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DATE: March 4, 2016
FROM: Raymond J. Orlando, Chief Financial Officer
SUBJECT: FY 2014 School Based Expenditure Report (SBER) Overview

The FY 2014 School-Based Expenditure Report (SBER) presents fiscal year 2014 expenditures for the New York City Department of Education (DOE). FY 2014 began on July 1, 2013 and ended on June 30, 2014. 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, 2013.

This memo contains a summary of FY 2014 SBER data as well as management comments on FY 2014 revenue and spending trends.

FY 2014 REVENUE SUMMARY

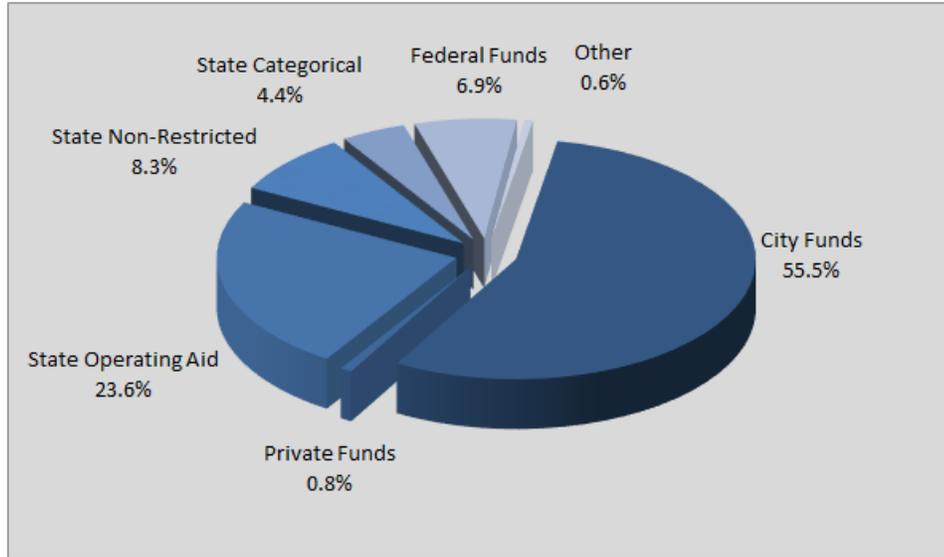
Overall, revenue sources supporting the DOE, including federal, state, city and private funding, increased by 4.3% or \$1.0 billion from the prior year. Continuing the practice started in FY 2013, the funding reflected in the SBER for debt service includes the DOE's entire debt, including General Obligation Debt adjusted for Pre-Payments, and Transitional Finance Authority debt.

Chart A reflects expenditures by FY 2014 source of federal, state, city, and private revenue supporting the DOE (inclusive of debt service and pension contributions):

- New York City (NYC) funding for direct services grew by \$610.5 million, an increase of 4.6% from FY 2013. New York City funding accounted for 55.5% of the DOE's \$24.9 billion total.
- New York State funding increased by \$528.6 million, an increase of 6.2%. In FY 2014, aid from New York State accounted for 36.2% of DOE funds, compared to 35.6% in FY 2013.
- Federal funding declined \$180.4 million, or 9.5% from FY 2013. Federal revenue sources constituted 6.9% of DOE funds. As part of the Budget Control Act of 2011, federal sequestration cuts took effect starting in FY 2014. NYC provided funds to backfill school losses. Federal funding was also impacted by decreases due to changes in poverty data in the 2010 census.
- Private funding increased by \$27.8 million, or 16.0% from FY 2013. In FY 2014, private funds accounted for 0.8% of DOE funds.
- Funds from other sources, largely capitol-funded pollution remediation costs, increased by 42.8% from the prior year, and comprised 0.6% of total funds.

Chart A

FY 2014 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 2013 vs. Fiscal Year 2014 (\$ in Millions)						
	FY 2013		FY 2014		FY 2013 - FY 2014	
	Revenue	% of total	Revenue***	% of total	Revenue	% change from FY 2013
City Funds*	\$13,181.2 M	55.3%	\$13,791.6 M	55.5%	\$610.5 M	4.6%
State Operating Aid**	\$5,205.9 M	21.9%	\$5,862.1 M	23.6%	\$656.2 M	12.6%
State Non-Restricted**	\$2,089.8 M	8.8%	\$2,051.0 M	8.3%	(\$38.8) M	-1.9%
State Categorical**	\$1,176.0 M	4.9%	\$1,087.2 M	4.4%	(\$88.8) M	-7.6%
Federal Funds	\$1,893.9 M	8.0%	\$1,713.5 M	6.9%	(\$180.4) M	-9.5%
Private Funds	\$174.1 M	0.7%	\$201.9 M	0.8%	\$27.8 M	16.0%
Other	\$101.9 M	0.4%	\$145.5 M	0.6%	\$43.6 M	42.8%
TOTAL	\$23,822.7 M	100.0%	\$24,852.8 M	100.0%	\$1,030.1 M	4.3%

* 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.

