at the terminals.

An analysis of the Governor’s proposal leads to two conclusions. First, it is feasible to use new gambling opportunities to raise approximately $2 billion annually within a few years. This is consistent with the experience of other states. As shown in Table 7, New York State currently ranks 17th among the 50 states in gambling revenue relative to personal income. New York’s current gambling revenue comes predominantly from the lottery games. An approximate doubling of the current yield from gambling would raise approximately $2 billion more and place New York among the states most heavily reliant on gambling, but still below states such as Nevada, Delaware and Massachusetts.

The problems with gambling revenues are that they tend to be regressive (placing a disproportionately large burden on lower

<table>
<thead>
<tr>
<th>STATE</th>
<th>REVENUE PER $1,000 PERSONAL INCOME</th>
<th>REVENUE PER CAPITA</th>
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</thead>
<tbody>
<tr>
<td>Rhode Island</td>
<td>$24.40</td>
<td>$712.88</td>
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<td>Massachusetts</td>
<td>14.59</td>
<td>550.92</td>
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<tr>
<td>Oregon</td>
<td>13.95</td>
<td>392.05</td>
</tr>
<tr>
<td>Delaware</td>
<td>13.55</td>
<td>418.36</td>
</tr>
<tr>
<td>Nevada</td>
<td>11.53</td>
<td>350.82</td>
</tr>
<tr>
<td>Georgia</td>
<td>8.94</td>
<td>250.30</td>
</tr>
<tr>
<td>Connecticut</td>
<td>8.27</td>
<td>343.23</td>
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<tr>
<td>Ohio</td>
<td>6.78</td>
<td>191.14</td>
</tr>
<tr>
<td>Louisiana</td>
<td>6.60</td>
<td>152.38</td>
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<tr>
<td>West Virginia</td>
<td>6.59</td>
<td>144.41</td>
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<td>Maryland</td>
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<tr>
<td>New Jersey</td>
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<td>246.56</td>
</tr>
<tr>
<td>South Dakota</td>
<td>6.33</td>
<td>162.77</td>
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<td>Kentucky</td>
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<td>Indiana</td>
<td>5.95</td>
<td>161.37</td>
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<td>Michigan</td>
<td>5.72</td>
<td>169.05</td>
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<tr>
<td>New York</td>
<td>5.06</td>
<td>176.45</td>
</tr>
<tr>
<td>United States</td>
<td>$ 4.63</td>
<td>$138.19</td>
</tr>
</tbody>
</table>

income households), and that they put the State in the morally uncomfortable position of promoting the games and the sometimes-addictive behavior they generate. The Governor’s proposal to limit the number of sites for new casinos limits these negatives, and proponents correctly point out that those who pay the “tax” do so voluntarily and without regarding it as a tax. Nonetheless, gambling is a regressive source of State income with serious social costs.

Despite these drawbacks, the Commission recommends new gambling opportunities as an additional source of revenues. They are preferable to higher taxes because they do less harm to the state’s economic competitiveness, are not regarded as a tax by those paying, and recapture some spending by state residents now benefiting other states that provide greater gambling opportunities. The State should pursue these revenues through forms of gambling that are limited to “destination” type casinos, which will attract tourists and some higher-income households along with lower-income New Yorkers (as opposed to multiple neighborhood locations that draw almost exclusively lower-income bettors). The State’s activities to advertise and promote the games should be conducted responsibly.

Assuming that these reasonable conditions can be met in future proposals to expand gambling, then about $2 billion could be raised in this way. Together with the educational efficiencies, this yields a total of over $3.2 billion before new taxes are needed. This would be sufficient to fund the lower end estimates of the added cost of a sound basic education, but leaves as much as $4.2 billion unfunded if the Court mandates the high end figure.

RESTRUCTURING TAXES

Higher rates are not the only way to increase taxes. Applying an existing tax to a broader base also yields more money. This usually is preferable to higher rates, because it is more equitable and is less likely to distort people’s behavior.

While fairer and more economically efficient, these changes still have the net effect of increasing society's tax burden unless there are offsetting cuts in the rates. Each of the tax changes discussed below would be desirable as an improvement in the tax system, if the added collections were offset by reductions in the overall rate. However, because the policy objective with respect to education funding is more revenue, this is not possible. Although the changes will increase the overall tax burden, they are preferable to higher tax rates on the current base because they make the system more efficient and equitable.

