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DATE: March 4, 2016
FROM: Raymond J. Orlando, Chief Financial Officer
SUBJECT: FY 2013 School Based Expenditure Report (SBER) Overview

The FY 2013 School-Based Expenditure Report (SBER) presents fiscal year 2013 (FY 2013) expenditures for the New York City Department of Education (DOE). FY 2013 began on July 1, 2012 and ended on June 30, 2013. The financial data used in this report represents the DOE's 2013 year-end audited spending condition. Pupil enrollment data is based on audited school registers as of October 31, 2012.

This memo contains a summary of FY 2013 SBER data as well as management comments on FY 2013 revenue and spending trends.

FY 2013 REVENUE SUMMARY

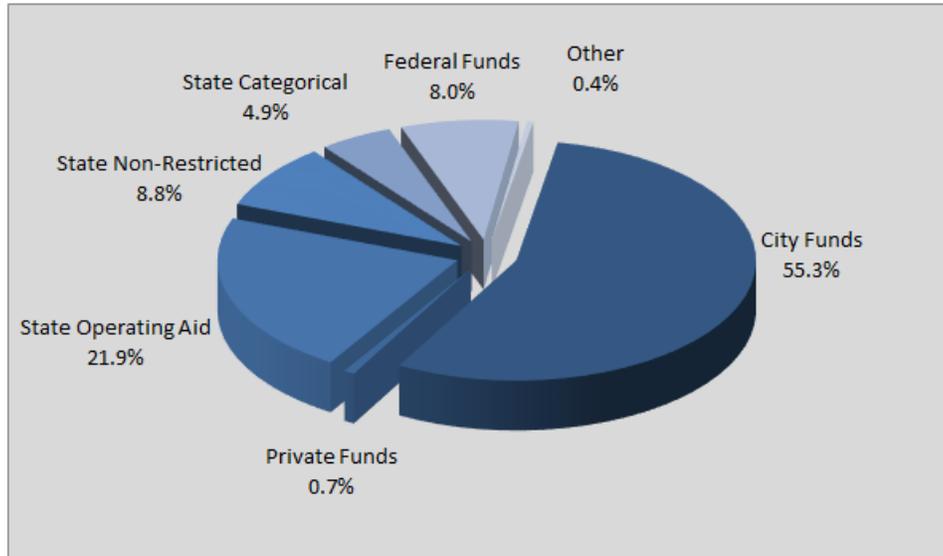
Overall, non-debt revenue sources supporting the DOE, including federal, state, city and private funding, increased by \$107.0 million from the prior year. Starting in FY 2013, the funding reflected in the SBER for debt service will now include the DOE's entire debt, including General Obligation Debt adjusted for Pre-Payments, and Transitional Finance Authority debt. FY 2013 will serve as the baseline year for this new methodology. It is expected that using this methodology will more accurately reflect DOE obligations for debt service.

Chart A reflects expenditures by FY 2013 source of federal, state, city, and private revenue supporting the DOE (inclusive of debt service and pension contributions):

- New York City tax levy support increased by \$1.1 billion, an increase of 9.3% from FY 2012. New York City funding accounted for 55.3% to the DOE's \$23.8 billion total.
- New York State funding increased by \$78.6 million, or 0.9%. In FY 2013, aid from New York State accounted for 35.6% of DOE funds, compared to 37.1% in FY 2012.
- Federal funding declined \$24.3 million, or 1.3% from FY 2012. Federal revenue sources constituted 8.0% of DOE funds.
- Private funding increased by \$38.9 million, or 28.8% from FY 2012. In FY 2013, private funds accounted for 0.7% of DOE funds.
- Funds from other sources, largely capitolly-funded pollution remediation costs, decreased by 16.1% from the prior year, and comprised 0.4% of total DOE funds.