*** Continuing the practice started in FY 2013, debt service included in City and State Non-Restricted funds includes General Obligation Debt and Transitional Finance Authority debt.

SUMMARY OF YEAR-OVER-YEAR SPENDING TRENDS: OVERALL

At the end of FY 2014, a collective bargaining agreement was reached between the United Federation of Teachers (UFT) and the City which includes salary increases going back to FY 2009 and running through FY 2018. Membership received a \$1,000 signing bonus and salary increases of 1% effective May 2013 and May 2014 respectively. These costs were paid in FY 2015 and charged-back to FY 2014. Payments totaled \$230 million, and are mainly reflected in this SBER in the categories of Teachers, Education Paraprofessionals, Professional Development, Counseling Services, After School and Student Activities, and Secretaries, School Aides and Other Support Staff.

In the same year, the DOE transitioned to higher student learning standards and measurements that align with the Common Core Curriculum standards with the implementation of citywide instructional expectations (CIE). A new teacher and principal evaluation and development system were introduced. These initiatives mostly led to the increases in the SBER categories of Text Books, classroom Instructional Supplies and Equipment, instructional programs Supplies, Materials, Equipment and Telephones, After School and Student Activities, and Operational Offices under System-Wide Costs.

Schools also benefited from the New York State (NYS) School Technology Voucher Programs (STVP), funded by a court-ordered settlement between NYS consumers and Microsoft Corporation. As a result, school Supplies, Materials, Equipment and Telephones expenditures increased.

Starting in the same fiscal year, the federal E-Rate program phased out telecommunication discounts to shift priority to internet access for schools. The changes led to higher phone costs to DOE. The impact can be seen in the SBER categories of Supplies, Materials, Equipment and Telephones, Field Support – Instructional Support and Administration, and Central Office Administration.

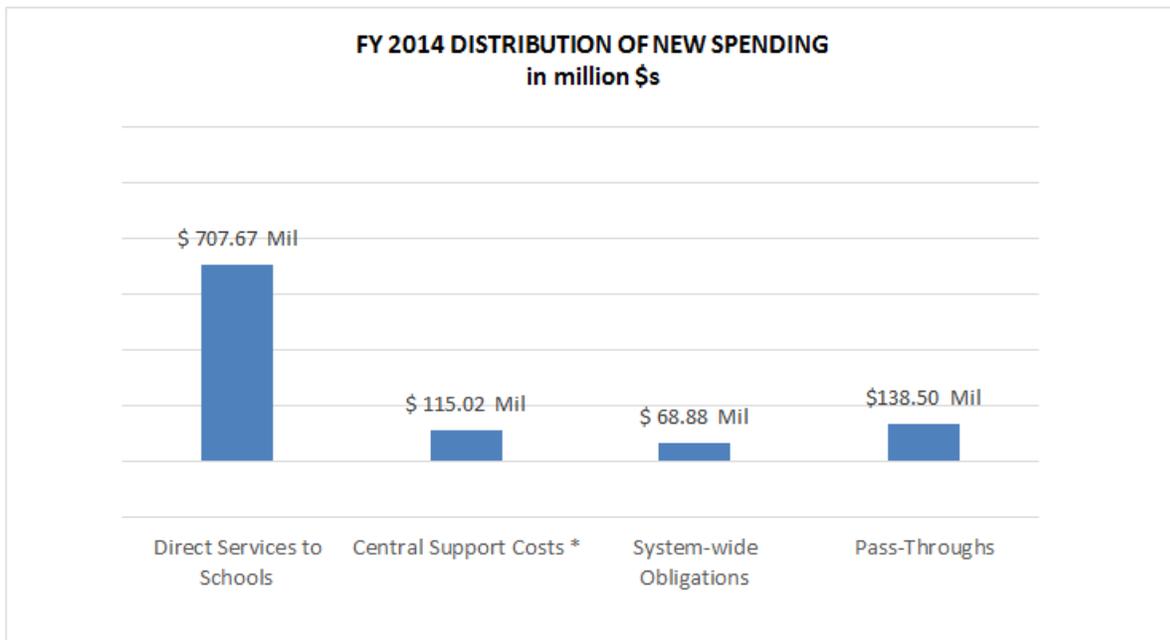
The fringe benefits for Educational Paraprofessionals increased by more than 10% from FY 2013, resulting in increased costs for all education paraprofessional service. This increase is reflected in the categories of Education Paraprofessionals and Related Services.

