Summary of Findings

• Most of the “Big Five” cities have faced significant fiscal stress. This affects their dependent school systems, which already are challenged in comparison to other schools as they have a relatively more disadvantaged student population and greater school facilities needs. The Big Five contain more than forty percent of statewide enrollment and the vast majority of poor, minority and limited English proficient students. Higher educational standards are adding even more pressure.

• Unlike other school districts, the Big Five districts are not independent entities. While they have varying degrees of independence in programmatic control, they are all fiscally dependent on their respective cities and cannot levy taxes or determine independently how much they will spend. Education in these cities competes with other vital public needs, such as police and fire safety. In this environment, the Big Five’s local contributions to education – already low by some measures – have come under increasing pressure as these cities struggle to balance municipal budgets.

• Local support for education has been relatively flat since the mid-1990s in the Big Four Cities (NYC has added local funding during this period). Increases in State and (to a much lesser extent), federal aid have made up the difference. School districts elsewhere, in contrast, have increased local support substantially.

• Education in the Big Five is funded within constitutional tax limits (which all of these Cities are approaching). Outside of the Big Five, school districts do not have tax limits (although they do have public budget votes).

• Capital financing is also under pressure in the Big Five, which face debt limitations very different from those imposed on other schools. New York City and the Big Four have municipal debt limits of 10 and 9 percent of their property tax bases, respectively, including school district debt. Other cities have slightly lower debt limits (7 percent), but separate, additional debt limits for schools (5 percent). Non-city school districts have even more flexibility, with 10 percent limits, and the ability to deduct the portion of debt funded with State building aid.

• The CFE decision may have a dramatic impact on the Big Five. Although the ruling only applies to NYC directly, the discussion about aid changes to address CFE has included all of the big cities, as well as other “high needs” districts. While likely beneficial for education funding, CFE may cause additional stress on city finances, because school funding comes from both State and local sources, and some current proposals would mandate a specific local contribution. The discussion about CFE and big city educational issues has focused largely on State school aid. There has been less public discussion of whether a system in which the largest and most disadvantaged school populations are dependent upon heavily stressed cities is even reasonable.
Overview

The “Big Five” cities of New York City, Buffalo, Rochester, Syracuse and Yonkers either are, or have recently been, fiscally distressed. This affects their dependent school systems, which already face significant challenges associated with the socio-economic composition of their students and the age of their facilities. These schools contain more than forty percent of the public school enrollment in the State, and the vast majority of poor, minority and limited English proficient students. New federal and State performance standards add another layer of stress and expense, as they are particularly difficult for these schools to achieve.

Unlike other school districts in the State, the Big Five districts are not independent entities. While they have varying degrees of independence in programmatic control, they are all financially dependent on their respective cities. This means they cannot levy taxes or determine independently how much they will spend on instructional programs and services. It also means that education in these cities must be funded within constitutional tax and debt limits for the big cities. In this environment, the Big Five’s local contributions to education – already low by some measures – have come under increasing pressure as these cities struggle to balance municipal budgets.

Education represents over half of the Big Four’s budgets, and that share has risen over the past decade. Yet, the percentage of local revenue going to education has gone down in the Big Four cities over the same period. Increases in State (and to a much lesser extent, federal) aid have made up the difference, and have helped keep funding pressure off local taxpayers. New York City is not shown in the charts because it funds programs such as Medicaid and social services which are county responsibilities in all other parts of the State.

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1 The State Education Department (SED), as well as many academic studies, use minority status as an indicator for identifying students at risk of educational problems, along with other indicators such as poverty and limited English proficiency. See the "Chapter 655 Report" -- an annual report on educational conditions from SED. (http://www.emsc.nysed.gov/irts/655report/2004/Volume1/Volume1_TOC.html)
2 Except in NYC, where education is now essentially under the direct control of the municipal government.
3 “Big Four” refers to Buffalo, Rochester, Syracuse and Yonkers where New York City is excluded.