Chart A

FY 2013 Expenditures by Revenue Source: City, State and Federal



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

| Comparison of Education Funding: Fiscal Year 2012 vs. Fiscal Year 2013 (\$ in Millions) | | | | | | |
|---|---------------------|---------------|---------------------|---------------|--------------------|-----------------------|
| | FY 2012 | | FY 2013 | | FY 2012 - FY 2013 | |
| | Revenue | % of total | Revenue*** | % of total | Revenue | % change from FY 2012 |
| City Funds* | \$12,062.4 M | 53.3% | \$13,181.2 M | 55.3% | \$1,118.8 M | 9.3% |
| State Operating Aid** | \$5,300.4 M | 23.4% | \$5,205.9 M | 21.9% | (\$94.5) M | -1.8% |
| State Non-Restricted** | \$1,882.0 M | 8.3% | \$2,089.8 M | 8.8% | \$207.8 M | 11.0% |
| State Categorical** | \$1,210.7 M | 5.3% | \$1,176.0 M | 4.9% | (\$34.7) M | -2.9% |
| Federal Funds | \$1,918.2 M | 8.5% | \$1,893.9 M | 8.0% | -\$24.3 M | -1.3% |
| Private Funds | \$135.2 M | 0.6% | \$174.1 M | 0.7% | \$38.9 M | 28.8% |
| Other | \$121.5 M | 0.5% | \$101.9 M | 0.4% | (\$19.6) M | -16.1% |
| TOTAL | \$22,630.3 M | 100.0% | \$23,822.7 M | 100.0% | \$1,192.4 M | 5.3% |

* Beginning in FY 2013, funding for City Pension is reflected in "City Funds".

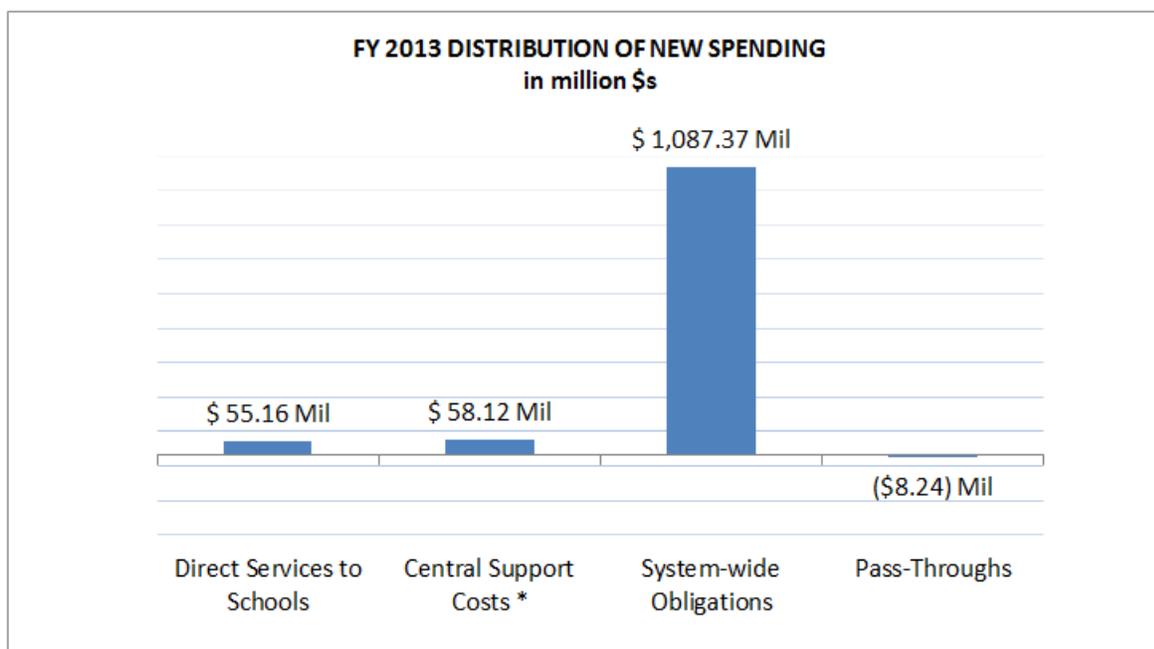
** New York State revenues are broken into three categories: State Operating Aid, State Non-Restricted Aid and State Categorical. Beginning in FY08, State Operating Aid and a portion of State Non-Restricted Aid were folded into Foundation Aid. State revenues continue to be broken into the three categories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

*** Beginning in FY 2013, Debt Service included in City and State Non-Restricted funds includes General Obligation Debt and Transitional Finance Authority debt. City and State Non-Restricted revenue in FY 2012 has been updated to reflect an equitable comparison of the General Obligation only debt that was reflected in that year.