- The least harmful and most sensible tax measure is to collect the existing sales tax on remote and internet sales. Because the State cannot force out-of-state vendors to collect this tax, it often goes unpaid. The yield from better enforcement is difficult to estimate precisely and depends on assumptions about the volume of current evasion, but is in a range of $40 million to $590 million annually. However, implementation of this change depends on cooperation with other states and development of interstate enforcement capacity. Significant new revenues are unlikely for a few years, but could help pay for a phased-in court mandate.
The base of the current sales tax should be broadened to include items now exempt. Many of these exemptions for items ranging from home improvements to veterinarian services have no economic logic and are rooted in the lobbying efforts of special interests. Eliminating a reasonable set of such exemptions (including capital improvements, eyeglasses, newspapers and magazines, and laundry) would yield an estimated $950 million annually.

The base of the existing corporate income tax should be redefined to include certain forms of income now excluded, and the rules for calculating taxable corporate income should be altered to include certain sales and profits now excluded. In addition, a higher alternative minimum tax should be set. Reasonable estimates of the amounts of corporate income shielded by the current definitions and rules suggest that these changes would yield between $320 million and $435 million annually.

The base of the existing sales tax should be extended to include retail or consumer (but not business-to-business) sales of selected professional services such as law and accounting. Precise estimates are not available for the share of these professional services sold directly to consumers, but reasonable estimates of the volume suggest that this tax measure would yield between $175 million and $595 million per year.

Together these four measures would yield between $1.5 billion and $2.6 billion annually. Combined with the previously identified educational efficiencies and gambling, the available total would be between $4.7 billion and $5.8 billion annually. If the Court mandate for a sound basic education falls in the middle of the currently debated range, these measures would be sufficient to cover the incremental cost.

**HIGHER TAX RATES REVISITED**

Substantial additional revenues would still be needed if the Court mandated the highest level of spending proposed and the estimates cited above for the tax measures were at the low end. The unfunded gap would lie between $2.8 billion and $3.9 billion. In these circumstances, the last resort measure to be used for additional revenue should be higher rates on the broad-based taxes.

The rates needed to meet this remaining gap would be an increase in the effective income tax rate of between .56 and .78 percent (or $560 to $780 for a family with a $100,000 taxable income), an increase in the sales tax of between 1.40 and 1.95 percent to 5.40 or 5.95 percent, or a new State property tax of between $31 and $43 per $10,000 of property value. Table 8 shows the impacts of these tax increases and equivalent amounts of aid increases on the 11 school districts identified earlier. The assumptions in the scenarios are that $3.9 billion is raised from each tax and that the funds are distributed in proportion to the need identified by the CFE.

The impacts are parallel to, but less pronounced than, those in Table 6 where far larger sums are assumed to be raised and distributed in the same manner. The wealthier districts still pay
substantial new taxes (albeit about one-third the amount in the earlier scenarios) to benefit other school districts, and New York City has a net gain per pupil less than the other urban districts.

If annual revenue beyond the $4.7 billion to $5.8 billion range is needed to meet the Court mandate, then the funds should be raised from one of these broad-based taxes. Since the previous, and preferable, tax restructuring recommendations rely heavily on the sales tax for new funds, and since both the sales tax and the property tax are regressive, the personal income tax should be the source for these last resort revenues. This means that at a maximum the average effective personal income tax rate would increase .78 percent to about 5.68 percent. This would be bad news for the competitiveness of New York’s tax structure, but would represent a fair distribution of the burden and the least harmful economic impact given the Court’s mandate.

Table 8
Impact of Broad-based Tax Increases on 11 Selected Districts
Three Scenarios, Fiscal Year 2001-02
Raising $3.9 Billion

<table>
<thead>
<tr>
<th>DISTRICT</th>
<th>PUPILS</th>
<th>NEW AID (Dollars in Thousands)</th>
<th>NEW AID PER PUPIL</th>
<th>TAX INCREASE ALTERNATIVES (Dollars in Thousands)</th>
<th>GAIN/(LOSS) PER PUPIL *</th>
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</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td>PERSONAL INCOME TAX</td>
<td>SALES TAX</td>
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<td>$2,416,578</td>
<td>$2,261</td>
<td>$1,285,645</td>
<td>$1,280,757</td>
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<tr>
<td>“Big 4” Cities</td>
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</tr>
<tr>
<td>Buffalo</td>
<td>46,545</td>
<td>85,575</td>
<td>1,839</td>
<td>19,247</td>
<td>31,700</td>
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<td>2,077</td>
<td>17,433</td>
<td>23,577</td>
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<td>1,859</td>
<td>11,067</td>
<td>18,720</td>
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<td>11,751</td>
<td>468</td>
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<td>Binghamton</td>
<td>6,447</td>
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<td>1,874</td>
<td>4,010</td>
<td>7,232</td>
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<td>4,111</td>
<td>1,441</td>
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<td>Great Neck</td>
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<td>0</td>
<td>27,459</td>
<td>17,739</td>
</tr>
<tr>
<td>Poor Suburban</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roosevelt</td>
<td>3,437</td>
<td>8,320</td>
<td>2,421</td>
<td>1,858</td>
<td>1,420</td>
</tr>
</tbody>
</table>

* Gain (loss) is new aid minus new taxes paid by district residents.