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Fiscally Dependent School Districts

One major factor that may well help Big Five schools is the outcome of the CFE decision, which held that it is the State’s responsibility to ensure that New York City’s funding is sufficient for each student to receive an adequate education. Although the ruling only applies to NYC directly, most of the discussion about resulting major State aid changes has included all of the Big Five, and indeed, many other “high needs” school districts as well. The CFE outcome may cause additional stress on city finances, however, as funding to address educational disparities can come from both State and local sources, and some current proposals would mandate a specific local contribution.

The Comptroller’s Office is involved in monitoring the fiscal problems of the Big Five. For decades, the Comptroller has had a statutory responsibility to assist the New York State Financial Control Board in the oversight of New York City finances and to serve as the fiscal agent for Yonkers. More recently, the Comptroller was instrumental in the creation of Buffalo’s Fiscal Stability Authority (BFSA) and has provided multiyear financial planning certifications for Rochester and Syracuse. In all of these cases, school funding is a major issue. Accordingly, this background report presents a discussion of the relevant aspects of this issue and offers various options for additional research or policy development, particularly around the issue of fiscal dependency – an area which becomes increasingly important in the context of a widening fiscal crisis in big cities.

Education in Big Cities: New Standards and High Needs

Disadvantaged Students

New York’s large urban areas have more poverty, more diverse populations and often more immigration than the rest of the State. These demographics are reflected and often magnified in the public school populations, as wealthier city residents often choose private schools. Students in these districts are significantly more likely than their counterparts in other areas of the State to be indigent and of limited English proficiency (see chart). Furthermore, students in the Big Five attend school less often, get suspended more often, graduate less frequently and continue to college less often than students in other districts in the State.

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4 Campaign for Fiscal Equity, Inc. v. State of New York
New Performance Standards

Beginning in 1995, New York State raised performance standards for all public school students. In essence, these new curriculum standards, testing and graduation requirements adopted by the NYS Board of Regents “raised the bar” for all students in all schools in the State. These standards are still being phased in and remain under debate, with many questioning whether they are attainable. Urban schools, with their greater proportions of disadvantaged students, are having a much harder time meeting these standards than suburban or rural schools, as demonstrated by low performance on tests (see chart), as well as the high number of schools under registration review (SURR) in the Big Five compared with other districts.

The federal government is also involved in the standards movement, placing additional obligations on the states through a variety of new initiatives, such as the “No Child Left Behind Act of 2001” (NCLB). Most of these additional obligations are encompassed within the Regents’ requirements. National research suggests that implementation of the
Fiscally Dependent School Districts

NCLB Act alone will cost states and local districts an extra $7-$10 for every additional dollar of federal funding they receive through the Act.\(^5\)

**Fiscal Stress and Fiscal Dependence**

All of the State’s Big Five cities are experiencing or have experienced substantial financial distress. In 2003, upon recommendation of the Comptroller, State legislation created the Buffalo Fiscal Stability Authority to address Buffalo’s structural deficit and to ensure the long-term fiscal viability of the City. In 2004, legislation provided for accelerations of State aid to Syracuse and Rochester to address current budget gaps and required those cities to prepare multiyear financial plans as a condition of receiving those payments. Those projections showed both cities would be facing budget gaps in the coming years that are indicative of severe fiscal stress.

\[\text{Wealth of Cities, 2003 School Year*}\]

Such efforts have confirmed that these cities have limited ability to increase funding for their municipal programs, including education. Upstate, this is due to lower incomes and property wealth, as shown in the chart. Downstate, wealth appears about average in New York City and Yonkers, partly because New York drives the State average due to its size. The metropolitan areas around the two downstate cities, however, have much higher than average wealth. (Westchester County’s wealth, for example, is nearly twice the State average.)