SUMMARY OF YEAR-OVER-YEAR SPENDING TRENDS: OVERALL

As shown in Chart B, in FY 2013, overall DOE public school spending increased by a total of \$1.2 billion. Much of that increase came from the DOE's System-wide Obligations, which increased by approximately \$1.1 billion, due primarily to the new methodology for reflecting debt service in the SBER. Beginning in FY 2013, debt service now includes General Obligation Debt adjusted for Pre-Payments, and Transitional Finance Authority debt. Debt is responsible for nearly all of the System-wide Obligations increase. It is expected that using this methodology will more accurately reflect DOE obligations for debt service. Direct Services to Schools increased by \$55.2 million and Central Support Costs increased \$58.1 million. Pass-Through expenses declined slightly by a total of \$8.2 million from FY 2012, but expenses fluctuated within this category. Charter school spending increased by \$187.0 million, for example, while spending on services at non-public schools declined by \$195.4 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 \$55.2 million, or 0.32%, over FY 2012. Major contributors to the increased costs in this category were health insurance costs and pension contributions, which grew across all services by 7.6% and 6.0%, respectively – a total increase of nearly \$300 million. 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 benefit rate growth directly contributed to increases in staff costs, such as for teachers, counseling services, related services, and custodial services.

FY 2013 was the first year NYSED received a flexibility waiver of the No Child Left Behind Act of 2001 (NCLB) under an ESEA regulatory initiative. The ESEA waiver was a major contributing factor to spending variances between FY 2012 and FY 2013, as noted where appropriate below. In this year, the mandate to provide Supplemental Educational Services (SES) was lifted. Concurrently, certain schools were newly designated by the state as “Priority” or “Focus” schools, and received additional resources. Under the waiver, all schools were released from the Title I mandates to set aside 1) 5% for tuition reimbursement for staff to become highly qualified and 2) 10% of their allocation to support professional development for their staff. This resulted in more flexibility for schools in aligning resources to meet student needs and increase outcomes.

While there was overall growth in Direct Service to Schools spending, major changes within the category were in the following areas (refer to Chart C for details):

- Classroom Instruction – increase of \$22.4 million or 0.2%
- Instructional Support Services – decrease of \$5.1 million or 0.2%
- Leadership, Supervision and Support – increase of \$18.1 million or 1.0%
- Ancillary Support Services – increase of \$3.0 million or 0.2%
- Building Services – increase of \$24.1 million or 1.7%
- Additions to Salary/Projected Expenses – decrease of \$7.4 million or 6.4%

Classroom Instruction

Overall, this functional category increased by \$22.4 million. Increases in teacher spending and instructional purchases were offset by decreases in contracted instructional services and professional development. As noted above, the ESEA waiver released schools from mandated professional development set-asides, and replaced the mandated SES programs with flexible Extended Learning Time (ELT) programs, resulting in substantial decreases in these latter two categories.

Major changes in spending occurred in the following areas:

- Teacher spending increased by \$240.4 million, or 3.1%, mainly due to increased health insurance and pension costs. Additionally, due to the continued growth of the Autism Spectrum Disorder (ASD) program for students with disabilities, associated costs are now applied to each expense category;

whereas historically all ASD program funding was captured in related services. As a result, expenditures for teacher services in the ASD program are now reflected under classroom instruction.

- Instructional Supplies and Equipment purchases increased by \$42.9 million. Contributing factors include a limited surplus rollover program, which resulted in schools purchasing additional supplies in the current year, and the reinstatement of the Teachers' Choice program, whereby teachers are reimbursed for supply purchases.
- Contractual Instructional Services and Professional Development experienced decreases, in the amounts of \$189.3 million and \$43.3 million respectively. This was primarily due to the ending of the mandated Title I SES program under the ESEA waiver.

Instructional Support Services

In this category, the flexibility under the ESEA waiver enabled schools to better align resources to meet student needs. This was a major driver of over \$13.1 million in increased spending for after school programs, student activities, and parent involvement.

