



**DATE:** June 12, 2014  
**FROM:** Raymond J. Orlando, Chief Financial Officer  
**SUBJECT:** FY 2012 School Based Expenditure Report (SBER) Overview

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The FY 2012 School-Based Expenditure Report (SBER) presents fiscal year 2012 (FY 2012) expenditures for the New York City Department of Education (DOE). The fiscal year runs from July 1<sup>st</sup> through June 30<sup>th</sup>. The financial data used in this report was extracted from the DOE's accounting system of record (FAMIS) and represent the DOE's 2012 year-end audited spending condition. Pupil enrollment data is based on audited October 31, 2011 (School Year 2011-2012) registers.

This memo contains a summary of FY 2012 SBER data as well as management comments on FY 2012 revenue and spending trends.

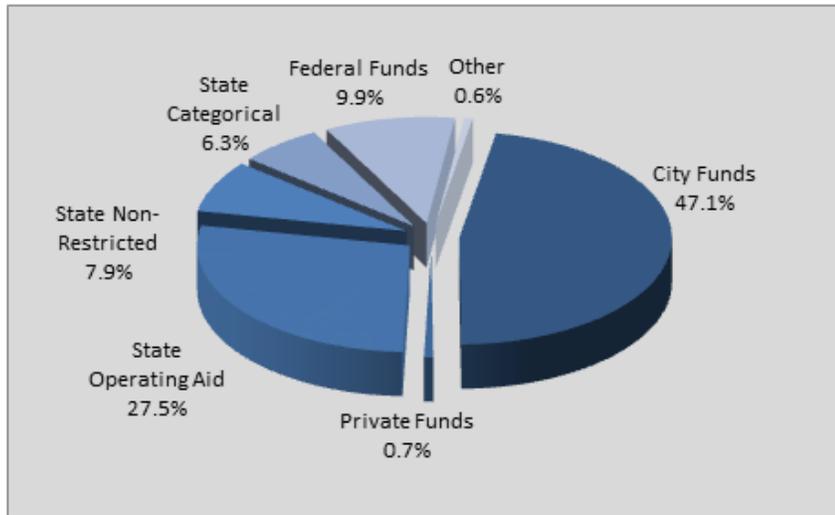
#### **FY 2012 REVENUE SUMMARY**

Overall, revenue sources supporting the DOE, including federal, state, city and private funding inched up from the prior year by 1.8%. Chart A reflects expenditures by FY 2012 source of federal, state, city, and private operating revenue supporting the DOE (net of debt service and city contributions to pensions):

- New York City funding increased by 17.3%. New York City funding contributes 47.1% to the DOE's \$19.3 billion total operating revenue funds. This increase was due to the City backfill of the loss of Federal stimulus funding, which averted the potentially catastrophic funding cliff due to the end of American Recovery and Reinvestment Act (ARRA) funding streams in FY 2011.
- New York State funding declined from FY 2011 by 1.11%, accounting for 41.7% of the total operating revenue funds. The decrease was attributable to the funding drop in State Operating Aid and State Categorical funding by 2.3% and 1.4% respectively, while State Non-Restricted funding for New York City increased by 3.5%.
- Federal funding declined by 31.5%, mainly due to the ending of ARRA funding streams in FY 2011. Federal revenue sources constituted 9.9% of the total operating revenue funds.
- Private funding also decreased by 9.5%, accounting for 0.7% of the total operating revenue funds.
- Pollution Remediation costs, represented in the analysis as "Other" funds, decreased by 7.8% from the prior year, and comprised 0.6% of the total operating revenue.

Chart A

**FY 2012 Expenditures by Revenue Source: City, State and Federal  
(excluding Debt and City Contribution to Pensions)**



The actual proportions of total education revenues for the past two years are displayed below.