For purposes of illustration, in this analysis the target local share is set at 40 percent. The unweighted mean local share among the 50 states is 42 percent. The illustrative target of 40 percent for New York State reflects its high local share of spending for purposes other than education and the policy objective of moving toward a larger State share for education than is typical among the states.

This follows the approach used to calculate the Combined Wealth Ratio used by the New York State Department of Education. See New York State Education Department, Office of Management Services, Fiscal Analysis and Research Unit, "A Guide to the Headings of the Fiscal Profile," <http://www.oms.nysed.gov/faru/Profiles/13th/Profiles%20Appendix.html> (October 25, 2004).


In some instances, the mandated tax effort may exceed the mandated expenditures. In these cases, the district would have the option of setting a lower tax rate or spending above the mandated minimum.

The numbers in Table 4 are different from what is reported on page 5 because of definitional differences in revenue measures between the New York State Department of Education and the U.S. Department of Education.

The per pupil amounts are based on counts of pupils that are “weighted” to take into account the greater resources required by pupils who are poor and/or in need of special education. The weights used in these figures are established by Education Week and differ from those used by the New York State Department of Education.


This description of the personal income tax does not include the temporary tax surcharge imposed in 2003 and scheduled to expire in 2006. That surcharge added two additional brackets, one for taxpayers with incomes of $150,000 - $500,000, and another for those with incomes in excess of $500,000.

Yonkers is a notable exception. It has a loss because under current policy it receives disproportionately large amounts of State aid and it has a relatively high average income.
Changes Other Than More Money

Whatever sums are ultimately required, money alone will not provide a sound basic education. The mandate imposed upon the State of New York by its Constitution will not be carried out unless the money is well and wisely spent. Public education will not be improved to the standard set by the Court of Appeals unless the new money – and the old money, too – is spent in a different manner than in the past.

Accordingly, this report also focuses on three ways in which a sound basic education requires doing things differently from how they are now done – stronger mechanisms of accountability, more efficient use of school buildings, and more effective deployment and compensation of teachers.

STRONGER ACCOUNTABILITY

The Court’s decision requires that the State develop a system of accountability to ensure that new resources have the intended effect. Both defendants and plaintiffs recognize that the State does not now have such a system. The State’s Schools Under Registration Review process and the testing and reporting requirements established by the State under the federal No Child Left Behind Act each have elements of an accountability system, but neither is fully satisfactory.

The core requirements for meaningful accountability are:

- **Planning for how resources will be used.** Each school should indicate how it will use the resources made available. The uses should identify not only “line items” (such as types of personnel or equipment), but should be organized into programmatic objectives indicating planned class sizes, pre-kindergarten enrollment and other instructional interventions. These categories should reflect the standards established for a sound basic education. The plans should span a multi-year period and be updated on a rolling basis.

- **Reporting on how resources actually are used.** School and district leaders should make public information indicating how funds were expended. They should indicate whether the programmatic activities planned were accomplished – class sizes achieved, pre-kindergarten enrollment attained, special instructional services provided, and the extent to which standards for a sound basic education were actually met.

- **Reporting on student performance.** Information on student achievement as measured by standardized tests and other indicators should be reported publicly for relevant subgroups of the school population. The ultimate test of school performance is the extent to which students learn, and this should be reported in meaningful ways.

- **Sanctions for unsatisfactory managerial performance.** Serious consequences should follow from a failure of a school or district management team to use resources in planned ways or to achieve satisfactory levels of student performance given the additional resources. It is also desirable to have rewards for management teams performing above expected norms.
The accountability system proposed by the Zarb Commission has most of these elements. It would require school districts to prepare comprehensive, three-year educational plans and to include school-specific plans for those schools not meeting performance standards; it would create a comprehensive statewide data base, called EduStat, to track performance of students and characteristics of schools; and it would create strong sanctions in the form of closing and restructuring schools consistently performing badly.

The system outlined by the Zarb Commission should be part of the State's response to the Court's decision. In implementing the system, particular attention should be paid to improving the Zarb Commission's recommendations with respect to these elements of the needed accountability system:

- Plans prepared by schools and districts should be comprehensive in the sense that they account for all resources made available to the school, not just incremental funds. The new funds provided based on the Court's decision should leverage change toward more effective use of all funding for the public schools.