As noted previously, ASD program costs are now applied to each expense category; whereas historically all program funding was captured in related services. As a result, expenditures for teachers previously captured for the ASD program in related services are now reflected under classroom instruction.

Due to growth in the population of students with Instructional Education Plans (IEPs) who require special services, several categories comprising the Instructional Support Services saw increased spending.

Attendance & Outreach Services and Drug Prevention Programs declined by \$3.1 million and \$1.2 million respectively.

Leadership, Supervision and Support

There was an increase of \$18.1 million in expenses from the prior year in the School Leadership, Supervision and Support category. Due to new schools opening, spending for Principals and Assistant Principals combined increased by \$27.7 million. This increase was offset by reductions in other areas in this category: Supervisors (\$4.1 million), School Aides, Secretaries & Other Support Staff (\$2.0 million), and Supplies, Materials, Equipment & Telephones (\$3.6 million).

Ancillary Support Services

Ancillary Support Services, which includes food services, transportation, school safety, and computer system support, increased slightly by \$3.0 million.

Food Services spending increased by \$26.7 million, attributable to new nutritional standards and increased food cost.

There was a \$22.8 million decrease in Transportation expenditures, primary due to cost savings resulting from rebids of select bus contracts.

Computer System Support decreased by \$9.2 million. Three-year federal Title II Part D (Enhancing Education Through Technology) grants ended in FY 2012, directly contributing to a \$5.5 million drop in this category. Additionally, application development and network maintenance costs continued to decline.

Building Services

Building Services, which includes spending on custodial services, building maintenance, and energy and leases, increased by \$24.1 million, or 1.75%, over the previous year. Energy costs increased by \$17.8 million, driving most of the increase in this category. Custodial services increased by \$9.1 million, directly attributable to the fringe benefit rate increase. Building maintenance rose by \$3.7 million, where increased costs following Hurricane Sandy were offset by a decline in pollution remediation outlays. Leasing costs decreased by \$6.5 million.

Additions to Salary/Projected Expenses

In FY 2013, expenditures in this category declined by \$7.4 million. This category included technical accounting transactions, e.g. delayed payroll actions, charge-backs and late journal entries that were directly related to technical transactions for alignment between the DOE and the City's accounting systems.

II. FIELD SUPPORT COSTS

Field Support costs increased by \$6.1 million in FY 2013. The costs of salary and fringe benefits for staff in this category increased by \$12.6 million. A technical adjustment to more accurately capture field support costs in the budgeting tool is reflected in the increase in this category, which is offset by a decrease due to Title II Part D (Enhancing Education Through Technology) grants ending in FY 2012, and declines in other areas.

III. SYSTEM-WIDE COSTS

Overall system-wide costs, including Central Administration and Central Instructional Support, increased by \$52.1 million, or 11.2%, in FY 2013. This increase was primarily attributable to increased grant funding for these activities (most notably Race to the Top grants as part of American Recovering and Reinvestment Act funding), Special Education Student Information System (SE SIS) support, and costs related to Hurricane Sandy. Race to The Top grants 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. SE SIS support expenditures in this category reflected DOE's efforts to maintain a secure web-based system to manage special education cases and information.

IV. SYSTEM-WIDE OBLIGATIONS

System-wide Obligations increased by \$1.1 billion in FY 2013, driven by debt service growth of \$1.1 billion. As referenced earlier, beginning in FY 2013, debt will now include General Obligation Debt adjusted for Pre-Payments, and Transitional Finance Authority debt. In addition to this change, it is important to note that 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 decreased by \$8.2 million over the previous year. Carter Case spending declined by \$64.3 million, contract school payments declined by \$19.6 million, and special education Pre-K tuition fell by \$56.6 million. These decreases were offset by an increase in charter school spending of \$187.1 million. Twenty-two additional charter schools opened in FY 2013, and grades were added as many charters phased in, leading to substantially increased enrollment.