Comparison of Education Funding: Fiscal Year 2012 vs. 2011 (\$ in Millions)						
	FY 2011		FY 2012		FY 2012 - 2011	
	Revenue	% of total	Revenue	% of total	Revenue	% change from FY 2011
City Funds	\$7,734.6 M	40.8%	\$9,075.7 M	47.1%	\$1,341.1 M	17.3%
State Operating Aid*	\$5,424.5 M	28.6%	\$5,300.4 M	27.5%	-\$124.1 M	-2.3%
State Non-Restricted*	\$1,470.2 M	7.8%	\$1,521.6 M	7.9%	\$51.4 M	3.5%
State Categorical*	\$1,228.1 M	6.5%	\$1,210.7 M	6.3%	-\$17.4 M	-1.4%
Federal Funds	\$2,800.3 M	14.8%	\$1,918.2 M	9.9%	-\$882.1 M	-31.5%
Private Funds	\$149.3 M	0.8%	\$135.2 M	0.7%	-\$14.2 M	-9.5%
Other **	\$131.9 M	0.7%	\$121.5 M	0.6%	-\$10.4 M	-7.9%
<b>TOTAL</b>	<b>\$18,938.9 M</b>	<b>100.0%</b>	<b>\$19,283.3 M</b>	<b>100.0%</b>	<b>\$344.4 M</b>	<b>1.8%</b>

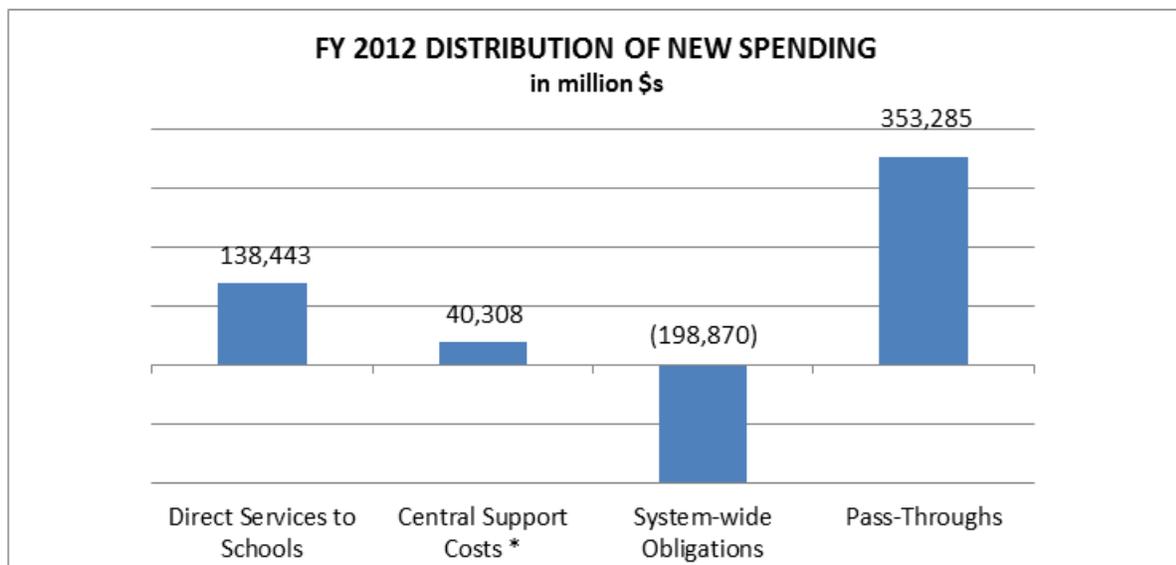
\* New York State revenues are broken into three categories: State Operating Aid, State Non-Restricted Aid and State Categorical. Beginning in FY08, State Operating Aid and a portion of State Non-Restricted Aid were folded into Foundation Aid. State revenues continue to be broken into the three categories shown above for ease of comparison to past year reporting.

\*\* Beginning in FY 2010, to show pollution remediation costs comparably, these costs are listed as Other funding.

## SUMMARY OF YEAR-OVER-YEAR SPENDING TRENDS: OVERALL

As shown in Chart B, due to the significant decline of the revenues from federal, state and private funding, overall DOE public school spending decreased by a total of \$20.1 million, while Pass-Through expenses for Charters and Non-Public schools grew by \$353.3 million. DOE public school spending was predominately impacted by the Debt Service Payment decline in the amount of \$232.2 million, which combined with the \$33.3 million increase in Retiree Health expenses, nets to the System-wide Obligation expense decrease of \$198.9 million. Rounding out public school spending, a year-over-year net increase was seen in Direct Services to Schools of \$138.4 million, and Central Support Costs of \$40.3 million.