In addition to below average wealth, Upstate cities are dealing with a stagnant property tax base. New York City and Yonkers are tracking or

\[\text{Full Value Per Pupil, Big 5 Cities, 1977-2003}\]

outperforming the rest of the State in property value growth, but the three big Upstate cities have had flat or even declining property values, even before adjusting for the effects of inflation.

These cities struggle to maintain municipal services at their current levels, particularly after implementing increasingly frequent cost-saving measures. State and federal aid has not risen dependably, and middle-class families often do not remain in cities when choosing where to live, in large part because of school performance issues.

Like most big city school districts across the country, the Big Five school districts are fiscally dependent on their parent cities for local funding. Although these needy districts generally receive a high proportion of State school aid, a significant percentage of their funding comes from local sources (ranging from 17 to 44 percent). Unlike other school districts in the State, which set their own spending levels and are able to levy property taxes, the Big Five cities must compete for local funding with other highly valued services such as public safety and sanitation.

Fiscal dependence creates an extra problem for big cities. Every city in the State must keep property tax levies within a Constitutional tax limit, but only the Big Five must fund dependent school districts out of this amount. Even with access to sales tax and other sources of revenue, the cities of Buffalo, Rochester and New York City are all within close range of their tax limits (and have been closer at times in the past). In Buffalo, in particular, this is an issue that has had a direct bearing on education funding. In contrast, suburban and rural districts, which generally do not face the educational challenges of city districts, have no tax limits with which to contend.

**Capital Needs**

In addition to competing with other municipal services for money for ongoing needs, the Big Five districts have to compete for capital financing, since the State limits the total amount of debt these cities can issue. The various State-imposed debt limitations on all municipalities and school districts can have very different impacts on different types of

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6 The State Constitution and various implementing statutes restrict the amount of revenues that cities can raise for operating purposes through the property tax. The maximum operating levy is linked to a five-year average of taxable full valuation of property, and can decline when property values decline.
districts. The State allows New York City and the Big Four to have municipal debt limits of 10 and 9 percent of their property tax base, respectively, with school district debt included in these limits. Small cities, by contrast, have lower municipal debt limits (seven percent), but separate debt limits for schools (another 5 percent). Thus, the effective debt limit on small city taxpayers for total municipal and school debt is 12 percent in total. Non-city school districts have even more flexibility, with 10 percent limits on school districts in addition to the 7 percent limit on the towns and villages where those districts are located.

### Debt Limit by Type of School District and Municipality

<table>
<thead>
<tr>
<th>Type of District</th>
<th>Limit on School District</th>
<th>Limit on Municipality</th>
<th>Allowed to Exclude Portion of Debt Funded by State Aid?</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>(included in city limit)</td>
<td>10% city</td>
<td>No</td>
</tr>
<tr>
<td>Big Four</td>
<td>(included in total)</td>
<td>9% city</td>
<td>No</td>
</tr>
<tr>
<td>Small City</td>
<td>5%</td>
<td>7% city</td>
<td>No</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>7% town or village</td>
<td>Yes</td>
</tr>
</tbody>
</table>

In addition, only non-city school districts have the ability to exclude debt supported by State building aid from their limits. Given this structure, it is not surprising that (with the exception of Yonkers) the Big Five have exhausted a much higher percentage of their debt limits than other cities in the State. This structure has also contributed to the need to find creative solutions to ensure that school facilities in the Big Five are adequately maintained. Most notably, this led to the creation of the Buffalo Joint Schools Construction Board, a new financing and construction model which was designed to implement and oversee a major overhaul of Buffalo’s school facilities. A similar model is currently under consideration to manage and administer the renovation and financing of Syracuse public schools.