- Reports using EduStat and other required information should make clear to the public the extent to which schools are achieving the standards of a sound basic education. The uses and results of funding should be presented in terms of improved school services such as expanded pre-kindergarten enrollment, reduced class size, and greater availability of specialized instructional services.

- Indicators of school performance based on student achievement should reflect both the value added by schools as measured by change in achievement over time (so-called “value added”) as well as by comparison to absolute standards.

- School performance should be judged with measures of efficiency as well as effectiveness. Examples of efficiency measures by which schools can be compared and judged include the proportion of total spending and the per pupil amounts allocated for non-instructional purposes and the ratio of per-pupil spending (adjusted for cost differences) to “value-added” gains in standardized test scores.

- The sanctions imposed on consistently weak schools should be preceded by positive interventions intended to support management teams facing difficulties; the State should also identify school management teams performing exceptionally well and provide rewards that could be simply recognition or be more tangible.

An accountability system with these elements will go a long way toward helping to ensure that additional funds are used effectively. However, especially in the early years of the phase-in of a remedy to the CFE case, it may be desirable for the State, as part of its oversight of the financial planning process, to establish a list of priority purposes for added funds. School districts should be limited to using the incremental funds for interventions with proven effectiveness such as expanded pre-kindergarten opportunities and smaller class sizes in the early grades. In order to prevent the dilution or misuse of added funds, the State should consider creating a
list of approved uses and limit the school districts to these programmatic allocations unless special circumstances justify the State’s approving an alternative use.

**FINDING ADEQUATE CLASSROOM SPACE**

Beside meaningful accountability mechanisms, another key component of a sound basic education is adequate classroom space. Public schools in New York City fall short of this standard because classrooms in some schools now are over capacity, some classrooms are in temporary structures that are substandard, and space is not readily available for expanded enrollment for pre-kindergarten classes.

The CFE examined the capital needs of the New York City public schools and found that $14.7 billion (in 2003 dollars) was needed to provide New York City students with the facilities required for a sound basic education as defined by their panel of experts. Of the total, $12.3 billion is for new construction. This includes $3.9 billion to build new capacity to accommodate 68,200 students projected to be in overcrowded classrooms, and $2.7 billion as part of a five-year program to provide space for classes smaller than current sizes, but still less than the CFE’s requirements for a sound basic education. Another $5.7 billion is for new capacity to accommodate more than 93,900 students who would require new classrooms for pre-kindergarten classes and new classrooms in order to allow a maximum class size of 16 in grades K through 5. The CFE does not recommend that the latter $5.7 billion investment be made until after the other projects are funded, a delay of at least five years.

The CFE’s analysis is reasonable in assessing the needs relative to its standards, but its two-stage recommended capital program is deficient in two ways. First, it delays achieving the conditions for sound basic education too long. Its program would not begin to establish some standards for at least five years. It is unlikely there would be adequate space for pre-kindergarten classes and smaller elementary school classes until another decade has passed. Second, it is far more expensive than is necessary. There are more efficient ways to provide the needed space, and these options should be part of any court-approved plan.

The two options are redistricting schools and operating schools on year-round schedules. Rezoning would permit more complete use of existing capacity and provide classroom space for about 136,000 additional students. Changes in the school calendar in order to use school buildings 12 months per year would generate space for another 135,000 students. Together these strategies more than address the long-term shortage of 216,000 seats identified by the CFE, and would do so in a more timely manner and at less cost.

**THE CASE FOR REZONING**

Crowding, defined as having more students than the school’s capacity, existed at 469 schools in the 2002-03 school year. (See Table 9.) However, most of the remaining 839 schools have enrollments below their capacity. In fact, citywide there is a surplus capacity of more than 72,000.
Can New York Get an A in School Finance Reform?

The simultaneous existence of crowded and under-used school buildings arises partly from the City Department of Education policies and partly from provisions of State law. Under these policies and laws, most schools are “zoned,” meaning that they draw students from designated areas. As populations shift among zones, it is necessary to rezone in order to keep capacity and demand in balance. However, this often does not happen.

New zoning policies should be adopted. As shown in Table 9, the unused capacity at the under-utilized schools (136,430 seats) far exceeds the excess enrollment (64,231 students) at the crowded schools. Thus, the problem of crowding could be alleviated, and additional capacity to accommodate smaller class sizes could be created, by rezoning.

To achieve this outcome, rezoning would have to be accompanied by some reconfiguration of grades within schools. The crowding is most prevalent in high schools, and even citywide high school enrollment exceeds the capacity of the high schools. However, this can be overcome by shifting some ninth grade students now in high schools to middle schools (which have a large surplus capacity citywide). Such reconfiguration of grades across schools is relatively common, and several new schools are planned to accommodate grades six through 12.