Chart B



Changes in these areas are explained in the “Summary of Year-Over-Year Spending Trends” section of this memorandum.

\* Central Support Costs includes both Field Support Costs and System-Wide Costs.

## SUMMARY OF YEAR-OVER-YEAR SPENDING TRENDS: BY CATEGORY

### I. DIRECT SERVICES TO SCHOOLS

Direct Services to Schools increased by \$138.4 million, or 0.80%, over FY 2011. Major contributors to the increased costs in this category are the significant growth in Health Insurance spending and Pension Contributions. Health Insurance and Pension Contributions grew by \$129.7 million (7.9%), and \$221.0 million (9.0%) in FY 2012 over FY 2011, respectively. Health Insurance growth is primarily determined by changes in contractual health insurance rates as negotiated between the City and the health insurance carriers, while the year-over-year increase in Pension Contributions is mostly affected by market rate

conditions and actuarial valuations of liabilities and assets. The fringe rate growth directly contributed to increases in these areas of the category: Teachers, Education Paraprofessionals, Counseling Services, Drug Prevention, Principals and Assistant Principals. The net change in the category was reflected across the following areas (refer to Chart C for details):

- Classroom Instruction – increase of \$110.2 million (1.2%)
- Instructional Support Services – increase of \$107.1 million (3.8%)
- Leadership, Supervision and Support – decrease of \$39.0 million (-2.2%)
- Ancillary Support Services – increase of \$35.6 million (2.1%)
- Building Services – decrease of \$49.2 million (-3.4%)
- Additions to Salary/Projected Expenses – decrease of \$26.3 million (-18.6%)

### ***Classroom Instruction***

In FY 2012, all schools absorbed a 3.26% cut to their Fair Student Funding base. In times of budget reductions, schools prioritize spending needs, and usually cut OTPS (Other Than Personal Services) expenses before reducing PS (Personal Services). As a result of the budget reduction, many classroom services experienced declines. Overall, this functional category increased by \$110.2 million, primarily due to increase in Health Insurance benefits cited earlier. Major increases and reductions occurred in the following areas:

- Teacher spending had a 1.5% increase, in the amount of \$114.2 million, mainly associated with increased Health Insurance benefits growth.
- Contractual Instructional Services experienced a \$55.6 million increase, primarily due to increased expenditures in the Title I SES program, and growth in participation in Universal Pre-K programs provided by CBOs. These increases are offset by an expenditure drop in Title I School improvement grant services captured in this category.
- There was a decrease of \$45.1 million in the Instructional Supplies and Equipment. The Teachers' Choice program, which was funded by the New York City Council, was cut in FY 2012, contributing to \$8.8 million of the decrease. Other reductions were due to school-based decisions regarding the budget reduction.
- There was a \$44.6 million drop in professional development spending. Due to the reduced budget, discretionary decisions of principals resulted in reduced professional development activities.
- Summer spending increased by \$24.6 million, mainly associated with cost increase incurred by the Chapter 683 mandated summer programs and increased fringe component.

### ***Instructional Support Services***

The net \$107.1 million increase in Instructional Support Services is comprised of several categories that had increases in spending due to increased demand for IEP services, and increased Health Insurance costs (i.e. \$114.0 million in Related Services, \$9.4 million in Counseling, \$3.1 million in Attendance and Outreach, \$1.3 million in Drug Prevention), and those with decreases in spending (After School & Student Activities \$13.3 million, Referral & Evaluation \$4.6 million, and Parent Involvement \$2.9 million).

Related services increased by \$114.0 million primarily associated with growth in student IEP need, IEP paraprofessional, speech teacher, occupational and physical therapist personnel increases in schools, and related services accrual increase.