Yet the Big Five have high needs for capital improvements. These cities house some of the oldest school buildings in the State, with an average building age of more than 55 years (50 years is considered a reasonable maximum lifespan), according to the most recent information available (1997 survey). This has created a particularly strong need for school capital improvements and new buildings in these cities, even as their debt limits and financial condition make major capital undertakings less feasible.
Recent State and Local Funding Patterns

Similar to other districts with high needs and low local resources, the Big Five have a higher than average dependence on State aid: State revenues make up about 62 percent of school district revenues in the Big Four compared with 32 percent for the rest of the State, on average. Moreover, because of the fiscal pressures they have been under, the proportion of education expenditures coming from local resources has gone down in each of the Big Four cities over the period from 1993 to 2003.

Local contributions have shown an uneven pattern over the decade (see appendices):

• **New York City:** New York City’s local share of funding for education has remained fairly stable (representing 45 percent of the total spent on the city’s schools from all funding sources in 1993 and 44 percent in 2003), although there were funding cuts in 2002 following the 9/11 terrorist attacks. Overall, local funding for education increased by 74 percent during this period. Although New York is just below average State wealth, it has exhausted 95 percent of its tax limit and 78 percent of its debt limit. Enrollment is 1,100,000 students.

• **Buffalo:** Buffalo’s local support for its schools has increased by 38 percent over the last ten years. However, this contribution has declined as a percentage of the total spent on Buffalo’s schools from 20 percent to 17 percent during this period, while the city has been facing severe fiscal difficulties. It is now under the oversight of the Buffalo Fiscal Stability Authority. However, it also has the Buffalo Joint Schools Construction Board, a new financing and construction model that was created to carry out a major overhaul of the city’s school facilities. Buffalo has exhausted 88 percent of its tax limit, 90 percent of its debt limit and has less than half the average wealth of other school districts in New York. Enrollment is 43,000.

• **Rochester:** Rochester’s local aid to education has not increased since 1993. As a result, this contribution declined as a percentage of the total spent on Rochester’s schools from 36 percent in 1993 to 24 percent in 2003. However, among the Big Five cities, Rochester has the highest relative tax effort dedicated to schools, with local support representing more than 25 percent of property values. It has less than half the average wealth statewide and has exhausted 84 percent of its tax limit and 71 percent of its debt limit. Enrollment is 36,000.

• **Syracuse:** From 1993 to 2003, Syracuse’s local support for schools has remained flat. However, within that period the city’s aid to schools fluctuated significantly, with four years of substantial increases and three of substantial cuts, including a 10 percent cut in 1996. Syracuse has less than half the average wealth statewide and has exhausted 75 percent of its tax margin and 70 percent of its debt limit. Enrollment is 23,000.

• **Yonkers:** Yonkers’ support for schools has also been unstable during this period, with a pattern of substantial increases in the early 1990s giving way to cuts and flat
funding by the late 1990s and early 2000s, including a 12 percent cut in 2000. City support for its schools fell from 57 percent of the total spent on education in 1993 to 33 percent in 2003. While it has above average wealth, Yonkers provides the lowest percentage of property values to fund education among the Big Five. It has used 72 percent of its tax margin and only 22 percent of its debt limit. Enrollment is 27,000.

**Tax Rates**

Another way to analyze the local tax effort made by the big cities is to compare the effective local property tax rate for school purposes. This gives a rough idea of how heavily the cities tax themselves as a percent of their residents’ property wealth. The following chart shows local revenue effort calculated as a property tax rate (i.e., dividing local revenue from all sources by property value for each city/school district). This method allows us to compare revenue from sources other than the property tax, since the Big Five cities (particularly New York City) have more complex revenue structures than independent school districts.

By this measure, local effort in the Big Five districts varies widely. Rochester has been taxing itself at a much higher than average rate for the past decade. New York, by this measure, looks substantially below average, partly because its property wealth is very high compared with the other cities. All of the cities except Syracuse and Yonkers increased their tax rate over the period, as did districts in the rest of the State. Yonkers, in fact, went from slightly above average effort to substantially below average during the decade.