THE CASE FOR YEAR-ROUND EDUCATION

The current school calendar in New York City, and many other public schools nationwide, schedules classes for about 180 days per year between Labor Day and late June. During this “school year” there are several holidays of varying length and no regular classes are scheduled during July and August. In the summer months schools are used for remedial instruction.

Deviations from this conventional model of several types have been implemented in school districts around the country. One variation keeps the number of required school days at about 180, but spreads them over the entire calendar year and eliminates the conventional summer vacation. This model is often combined with staggered calendars in which all students do not attend the same specific 180 days. Instead, four different cohorts of students are scheduled, with only three of the four attending school on any particular day. This combination of staggered schedules among different groups of students spread over all 12 months is referred to here as “year-round education” (YRE).

YRE can be structured in a variety of ways, but a common schedule, known as the 45/15 plan, is illustrated in Figure 2. Students attend school for 45 days (9 weeks of five days)
followed by a three week break. In the illustration, 1,000 students are enrolled in the school. They are divided into four cohorts of 250 each. Each cohort follows a staggered 45/15 schedule, so only 750 students are using the school on any given day. In this way, YRE increases the capacity of the school by one-third (from 750 to 1,000). Similar results can be achieved with alternative configurations of the calendar. For example, cohorts can be given schedules of 90 days of school followed by 30 days off, in order to provide something more similar to current summer holidays. The common feature of any such arrangement is that YRE is a more efficient way to use school capacity than the conventional school calendar.

YRE is not simply a hypothetical model. In the 2002-03 school year, YRE was in effect for 2.3 million students at 3,181 schools in 565 districts and 46 states. In the last decade, the number of students in YRE has grown nearly 50 percent.

Table 10 shows the extent to which YRE in combination with rezoning could increase the number of students accommodated in New York City public schools. The gross increase in capacity from YRE is simply one-third, but it is important to make two adjustments. First, a portion of the current capacity is temporary buildings that would not be suitable for more intensive, permanent use. Second, some capacity is needed for remedial instruction that now takes place in the summer; some classrooms would not be available for YRE. Once these adjustments are made, YRE would increase capacity for regular enrollment by 134,928 from the current 1,133,646 (after rezoning) to 1,268,574.

The expanded capacity from YRE and rezoning is more than sufficient to accommodate the expansion needs identified by the CFE. These include space for all current students in permanent facilities, space for reduced class sizes required for a sound basic education as specified in the CFE’s initial five-year program (called the BRICKS program) and its longer-run program, and the added space for pre-kindergarten programs in the CFE’s longer-run program. The total capacity required to meet all these needs, space for an estimated 1,225,145
students, is less than the capacity available from YRE and full use of capacity through rezoning (space for 1,268,574 students).

Compared to new construction, the savings that these strategies offer – in time and in money – are compelling. But neither is without practical difficulties.

Implementing the schedule changes necessary for YRE would place significant demands on school administrators, families, and social service institutions. Air conditioning would be required throughout the school system if instruction is extended through the summer months. The calendar for teachers and other personnel must be adjusted to reflect the schedule changes. Parents, whose schedules and childcare arrangements now are designed to accommodate a conventional school schedule, would have to alter those arrangements. Families and administrators would have to collaborate to coordinate the schedules of siblings in different schools in order to avoid unnecessary difficulties in arranging childcare, vacation and recreational activities. After-school programs conducted both in the schools and by outside agencies may need to be augmented to assist parents in their adjustment to the new calendars.

These concerns are not inconsequential. However, schools on year-round schedules have developed strategies to address the social impact of changing from the traditional calendar. Implementing schedule changes on a district-wide basis reduces the difficulties in coordinating vacation and childcare faced by families with children in different schools. Converting the entire school system to the same calendar also provides an incentive for other social institutions (day camps, employers, etc.) to alter their operations to accommodate the change. Allowing teachers to opt to teach sessions when they are off-track permits them to augment their pay by serving as substitute teachers in their field and often is seen by them as an improvement over the practice of temporary summer employment.

The political and administrative complexities of implementing YRE and rezoning are formidable, but should not prevent their adoption. The alternative is to spend billions that could be used effectively elsewhere on avoidable new construction and to delay for perhaps ten years providing a substantial share of the more than one million schoolchildren the space necessary for a sound basic education. The Court should not dismiss policy options that use existing facilities wisely, thereby promptly providing children a seat in a structurally sound and well-equipped school – without the delays or costs that accompany new construction.