### ***Leadership, Supervision and Support***

School Leadership, Supervision and Support expenditures dropped by \$39.0 million from the prior year. The decline was attributed to reductions in school aides and secretary positions, and supplies, materials and equipment due to budget reductions. Increases in the Principals and Assistant Principals spending were directly attributable to the fringe rate growth cited earlier.

### ***Ancillary Support Services***

Ancillary Support Services, which includes food services, transportation, school safety, and computer system support, increased by \$35.6 million. Food Services spending total increased by \$13.5 million, mainly attributed to two factors: Personal Services (PS) went up due to the increase in the fringe component. OTPS increased primarily due to the effects of food inflation and new school openings requiring additional kitchen supply and equipment. The other cause of OTPS increase was associated with pest control need for extermination of mice and bed bugs in the schools.

There was a \$33.6 million increase in Transportation cost, due to contractual CPI % rate adjustment in busing contracts, and the result of both switching insurance carriers in FY 2012 and covering the shortfall for prior year insurance collateral.

Computer System Support decreased by \$11.1 million mainly related to the decreased application development and network maintenance costs.

### ***Building Services***

Building Services, which includes spending on custodial services, building maintenance, and energy and leases, decreased by \$49.2 million, or -3.4%, over the previous year. Decreases in expenditures were seen in Custodial Services (\$21.1 million), Building Maintenance (\$20.1 million), Energy (\$22.3 million), whereas Lease saw an increase (\$14.8 million).

The increase in custodial services OTPS is a result of the transfer of maintenance of buildings previously operated in-house to external service providers, resulting in a \$28.4 million decrease in regular custodial expenses.

Decreases in expenditures for maintenance, repairs, and operation of infrastructure directly contributed to the drop of Building Maintenance category. In addition, the pollution remediation outlays decreased by \$10.4 million, and code violation removal cost declined by \$2.7 million.

Energy costs declined by \$22.3 million, mostly from the cumulative effects of converting many of DOE's heating systems from #6 fuel oil consuming boilers to the more efficient and cleaner natural gas/#2 fuel oil plants, as well as the relatively warmer winter that school year.

Leasing costs increased mainly due to new leases effective in FY 2012 and increased rental costs and retroactive payments for current leases.

### ***Additions to Salary/Projected Expenses***

In FY 2012, expenditures in this category dropped by \$26.2 million. This category included encumbrances (or their withdrawal in the case of “negative expenses”) that had yet been assigned to specific accounts, e.g. delayed payroll actions, charge-backs and late journal entries that were directly related to technical transactions for alignment between DOE and City’s accounting systems.

## **II. FIELD SUPPORT COSTS**

Field Support costs experienced an increase of \$27.1 million in FY 2012, of which \$20.3 million was attributable to spending on additional network level instructional coaches (achievement coaches and special education coaches), enabled by ARRA Race to The Top funding that DOE received in FY 2012. The remaining increase in the category was associated with a designation change and fringe increases. The designation change captured all staff reassigned pending investigation in the category of Sabbatical, Leaves and Termination Pay, because no direct benefit was accruing to the schools or students at the time these payments were made.

## **III. SYSTEM-WIDE COSTS**

Overall system-wide costs, including Central Administration and Central Instructional Support, increased by \$13.2 million, or 1.03%, in FY 2012. This increase was primarily related to ARRA Race to The Top grants that were used to develop and maintain data systems to support instruction and innovation in schools, support standards and assessment, and strengthen teacher and school leader effectiveness.

## **IV. SYSTEM-WIDE OBLIGATIONS**

System-wide Obligations decreased by \$198.9 million in FY 2012, driven by a significant decrease in General Obligation (GO) debt service of \$232.2 million, while Retiree Health and Welfare payments went up by \$33.3 million. Such large year-over-year changes in debt service are not uncommon due to a variety of potential factors including, but not limited to, debt restructuring, principal payments, changing interest rates, prepayments, etc. These factors may not only impact total expenditures but also may cause irregularities in payment patterns.

## **V. NON-PUBLIC SCHOOLS AND PASS-THROUGHS**

Spending on non-public schools and other “pass-through” entities increased by \$353.3.6 million over the previous year. The opening of 24 new charter schools in FY 2012, grades being added to existing charters, and growth in enrollment, all contributed to an increase of over \$167.6 million in Charter School spending. Additionally, increased costs in Pre-K tuition and Carter Cases in the total amount of \$160 million contributed towards the increased spending in pass-through.