**Research on Fiscal Dependence**

Fiscal dependence can have serious repercussions for the Big Five school systems. When their cities are in crisis or must make funding decisions to reflect other local priorities, the schools can be faced with budget cuts. By contrast, independent school districts are not mandated to make cuts by another governmental entity. Even if an independent school district budget is rejected by taxpayers, a contingency budget is established which permits some growth over the prior year’s budget. As we have seen, tax limits are another serious constraint on dependent schools.
The notion that fiscal independence could be beneficial for the Big Five has existed for a long time. To predict how much local aid a municipality would have allocated to its school district were it not fiscally dependent, however, is very difficult, and the relatively small amount of research that has been done on the topic does not conclusively recommend independence. In 1993, the New York State Special Commission on Educational Structure, Policies and Practices recommended fiscal independence for large urban schools. However, a recent academic study that compared New York’s Big Five to other large urban dependent and independent districts around the Northeast did not find that dependent districts’ behavior in response to State aid increases was different from their independent peers.\(^7\)

**The CFE Case**

The equity and adequacy of funding for public education has long been at issue in New York State and elsewhere. The debate has generally focused on those who hold that cities and other disadvantaged school districts have not been provided enough school aid to overcome their lack of local resources in combination with their higher needs. This issue has now come to a head in New York State, with the Court of Appeals ruling in the CFE court case coming at a critical point in the implementation of more stringent graduation requirements.

In *Campaign for Fiscal Equity, Inc. v. State of New York (CFE)*, the plaintiffs argued that New York State has unconstitutionally denied students in the New York City public schools a sound basic education, because it has allowed the schools to be underfunded. In June 2003, the Court of Appeals held that the State Constitution obligates the State to provide students with the *opportunity* to obtain a “sound basic education,” defined as a “meaningful high school education…that prepares [students] to function productively as civic participants.” The Court specifically rejected the State’s contention that the district’s high dropout rate and low test scores were largely due to the low socio-economic status of the City’s students, or the failures of the City’s Board of Education to use its resources well. The Court noted that even had the State successfully proven misconduct on the part of the City, it would still be liable for the sub-par quality of education the City provided because it is the State, under the State Constitution, that bears ultimate responsibility for the education of its citizens.

Thus, the Court of Appeals decision held that the State is responsible for insufficient funding whether it results from a lack of State or local sources. The Court ordered the State to implement reforms which remedy the aid formulas by July 2004. In response to this order, the State-appointed Zarb Commission, the Board of Regents and CFE all advanced State aid reform proposals, but none of them were enacted by the Legislature. When the State did not enact a remedy by the deadline, the Court appointed a panel of school finance experts to referee the remedy and to submit a single plan to the Court by November 30, 2004. The Court affirmed the plan in March 2005, and the State was given until June 2005 to implement it. Governor Pataki issued a formal appeal of the Court’s order on April 15, 2005, which was upheld by the State Appellate Division on

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May 3, 2005. This effectively postpones any court-ordered payment by the State until 2006-07.

As a result, the question of how much it will cost to address the CFE ruling is still very much an open question, and different parties have reached very different conclusions. However, it is noteworthy that the CFE organization itself has called for a new funding model that includes a required local contribution for school districts failing to meet Regents’ standards. This would be calculated on ability to pay, rather than historical effort, and would increase the amounts paid by New York City and Yonkers, but would not impact any of the other Big Five. (The higher State aid might, in fact, allow high tax rate districts like Rochester to relax local effort and still meet their required contribution.)

Although its court case was only for New York City, CFE plaintiffs have constructed what they consider a “fair and transparent” formula and are calling for its Statewide implementation. The total annual State aid increase for operations would be $8.6 billion Statewide ($5.6 for New York City alone), phased in by 25 percent increments over four years. The CFE aid proposal calculates the total revenues needed to support a sound basic education in each district. The two models that can be used to do this are to look at what successful schools with similar demographics spend, or to rely upon the professional judgment of education experts to determine the appropriate spending level. CFE’s formula is based on the latter.