<table>
<thead>
<tr>
<th>Table 10</th>
<th>New Capacity Available from Year-Round Education</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>New York City, 2002-03</td>
</tr>
<tr>
<td>ELEMENTARY SCHOOLS</td>
<td>MIDDLE SCHOOLS</td>
</tr>
<tr>
<td>Current Capacity given Rezoning</td>
<td>577,878</td>
</tr>
<tr>
<td>Elimination of Transportable Buildings (14,930)</td>
<td>(2,023)</td>
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<tr>
<td>Permanent Current Capacity</td>
<td>562,948</td>
</tr>
<tr>
<td>Gross New Capacity from YRE</td>
<td>187,649</td>
</tr>
<tr>
<td>Adjustment for Summer Programs (80,127)</td>
<td>(60,095)</td>
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<tr>
<td>Net New Capacity</td>
<td>107,522</td>
</tr>
<tr>
<td>Current and New Capacity Available for Enrollment</td>
<td>670,470</td>
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<td>Current Enrollment</td>
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</tbody>
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PAYING AND DEPLOYING TEACHERS MORE EFFECTIVELY

In addition to adequate classroom space, the critical elements of a sound basic education, including smaller class sizes and more widespread pre-kindergarten classes, require more teaching staff. However, the pedagogical personnel now employed, and to be employed, by the New York City Department of Education are paid and deployed in ways that hinder effective and efficient education. The key obstacles are:

- Lack of performance incentives;
- Lack of financial incentives to deal with shortage categories of teachers;
- Insufficient managerial authority in the deployment of teachers.

PERFORMANCE INCENTIVES

If organizations are to perform well, their employees should be paid in relation to their contribution to that performance. Historically, this was the logic for establishing pay differentials for teachers with more experience and education. Graduate training and classroom experience were believed to be linked with better teacher performance. However, over time the pay structure has given more emphasis to these factors than is justified by their contribution to teacher performance. Under the latest contract between the City and the United Federation of Teachers, a teacher can increase her annual salary up to $9,573 by earning graduate credits and up to $32,659 due to longevity. Numerous studies have failed to show a systematic relationship between graduate school credits and teacher performance, and experience significantly adds to teacher effectiveness only during the initial part of a teacher’s career.22 Thus, most of the current differences in pay among teachers bear little relationship to how well the individuals function as teachers, nor do they serve as an incentive to high performance.

This lack of relationship between pay and performance is demoralizing to good teachers. The best teachers see weaker colleagues receive equal or greater paychecks, and feel unappreciated and unrewarded for their superior service. This problem should be remedied by restructuring the pay schedule to make a larger share of compensation conditioned on job performance and to de-emphasize longevity and graduate educational credits.

Performance pay should be instituted for teachers in New York City. The new plan ought to have three basic elements. First, base salaries ought to represent a large majority of total compensation to teachers, but should leave a significant portion of compensation to be determined based on performance. The base salaries should vary with a few increments based on experience and with a significant increment for widely recognized professional development milestones such as National Board Certification. The second component of pay should be based on the accomplishments of individual teachers during the year such as taking on additional responsibilities, achieving certain developmental goals, and special service to the school or district. The third component of pay should be given to schools or other work groups whose students have educational gains above those that could normally be expected. Appropriate statistical measures should be developed to determine when a school’s staff has performed better than expected norms, and the staff responsible for these gains should be rewarded.
The changes recommended are a restructuring of compensation arrangements; they do not necessarily have an incremental cost or savings compared to what otherwise would have been paid. Instead, the money would be allocated differently. Teachers would receive less of their total compensation as base salary and a substantial portion would depend on their individual and group performance. There would still be considerable variation among the pay of individual teachers, but it would be based less on longevity and more on the quality of their work.

INCENTIVES TO OVERCOME SHORTAGES

There is much concern over a “teacher shortage,” but the City does not have a single job classification known as “teacher.” Rather it hires people in 225 separate titles that are specific types of teachers. This includes many titles with relatively few incumbents, notably specialized bilingual instructors such as bilingual Cantonese high school social studies teachers (and other subject-specific bilingual instructors in Mandarin, Hebrew, Russian, and Creole), and specialized vocational school teachers such as the instructors in window display, aeronautics, baking and barbering.

Determining when there is a “shortage” for a particular job title is conceptually difficult. Shortages, like beauty, are to some extent in the eye of the beholder. That is, employers identify situations when they must change their recruitment practices to adapt to changes in the nature of the labor supply as a “shortage.” In New York City public schools, the term “shortage” should be applied meaningfully only to selected job titles and selected schools. The shortages exist predominantly at the schools that teachers consider the least desirable.