Chart C1

## PUBLIC SCHOOL EXPENDITURE COMPARISON: FY 2010 through FY 2012

(Dollars in 000's)

				FY 2012 - FY 2011	% of public school spending		
	2010	2011	2012	\$ diff	2010	2011	2012
<b>I. Direct Services to Schools</b>							
<b>Classroom Instruction:</b>	\$9,409,160	\$9,412,275	\$9,522,503	110,228	49.2%	48.5%	49.1%
Teachers	7,574,174	7,602,835	7,717,023	114,188	39.6%	39.2%	39.8%
Education Paraprofessionals	387,714	379,662	393,180	13,518	2.0%	2.0%	2.0%
Other Classroom Staff	17,325	15,814	15,306	(508)	0.1%	0.1%	0.1%
Text Books	103,627	101,240	89,716	(11,524)	0.5%	0.5%	0.5%
Librarians & Library Books	95,620	93,349	97,384	4,035	0.5%	0.5%	0.5%
Instructional Supplies & Equipment	186,415	206,814	161,762	(45,052)	1.0%	1.1%	0.8%
Professional Development	533,101	466,747	422,103	(44,644)	2.8%	2.4%	2.2%
Contracted Instructional Services	312,192	339,096	394,668	55,572	1.6%	1.7%	2.0%
Summer & Evening School	198,992	206,717	231,360	24,643	1.0%	1.1%	1.2%
<b>Instructional Support Services:</b>	\$2,694,993	\$2,794,845	\$2,901,908	107,063	14.1%	14.4%	15.0%
Counseling	444,164	439,128	448,536	9,408	2.3%	2.3%	2.3%
Attendance & Outreach Services	141,197	172,614	175,721	3,107	0.7%	0.9%	0.9%
Related Services	1,380,585	1,459,888	1,573,934	114,046	7.2%	7.5%	8.1%
Drug Prevention Programs	32,719	23,655	24,966	1,311	0.2%	0.1%	0.1%
Referral & Evaluation Services	302,881	297,874	293,255	(4,619)	1.6%	1.5%	1.5%
After School & Student Activities	243,606	260,559	247,258	(13,301)	1.3%	1.3%	1.3%
Parent Involvement	149,841	141,127	138,237	(2,890)	0.8%	0.7%	0.7%
<b>Leadership/Supervision/Support:</b>	\$1,796,943	\$1,772,613	\$1,733,639	(38,974)	9.4%	9.1%	8.9%
Principals	352,998	343,901	349,409	5,508	1.8%	1.8%	1.8%
Assistant Principals	542,019	561,960	572,625	10,665	2.8%	2.9%	3.0%
Supervisors	105,349	102,255	98,921	(3,334)	0.6%	0.5%	0.5%
Sec'y, Schl Aides & Other Suppt Staff	643,871	604,645	590,752	(13,893)	3.4%	3.1%	3.0%
Supplies, Material, Equipment & Tel.	152,706	159,851	121,932	(37,919)	0.8%	0.8%	0.6%