Once this amount is determined, a local contribution is calculated based on ability to pay, including income and property wealth in the district. This local contribution would be mandatory for any district where students are not meeting State performance standards, including all of the Big Five. The difference between the total needed and local contribution would be covered by State aid, resulting in the “foundation” amount to be spent by the district. Districts could, of course, spend more local revenue than that determined by the formula. In addition to the operating aid formula, CFE has also called for $10 billion in capital improvement aid over five years ($9.2 billion for New York City).

The Regents have recommended a foundation aid approach, similar to CFE, but with significant differences. It calls for slightly less in State aid ($6 billion), to be phased in over a longer period (seven years). While CFE would require at least some districts to pay the local contribution, the Regents only calculate an “expected” local contribution. Thus, although State aid would substantially increase, and though this increase would likely cause an increase in spending, there is no requirement for a city to increase or maintain tax effort.

Other studies have estimated costs as well, with all of the major ones using a foundation approach. The New York State Commission on Education Reform, convened by Governor Pataki, estimated a range of $2.5 billion to $5.6 billion in additional annual funding (over the 2003-04 school year appropriation), based on a successful schools model. CFE criticized the Commission’s methodology on the grounds that only the lowest cost successful schools were included, rather than calculating an average based on a wider range of costs. Earlier research from Syracuse University estimated the total cost of bringing
all of the State’s school districts up to the Regents’ standards to be $7.2 billion ($7 billion, or 97 percent, of which would be needed by the Big Five school districts).\(^8\)

In contrast, the 2005-06 enacted budget increased aid by $848 million Statewide over last year, $322 million more than the Governor’s Executive Budget proposal. Although the Legislature kept the $325 million designated by the Governor as a new “Sound Basic Education” aid formula, the Legislature will likely debate the matter outside of the budget process as well.

**Issues for Further Consideration**

Although there is a lot of discussion about CFE, and the cost of meeting education standards generally, one major question few are addressing is whether a system in which the largest and most disadvantaged school populations are financially dependent upon fiscally stressed cities is even reasonable. This question exists even if the school aid formulas are significantly revamped, assuming local support is part of that restructuring. Accordingly, the following section describes the major policy options sometimes advanced to address this issue, including maintenance of effort, fiscal independence and mayoral control.

**Maintenance of Effort**

In light of the fact that the State may substantially increase education aid, not just to New York City, but to all poor urban school districts, one issue that will likely move to the forefront of discussions is ensuring that this increase supplements rather than supplants local funding efforts. There have been many public discussions in New York, as well as in the Big Four, about whether large municipal governments are providing an adequate or fair contribution to their dependent school systems.

These discussions often focus on the issue of maintenance of effort, which is a term describing any attempt to ensure that State aid is not used to supplant local support for a given program or activity. The fundamental question is whether the State should ensure that increased education funding goes to schools, or allow cities to retain the flexibility to use this aid to help alleviate local fiscal pressures. Maintenance of effort (MOE) is a somewhat elusive term, since it attempts to capture what local contributions *would have been* without an increase in State aid. For example, should cities never reduce their overall dollar contribution, or should their contribution be based on a share of total spending or of the local budget? Should their contribution rise with inflation, or with pupil growth? Should a city be able to make cuts in education if it has to cut its total budget? If so, should it be required to restore school spending after it is out of fiscal crisis? Although MOE provisions are popular among education advocates, they involve trade-offs in efficiency, local control and sometimes fairness; some are also difficult to enforce.

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Efficiency
Maintenance of effort provisions often involve an efficiency trade-off, because their intent is to cause schools to spend more than they might have spent otherwise. If spending is already adequate to meet goals, additional spending may be inefficient. CFE tries to avoid this sort of efficiency problem by mandating an MOE only in cases where the school district is underperforming on State standards. All of the Big Five districts would fall into this category, but so would many others.