Because the deployment of teachers is governed by their seniority, the more experienced teachers are more likely to be in schools they desire, while the new teachers must accept the least desired locations. Based on their inability to attract certified teachers, in the 1999-2000 school year about 40 percent of the public schools were in a shortage situation in the sense that they had serious recruiting problems. The combined share of schools with recruiting problems (40 percent) and job titles defined as in shortage (43 percent) indicated that about 17 percent of the system’s total positions were in serious shortage. Given the substantial across-the-board pay raises granted teachers since the 1999-2000 school year, the number of shortages in the most recent year is likely to be even fewer.

The City should provide differential pay for teachers qualified for and serving in specific titles that are suitably deemed in a shortage condition, and who also agree to work in those schools facing the greatest difficulty in securing qualified teachers. In this way, funds can be targeted to recruit those teachers needed most to those places with the greatest need.

ENHANCED MANAGERIAL DISCRETION

The final change necessary in how the public schools operate is to enhance principals’ managerial discretion. The City is wisely pursuing a policy making principals more responsible and accountable for the performance of their schools. The principals’ pay is now partly based on school performance. But in order to work more effectively, these steps need to be accompa-
nied by changes that give principals more authority over how to engage, deploy and otherwise manage their staff.

Seniority is now the dominant criterion for determining staff assignments. Within their areas of competence, teachers select their class and other assignments based on seniority. This limits a principal's ability to staff classes and programs based on individual performance and capabilities. Similarly, principals running schools with good reputations must accept teachers transferring from other schools based on their seniority. This sometimes limits a principal's ability to select those most able or best suited to perform well in the school. The ability of teachers to transfer based on seniority also creates a drain of teachers from needy schools, obliging some troubled schools to rely disproportionately on new, and less experienced, hires.

The performance pay arrangement recommended above would be one important measure to enhance principals' discretion. It would allow principals to help determine the pay of teachers by approving them for particular assignments in the individual component of the performance pay, and it would provide incentives for teachers to follow a principal's leadership in seeking to earn the group-based performance pay.

However, perhaps the leading constraint on principals' ability to use their judgment in deploying staff is the requirement that seniority determine most assignments. Principals should be given more discretion in determining which teachers may transfer to their school, and what assignments each teacher is given within their school.
Lessons From Other States

New York is not the first state to face court challenges to its school financing system. Since 1989, plaintiffs in 20 states have won court decisions seeking to change school financing. Moreover, in some of the states where the Court did not rule against the existing system, there nonetheless was sufficient political pressure to cause legislative changes similar to those sought in court. Thus, there is abundant experience from which to draw in considering how events might unfold in New York.

The relevant lessons that the Commission draws from its comparative analysis are:

- **A court victory does not ensure timely or effective policy responses.** In states where the other branches of government are oppositional, increased funding has come slowly, if at all, to the affected school districts. For example, New Jersey has faced school finance litigation since 1973 with the Court and the Legislature involved in several rounds of reform; Ohio’s 1997 Court decision was opposed by the Legislature and the Court eventually retreated; and in Texas the Legislature made three efforts to respond to the Court’s 1990 decision before the last effort was found constitutional in 1995.

- **In contrast, when political leaders are supportive of the courts policy directions, action can be prompt and effective.** In Kentucky, for example, legislation to implement the court’s decision was passed in less than one year, and it included changes in governance, curriculum and accountability as well as significant new funds.

- **“Success” in terms of generating additional spending for public schools does not automatically equal success in terms of improved educational outcomes.** Some states significantly increased per pupil spending in the wake of court decisions. For example, in New Hampshire per pupil spending increased 13 percent in the two years after the court-mandated reforms, and the corresponding increase in Vermont was 11 percent and in Texas 12 percent. But the returns on this investment have not been as clear or pronounced. The national data on student performance on standardized tests is sparse, but the gains in these states are not consistently better than the national trends.

- **Additional spending is more likely to result in gains in student achievement when the money is well targeted.** Forms of spending found most likely to have positive results are expansion of pre-kindergarten opportunities and small class sizes in the early elementary school grades.
Embedded in this report are 12 recommendations. For the sake of clarity and reader convenience, they are summarized below under the two relevant questions addressed in the report.

WHERE SHOULD THE MONEY COME FROM?

› The State, rather than local school districts, should be responsible for raising the additional funds needed for a sound basic education.

› The State should also establish a longer-run goal of significantly increasing the share of all public school funds raised from statewide revenues and decreasing (and perhaps eventually eliminating) the mandated share raised by local school districts. This should be achieved by revising the State aid programs to better target funds to poorer districts and establishing a higher baseline for State funding.