<b>Ancillary Support Services:</b>	\$1,734,546	\$1,732,375	\$1,767,962	35,587	9.1%	8.9%	9.1%
Food Services	528,502	499,879	513,414	13,535	2.8%	2.6%	2.6%
Transportation	808,954	837,264	870,909	33,645	4.2%	4.3%	4.5%
School Safety	307,406	311,575	311,082	(493)	1.6%	1.6%	1.6%
Computer System Support	89,684	83,657	72,556	(11,101)	0.5%	0.4%	0.4%
<b>Building Services:</b>	\$1,443,737	\$1,429,466	\$1,380,259	(49,207)	7.5%	7.4%	7.1%
Custodial Services	661,164	631,802	610,740	(21,062)	3.5%	3.3%	3.1%
Building Maintenance	399,556	370,753	350,111	(20,642)	2.1%	1.9%	1.8%
Leases	120,459	128,226	143,000	14,774	0.6%	0.7%	0.7%
Energy	262,558	298,685	276,407	(22,278)	1.4%	1.5%	1.4%
<b>Direct Service Add to Salary/Proj Expense</b>	102,719	141,626	115,373	(26,253)	0.5%	0.7%	0.6%
Additions to Salary / Projected Expenses	102,719	141,626	115,373	(26,253)	0.0%	0.7%	0.6%
<b>Direct Services to Schools Subtotal</b>	17,182,098	17,283,201	17,421,643	138,442	89.8%	89.0%	89.8%
<b>II. &amp; III. Central Support Costs:</b>	\$743,912	\$780,711	\$821,018	\$40,307	3.9%	4.0%	4.2%
Instructional Support & Administration	291,669	268,004	288,320	20,316	1.5%	1.4%	1.5%
Sabbatical, Leaves, Termination Pay	49,382	58,817	68,372	9,555	0.3%	0.3%	0.4%
Additions to Regular Salary	3,942	2,266	65	(2,201)	0.0%	0.0%	0.0%
Projected Expenditures	605	862	269	(593)	0.0%	0.0%	0.0%
Central Instructional Support	55,205	78,176	79,364	1,188	0.3%	0.4%	0.4%
Central Administration: Instructional Offices	67,662	72,059	85,256	13,197	0.4%	0.4%	0.4%
Central Administration: Operational Offices	235,779	265,873	265,525	(348)	1.2%	1.4%	1.4%
Central Educ Policy & Chancellor's Offices	39,668	34,654	33,847	(807)	0.2%	0.2%	0.2%
<b>IV. Systemwide Obligations:</b>	\$1,206,360	\$1,350,572	\$1,151,702	(198,870)	6.3%	7.0%	5.9%
Debt Service	750,551	907,226	675,049	(232,177)	3.9%	4.7%	3.5%
Retiree Hlth & Welfare	447,694	435,728	469,059	33,331	2.3%	2.2%	2.4%
Spec Commr Investigation	8,115	7,618	7,593	(25)	0.0%	0.0%	0.0%
<b>Total Public School Expenditures</b>	19,132,370	19,414,483	19,394,364	(20,119)			

