



CITIZENS BUDGET COMMISSION

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NEW CBC REPORT DEFINES OPTIONS TO COMPLY WITH CFE RULING FOR FUNDING PUBLIC EDUCATION IN NEW YORK STATE

CBC CALLS FOR THE STATE TO PAY FOR NEEDED IMPROVEMENTS; FINDS THAT TAX INCREASES WILL BE REQUIRED IF NEW COSTS EXCEED \$3.2 BILLION

New York, NY – November 29, 2004 – The Citizens Budget Commission today released a report on how to fund the educational improvements mandated by the 2003 court ruling in the landmark lawsuit filed by the Campaign for Fiscal Equity (CFE). The judge found that the more than one million students in New York City’s public schools were not provided with the sound basic education guaranteed by the State Constitution. In subsequent months, the plaintiffs and the State’s political leaders have not agreed on a suitable remedy.

The recommendations of a court-appointed panel of masters in the case will be announced tomorrow. The amount needed for annual operating improvements is expected to fall between \$2.5 billion (a minimum amount estimated by a special commission appointed by Governor George Pataki) and \$7.2 billion (the amount estimated by the CFE). The CFE also found that about \$15 billion is needed statewide in one-time capital improvements. However, as discussed below, the CBC report finds that about \$12 billion of this is avoidable, leaving \$3 billion in unavoidable capital costs.

The CBC report explores two essential questions:

First, whatever the amount, where should the money come from? In that regard, the report concludes:

- The State, rather than the City of New York or 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. The options for increasing taxes are not limited to raising existing tax rates; they also include ways of applying those taxes more broadly and fairly. The best of these options are:
 - Improve enforcement of the existing sales tax on remote (including internet) transactions to generate significant new revenues in future years. The potential from that is estimated at between \$40 million and \$590 million annually.
 - 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 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.

Second, what changes other than more money are essential to improving educational outcomes? In that regard, the report makes the following additional recommendations, in part because experience in other states demonstrates that money alone will not solve the problem:

- 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.
- 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. 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.

“It’s time to face up to the question of where the money needed to fix New York’s schools should come from,” said Diana Fortuna, President of the Citizens Budget Commission. “Our children deserve it, and our courts require it.”

“We must also ensure that the money is well-spent,” said Charles Brecher, CBC’s Research Director and a Professor at NYU’s Wagner School. “Money alone will not improve educational outcomes.”

The entire report is available at www.cbcny.org.

Founded in 1932, the Citizens Budget Commission is a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York State and New York City governments. Further information on the Commission is available at www.cbcny.org.

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