Local Control
A mandate that prevents a local government from making substantial decisions about how much to tax and spend reduces its ability to control its budget or respond to other needs. For example, if a Big Five city wished to reduce property taxes or increase spending for economic development in order to attract new residents and businesses, an education MOE may prevent that.

Similarly, in times of fiscal crisis, education is only one of many vital services provided by these governments, including police and fire services, yet education would be essentially “off budget” for purposes of cost reductions. Compliance with an MOE would be more feasible if it allowed for reductions in local effort in times of fiscal stress.

On the other hand, municipalities sometimes deliberately construct budget imbalances to fall on the school district, rather than on other municipal services, in the belief that more public sympathy – and ultimately State aid – will be generated to avoid school program cutbacks than would be raised for other purposes.

Equity
There is no reason to suppose that local effort is currently evenly or fairly distributed. In fact, as the chart presented earlier showed, Rochester taxes itself at a very high rate, while Buffalo is below average, and was even further below average ten years ago. Would it be fair to freeze current disparities in law? CFE’s required local contribution would avoid this sort of dilemma by coming up with a formula that applies across the board. If Rochester still wished to spend above that amount, it could, but if it chose to reduce local effort when more State aid arrived, it would not be penalized.

History
Historically, all school districts were subject to a minimum local tax effort provision, but that section of law was overridden in annual budget legislation for several decades before being permanently abolished in the mid-1990s. New York City is currently the only one of the Big Five subject to a permanent MOE provision, although the nature of that provision has changed.

Until 2002, the Stavisky-Goodman Act required the City to appropriate a level of funding for education that was no less than the average share of the overall City budget received over the three prior years (unless the Board of Education requested less). The law was adopted during the mid-1970s fiscal crisis to ensure that schools did not bear a disproportionate share of City budget cuts. The Act served its purpose during the crisis, but as the
City’s finances improved and State aid grew, the City was able to replace local effort with increases in State support, effectively controlling the amount of aid that reached the schools. The use of budgeted numbers, rather than actual spending, also allowed the City to make cuts during the fiscal year. City officials, however, also disliked the law, arguing that it interfered with their ability to establish budget priorities.

In 2002, the Stavisky-Goodman statute was replaced by a maintenance of effort provision that requires New York City to appropriate at least as much City funding (excluding State and federal education aid) as it did in the previous fiscal year. This total dollar maintenance of effort provision has been described by some as being stronger than Stavisky-Goodman, because it does not allow the City’s contribution to decrease, but in other ways it is not as strong. For example, this new MOE provision excludes City expenditures for pensions and debt service costs, and allows the City to reduce its support for education by a proportional amount if the City’s total revenue declines.

Furthermore, the 2002 provision does not require the City’s contribution to keep pace with inflation and/or changes in the system’s needs (e.g., increases in enrollment, changing demographics of its student body, etc.). Because the base year selected by the new law was prospective, it allowed the City to reduce its spending in the 2002-03 fiscal year by $530 million, which served to lower the standard by which its education funding is measured. This maintenance of effort requirement (which was enacted before the CFE legal decision was rendered) sunsets in 2009, at which time the 1976 Stavisky-Goodman provisions again become effective.

Although there has never been a Big Five-specific MOE enacted in law, it has been considered. Governor Pataki has introduced MOE provisions for the Big Five in four of his past five budgets, and the State Legislature has considered similar bills in every year of the past decade. Most proposals appear to be based on whatever is New York City’s model at the time. Prior to 2002, most of these were similar to the Stavisky-Goodman statute, requiring that total education spending from all sources remain a certain percent of the budget. Post-2002, most have been based on maintaining stable local revenue for education from the prior year, sometimes with provisions for enrollment growth or inflation.