Chart C2

PASS-THROUGHS EXPENDITURE COMPARISON: FY 2010 through FY 2012							
(Dollars in 000's)							
				FY 2012 - FY 2011	% of pass-through spending		
	2010	2011	2012	\$ diff	2010	2011	2012
<b>Total Public School Expenditures</b>	19,132,370	19,414,483	19,394,364	(20,119)			
<b><i>V. Pass Throughs:</i></b>	2,563,081	2,882,669	3,235,954	353,285	11.8%	12.9%	14.3%
Non Pub: Gen Ed	267,494	329,018	340,338	11,320	1.2%	1.5%	1.5%
Non Pub: Sp Ed	1,793,071	1,841,684	2,016,751	175,067	8.3%	8.3%	8.9%
FIT	51,166	52,909	52,289	(620)	0.2%	0.2%	0.2%
Charter Schls	451,350	659,058	826,576	167,518	2.1%	3.0%	3.7%
<b>Grand Total</b>	21,695,451	22,297,151	22,630,318	333,167			

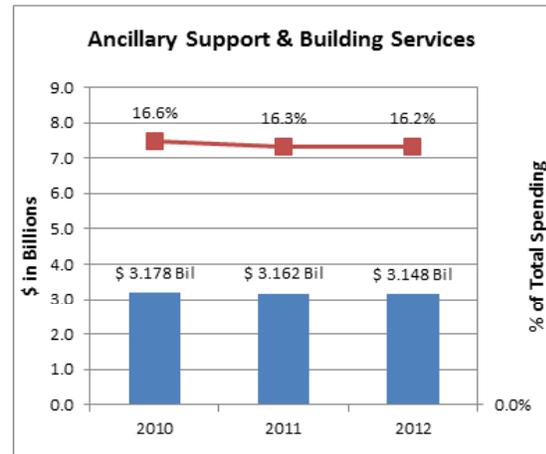
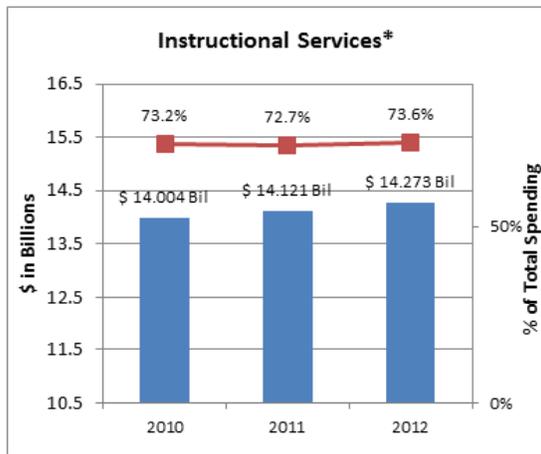
Chart D

### COMPARISON OF SPENDING: FISCAL YEARS 2010 - 2012

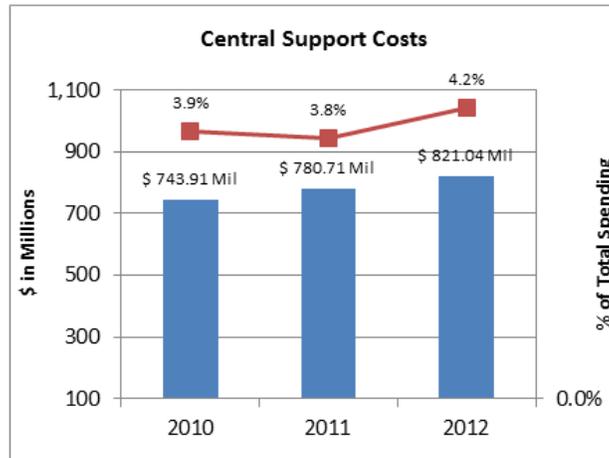
	2010	2011	2012	2012-2010
<b>Total Expenditures</b>	\$ 21.695 bil	\$ 22.297 bil	\$ 22.630 bil	\$ 0.935 bil
<b>Public School Spending</b>	\$ 19.132 bil	\$ 19.414 bil	\$ 19.394 bil	\$ 0.262 bil
<b>Enrollment</b>	1,038,731	1,043,886	1,041,437	2,706

### DISTRIBUTION OF SPENDING: Fiscal Years 2010 - 2012

#### SCHOOL BASED SERVICES



#### FIELD and CENTRAL OFFICES



\*Instructional Services" combines "Classroom Instruction", "Instructional Support Services", "Leadership/Supervision/Support" and "Direct Service Add'l"

Chart E

## PER PUPIL SPENDING TRENDS: Fiscal Year 2010 through 2012

### Distribution of Per Pupil Spending by Function

Per Pupil Spending	2010	2011	2012	2012 - 2010
<b>Direct Services:</b>				
Classroom Instruction	\$9,058	\$9,017	\$9,144	\$86
Instructional Support	2,595	2,677	2,786	191
Leadership and Support	1,730	1,698	1,665	(65)
Ancillary Support Services	1,670	1,660	1,698	28
Building Services	1,390	1,369	1,325	(65)
Add to Sal/Proj Exp. *	99	136	111	12
<b>Total Direct Services</b>	<b>\$16,542</b>	<b>\$16,557</b>	<b>\$16,728</b>	<b>\$186</b>
<b>Central Support **</b>	<b>\$716</b>	<b>\$748</b>	<b>\$789</b>	<b>\$73</b>
<b>Systemwide Obligations</b>	<b>\$1,161</b>	<b>\$1,294</b>	<b>\$1,106</b>	<b>(\$55)</b>
<b>Total Public Schools</b>	<b>\$18,419</b>	<b>\$18,598</b>	<b>\$18,623</b>	<b>\$204</b>

\* All "Additions to Salary" were reported in District/Superintendency Costs prior to 2002.

\*\*Includes Field Support and Systemwide Costs.

Totals may differ from sum of components due to rounding.

### Per Pupil Spending in Specific Functions