Chart C1

| PUBLIC SCHOOL EXPENDITURE COMPARISON: FY 2012 - FY 2013 | | | | | | |
|---|-------------|-------------|-------------------|---------|-----------------------------|-------|
| (Dollars in 000's) | | | | | | |
| | | | FY 2012 - FY 2013 | | % of Public School Spending | |
| | 2012 | 2013 | \$ Diff | % Diff | 2012 | 2013 |
| I. Direct Services to Schools | | | | | | |
| Classroom Instruction: | \$9,522,504 | \$9,544,860 | 22,356 | 0.2% | 49.1% | 46.3% |
| Teachers | 7,717,023 | 7,957,418 | 240,395 | 3.1% | 39.8% | 38.6% |
| Education Paraprofessionals | 393,180 | 388,033 | (5,147) | -1.3% | 2.0% | 1.9% |
| Other Classroom Staff | 15,306 | 14,769 | (537) | -3.5% | 0.1% | 0.1% |
| Text Books | 89,716 | 93,551 | 3,835 | 4.3% | 0.5% | 0.5% |
| Librarians & Library Books | 97,384 | 86,696 | (10,688) | -11.0% | 0.5% | 0.4% |
| Instructional Supplies & Equipment | 161,762 | 204,693 | 42,931 | 26.5% | 0.8% | 1.0% |
| Professional Development | 422,103 | 378,805 | (43,298) | -10.3% | 2.2% | 1.8% |
| Contracted Instructional Services | 394,668 | 205,346 | (189,322) | -48.0% | 2.0% | 1.0% |
| Summer & Evening School | 231,360 | 215,549 | (15,811) | -6.8% | 1.2% | 1.0% |
| Instructional Support Services: | \$2,901,908 | \$2,896,849 | (5,059) | -0.2% | 15.0% | 14.1% |
| Counseling | 448,536 | 449,116 | 580 | 0.1% | 2.3% | 2.2% |
| Attendance & Outreach Services | 175,721 | 172,618 | (3,103) | -1.8% | 0.9% | 0.8% |
| Related Services | 1,573,934 | 1,553,301 | (20,633) | -1.3% | 8.1% | 7.5% |
| Drug Prevention Programs | 24,966 | 23,800 | (1,166) | -4.7% | 0.1% | 0.1% |
| Referral & Evaluation Services | 293,255 | 299,403 | 6,148 | 2.1% | 1.5% | 1.5% |
| After School & Student Activities | 247,258 | 253,258 | 6,000 | 2.4% | 1.3% | 1.2% |
| Parent Involvement | 138,237 | 145,353 | 7,116 | 5.1% | 0.7% | 0.7% |
| Leadership/Supervision/Support: | \$1,733,639 | \$1,751,775 | 18,136 | 1.0% | 8.9% | 8.5% |
| Principals | 349,409 | 364,898 | 15,489 | 4.4% | 1.8% | 1.8% |
| Assistant Principals | 572,625 | 584,919 | 12,294 | 2.1% | 3.0% | 2.8% |
| Supervisors | 98,921 | 94,786 | (4,135) | -4.2% | 0.5% | 0.5% |
| Secretaries, School Aides & Other Support Staff | 590,752 | 588,815 | (1,937) | -0.3% | 3.0% | 2.9% |
| Supplies, Material, Equipment & Telephones | 121,932 | 118,357 | (3,575) | -2.9% | 0.6% | 0.6% |
| Ancillary Support Services: | \$1,767,962 | \$1,770,931 | 2,969 | 0.2% | 9.1% | 8.6% |
| Food Services | 513,414 | 540,136 | 26,722 | 5.2% | 2.6% | 2.6% |
| Transportation | 870,909 | 848,125 | (22,784) | -2.6% | 4.5% | 4.1% |
| School Safety | 311,082 | 319,286 | 8,204 | 2.6% | 1.6% | 1.6% |
| Computer System Support | 72,556 | 63,384 | (9,172) | -12.6% | 0.4% | 0.3% |
| Building Services: | \$1,380,259 | \$1,404,403 | 24,144 | 1.7% | 7.1% | 6.8% |
| Custodial Services | 610,740 | 619,807 | 9,067 | 1.5% | 3.1% | 3.0% |
| Building Maintenance | 350,111 | 353,837 | 3,726 | 1.1% | 1.8% | 1.7% |
| Leases | 143,000 | 136,539 | (6,461) | -4.5% | 0.7% | 0.7% |
| Energy | 276,407 | 294,220 | 17,813 | 6.4% | 1.4% | 1.4% |
| Direct Service Additions to Salary/Proj Exp | 115,373 | 107,985 | (7,388) | -6.4% | 0.6% | 0.5% |
| Additions to Salary / Projected Expenses | 115,373 | 107,985 | (7,388) | -6.4% | 0.0% | 0.5% |
| Direct Services to Schools Subtotal | 17,421,643 | 17,476,803 | 55,160 | 0.3% | 89.8% | 84.9% |
| II. & III. Field and Central Support Costs: | \$821,018 | \$879,136 | \$58,118 | | 4.2% | 4.3% |
| Instructional Support and Administration | 288,320 | 292,923 | 4,603 | 1.6% | 1.5% | 1.4% |
| Sabbatical, Leaves, Termination Pay | 68,372 | 68,499 | 127 | 0.2% | 0.4% | 0.3% |
| Additions to Regular Salary | 65 | 1,547 | 1,482 | 2280.0% | 0.0% | 0.0% |
| Projected Expenditures | 269 | 108 | (161) | -59.9% | 0.0% | 0.0% |
| Central Instructional Support | 79,364 | 87,484 | 8,120 | 10.2% | 0.4% | 0.4% |
| Central Administration: Instructional Offices | 85,257 | 89,934 | 4,677 | 5.5% | 0.4% | 0.4% |
| Central Administration: Operational Offices | 265,524 | 302,324 | 36,800 | 13.9% | 1.4% | 1.5% |
| Central Educ Policy & Chancellor's Offices | 33,847 | 36,317 | 2,470 | 7.3% | 0.2% | 0.2% |
| IV. Systemwide Obligations: | \$1,151,702 | \$2,239,067 | 1,087,365 | 94.4% | 5.9% | 10.9% |
| Debt Service | 675,049 | 1,760,405 | 1,085,356 | 160.8% | 3.5% | 8.5% |
| Retiree Health and Welfare | 469,059 | 470,432 | 1,373 | 0.3% | 2.4% | 2.3% |
| Special Commissioner of Investigation | 7,593 | 8,230 | 637 | 8.4% | 0.0% | 0.0% |
| Total Public School Expenditures | 19,394,364 | 20,595,007 | 1,200,643 | 6.2% | | |