In 1993, a strong maintenance of effort bill that would have covered the Big Four passed the Legislature, but never became law. The bill amended the Stavisky-Goodman law to extend it to the other Big Five cities as well as to substantially strengthen it. It would have required the cities’ minimum contribution to be the greater of the existing Stavisky-Goodman share calculation or a new minimum defined as the preceding year’s total support adjusted for changes in enrollment. After the legislative leaders decided to withhold the bill by not sending it to the Governor, a coalition of educational organizations sued, arguing that there was no constitutional provision for holding a bill in this manner. The groups won the case on the procedural issue, but by the time the matter was adjudicated, the legislative year was over and the bill had expired without having been signed into law.
Current Debate Over Local Effort for Big Five
The Governor’s budget for 2005-06 attempted to institute a Big Five MOE based on the New York City model. This provision was not included in the enacted budget, possibly because legislators felt the issue would likely re-emerge in debate over the CFE funding model. As noted above, the CFE model determines a local effort according to a calculation of the district’s ability to pay, which would be mandated in any district that is not meeting State performance standards. This would affect not only the Big Five, but many other districts as well. The Legislature will doubtless also consider the arguments of other plans, such as the Regents’ proposal, that do not mandate their “expected” local contributions.

Fiscal Independence and Other Governance Changes

It has long been thought by advocates that fiscal independence would likely be beneficial for the Big Five school systems. This is largely based on the assumption that fiscally dependent school districts receive less local funding than their independent peers. Another view of the issue is that the disconnect between the municipal entities that determine the funding made available for dependent school districts and those who manage them creates a dynamic in which it is unclear who is ultimately responsible for the performance of these districts.

Mayoral control is currently in place in New York City, and in other large cities (e.g., Chicago, Baltimore and Oakland). The theory is that by aligning responsibility for programmatic control with financial control, and vesting that responsibility with a politically accountable mayor, quality can be improved.

In 1995, for example, the Illinois legislature shifted the management of Chicago’s public schools to the jurisdiction of the mayor, giving the mayor authority for the school district’s budget and the power to appoint school board members, the board’s president and the district’s chief executive officer.9 The mayor subsequently initiated system-wide reforms. Other urban locales are now allowing for greater, if not complete, mayoral control of their public school systems with mixed results. In Detroit, for example, mayoral control resulted in a 10-day long teachers’ strike and debilitating acrimony between the mayor and local education representatives.

Another radical departure from the current organization and funding of the big city school districts is full state control. This approach has been tried by several states including New Jersey, West Virginia and Pennsylvania.

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Appendix I: Trends in Federal, State and Local School Funding Compared with Total Expenditures, 1977-2003

New York City

Buffalo

Rochester
## Appendix 2: Administrative Configuration of the Big Five School Systems

<table>
<thead>
<tr>
<th>School District</th>
<th>Enrollment</th>
<th>CEO</th>
<th>Board</th>
<th>Board Chair</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>1,100,000</td>
<td>Chancellor, appointed by the mayor</td>
<td>Panel for Educational Policy, 13 members; 8 appointed by mayor; 5 by borough presidents</td>
<td>Chancellor chairs</td>
</tr>
<tr>
<td>Buffalo</td>
<td>43,000</td>
<td>Superintendent; hired by the board</td>
<td>9 member school board; publicly elected</td>
<td>President elected by the board</td>
</tr>
<tr>
<td>Rochester</td>
<td>36,000</td>
<td>Superintendent; hired by the board</td>
<td>7 member school board; publicly elected</td>
<td>President elected by the board</td>
</tr>
<tr>
<td>Syracuse</td>
<td>23,000</td>
<td>Superintendent; hired by the board</td>
<td>7 member school board; publicly elected</td>
<td>President elected by the board</td>
</tr>
<tr>
<td>Yonkers</td>
<td>27,000</td>
<td>Superintendent, hired by the board</td>
<td>9 member school board, appointed by the mayor</td>
<td>President elected by the board</td>
</tr>
</tbody>
</table>