› A significant portion of the resources needed for a sound basic education should be raised through the elimination of inefficiencies in the education system. More than $1.2 billion annually can be generated by making more efficient use of teacher time, consolidating small school districts outside New York City, and reallocating State aid now given unjustifiably to wealthy school districts.

› Expanded gambling activities should be used to generate about $2 billion annually for improved education, but these activities should be restricted to “destination” type casinos and should be promoted by the State in a responsible manner.

› Improved enforcement of the existing sales tax on remote (including internet) transactions should be used to generate significant new revenues in future years. The potential from this effort is estimated at between $40 million and $590 million annually. However, it requires new modes of interstate cooperation and may not be achievable for several years.

› If the Court mandate for a sound basic education requires more than is available from the three previous sources, then the State should restructure existing taxes in these ways:

   Broaden the base of the sales tax to include items currently exempt without a sound basis for the exemption. This can yield an estimated $950 million annually.

   Revise the corporate income tax to include certain revenues now excluded and to set a higher alternative minimum tax. This would yield between $320 million and $435 million annually.

   Extend the sales tax to include consumer (not business-to-business) purchases of professional services like law and accounting. This would yield an estimated $175 million to $595 million annually.
If the Court mandate for a sound basic education requires even more than can be generated by the previous recommendations (between $4.7 billion and $5.8 billion annually), then any additional necessary funds should be raised by increasing personal income tax rates, as the most progressive of the broad-based tax options.

WHAT CHANGES OTHER THAN MORE MONEY ARE NEEDED?

A new statewide system of accountability for schools should be established. It should include planning for how funds will be used, reporting on how funds are actually used, reporting on student performance, and sanctions for unsatisfactory managerial performance.

The classroom space requirements for a sound basic education should be met through a combination of two measures - redistricting of existing schools and operating existing schools on a year-round schedule. Much of the delay and expense associated with new construction can be avoided with these strategies.

Teachers should be given financial incentives for better performance. The teachers’ pay schedules should be revamped to make a larger share of compensation conditioned on job performance and to de-emphasize longevity and graduate educational credits. The elements of this compensation structure should be increments for teachers meeting widely recognized professional development milestones such as National Board Certification, differentials for teachers taking on additional responsibilities or achieving certain goals, and rewards for schools or other work groups whose students have educational gains above those that could normally be expected.

Financial incentives should be used to overcome shortages in selected teaching job titles. Differentials should be offered to teachers who qualify for specific titles that are suitably deemed in a shortage condition and who agree to work in those schools facing the greatest difficulty securing qualified teachers.

The managerial discretion of principals should be expanded. In addition to using performance pay to provide incentives for teachers to follow a principal’s leadership, principals’ discretion regarding which teachers may transfer to their school could be enhanced by allowing principals to select teachers for given posts from among multiple candidates rather than forcing the decision to be made on the basis of seniority.
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Citizens Budget Commission

The Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and New York State governments.

Founded in 1932, CBC pursues its mission through four roles:

- CBC is a watchdog. The Commission provides continuous and reliable scrutiny of the efficiency and fiscal practices of State and municipal government.

- CBC is a research organization. The most pressing issues facing the City and State are subjected to in-depth study, the results of which are assembled into published reports that include recommendations for improved performance.

- CBC is a monitor of implementation. Recommending solutions to problems is not sufficient by itself. The Commission follows up on its suggestions by tracking public officials’ progress (or lack thereof) toward implementing change.

- CBC is a disseminator of information. Shedding light on the problems of City and State government requires getting the word out. CBC functions as a resource for nonpartisan information on the City and State budgets and the delivery of services to New Yorkers. The Commission is a ready reference for the news media, other civic groups, the concerned public and public officials.

CBC’s core research program continues to focus on issues affecting the efficient use of City and State resources, both financial and human, the overall financial condition of the two governments and quality of life issues that affect the long-term competitiveness of New York. The research program is grounded in three fundamental beliefs:

- that serving the interests of the citizenry at large, rather than narrow special interests, should be the beacon that guides public officials as well as the standard for evaluating their performance;

- that it is wrong to waste precious public resources, whether they are financial or human;

- that it is important to focus on the well-being of future New Yorkers, undoubtedly the most underrepresented interest of all in City and State government.

Recent work includes 2003’s conference and report, *The Palisades Principles: Fixing New York State’s Fiscal Practices*. CBC has also kept a close watch and made recommendations on the State and City budgets, issued reports on Medicaid (*Confronting The Tradeoffs in Medicaid Cost Containment*) and transportation (*Financing Transportation Services in The New York Region*) and begun in-depth research on the role of small business in the competitiveness of New York City.