Chart C2

| PASS-THROUGH EXPENDITURE COMPARISON: FY 2012 - FY 2013 | | | | | | |
|--|------------|------------|-------------------|--------|----------------------------|-------|
| (Dollars in 000's) | | | | | | |
| | | | FY 2012 - FY 2013 | | % of Pass Through Spending | |
| | 2012 | 2013 | \$ Diff | % Diff | 2012 | 2013 |
| Total Public School Expenditures | 19,394,364 | 20,595,007 | 1,200,643 | 6.2% | | |
| <i>V. Pass Throughs:</i> | 3,235,954 | 3,227,712 | (8,242) | -0.3% | 14.3% | 13.5% |
| Non Public Schools: General Education | 340,338 | 233,838 | (106,500) | -31.3% | 1.5% | 1.0% |
| Non Public Schools: Special Education | 2,016,751 | 1,927,828 | (88,923) | -4.4% | 8.9% | 8.1% |
| Fashion Institute of Technology | 52,289 | 52,449 | 160 | 0.3% | 0.2% | 0.2% |
| Charter Schools (including DOE supports) | 826,576 | 1,013,598 | 187,022 | 22.6% | 3.7% | 4.3% |
| Grand Total | 22,630,318 | 23,822,719 | 1,192,401 | 5.3% | | |

Chart D

COMPARISON OF SPENDING: FISCAL YEARS 2012 - 2013

| | <u>2012</u> | <u>2013</u> | <u>2012 - 2013</u> |
|-------------------------------|-------------|-------------|--------------------|
| Total Expenditures | \$22.630b | \$23.823b | \$1.193b |
| Public School Spending | \$19.394b | \$20.595b | \$1.201b |
| Enrollment | 1,041,437 | 1,036,053 | -5,384 |