Promoting innovation and applying high technologies to instruction for students, DOE's central instructional support and administration had increased expenses, including costs for the iLearn, iZone, School of One, and Innovation programs run by central on behalf of schools.

Ancillary Support Services and Building Services decreased from FY 2013, when costs were elevated due to repairs needed after Hurricane Sandy.

As shown in Chart B, in FY 2014, Direct Services to Schools and Central Support Costs increased by \$707.7 million and \$115.0 million respectively. System-Wide Obligations increased by \$68.9 million, representing increased costs for Debt Services and Retiree Health and Welfare benefits. Overall DOE public school spending increased by a total of \$891.6 million. Pass-Through expenses increased by \$138.5 million, due to the combined factors of Charter school spending increasing by \$238.0 million, while spending on services at non-public schools declined by \$99.7 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 overall increased by \$707.7 million, or 4.0%, over FY 2013.

Major changes within the category were in the following areas (refer to Chart C for details):

- Classroom Instruction – increase of \$395.5 million or 4.1%
- Instructional Support Services – increase of \$169.9 million or 5.9%
- Leadership, Supervision and Support – increase of \$82.5 million or 4.7%
- Ancillary Support Services – increase of \$6.5 million or 0.4%
- Building Services – increase of \$74.5 million or 5.3%
- Additions to Salary/Projected Expenses – decrease of \$21.3 million or 19.7%

Classroom Instruction

Overall, this functional category increased by \$395.5 million. Major changes in spending occurred in the following areas:

- Teacher spending increased by \$221.3 million, or 2.8%, mainly due to the UFT collective bargaining (CB) payments and increased classroom teacher costs in the Autism Spectrum Disorder program.
- Education Paraprofessionals costs increased by \$52.1 million, attributable to the CB payments, increases in education paraprofessionals for self-contained special education classes, and a 10% increase in the fringe benefit costs for staff in this title.
- Text Books increased by \$46.1 million, due to the Common Core Curriculum initiative implementation.
- Instructional Supplies and Equipment purchases increased by \$44.5 million. Contributing factors are NYS STVP program spending and implementation of citywide instructional expectations.
- Contractual Instructional Services had a \$29.4 million increase, due to the pre-k program expansion.
- Professional Development services decreased in the amount of \$5.7 million. This was primarily attributed to the following two factors. First, starting this year, staff in titles whose main function is to provide professional development, but who also provide classroom services part time, will be split between the Professional Development and Teacher categories. Second, under the continuing ESEA waiver, schools were released from the Title I mandates to set aside for professional development.
- Librarians and Library Books saw a decrease of \$6.9 million.

Instructional Support Services

This category had a \$170.0 million or 5.9% increase over FY 2013. The increases in this category also reflect the UFT CB payments, the implementation of citywide instructional expectations and the measurement of student learning.

Spending Increases are seen in the Counseling Services (\$14.4 million), Related Services (\$129.6 million), and After School & Student Activities (\$21.5 million). Parent Engagement through Title I Priority and Focus funding contributed to the Parent Involvement spending increase (\$10.1 million).

Drug Prevention Programs declined slightly by \$1.4 million, due to the ending of federal Title IV funding.

Leadership, Supervision and Support

There was an increase of \$82.5 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 \$13.9 million. Supplies, Materials, Equipment and Telephone increased by \$78.2 million. The three main drivers of the increases are the Implementation of citywide instructional expectations, NYS STVP spending, and federal E-Rate program discount changes.

School Secretary, School Aides and Other Support Staff declined by \$12.5 million.

Ancillary Support Services

Ancillary Support Services increased by \$6.5 million. This category saw spending decreases in Food Services of \$9.1 million and Transportation of \$3.2 million over FY 2013, when expenditures were inflated by disaster relief needs related to Hurricane Sandy. Computer System Support increased by \$16.2 million, primarily for network and mainframe maintenance needs.

Building Services

Building Services, which includes spending on custodial services, building maintenance, energy and leases, increased by \$74.5 million. Building maintenance costs rose by \$31.2 million; \$43.6 million increased costs for pollution remediation were offset by decline in building maintenance needs in the year following Hurricane Sandy. Increases are also seen in the other categories: Energy (\$22.3 million), Custodial services (\$13.5 million), and Leases (\$7.5 million).

Additions to Salary/Projected Expenses

In FY 2014, expenditures in this category declined by \$21.3 million. This category includes technical accounting transactions, e.g. delayed payroll actions, charge-backs and late journal entries that are 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 \$51.0 million over FY 2013. The increase reflects a rise in phone costs due to E-Rate program changes in the amount of \$9.5 million, and a \$9.6 million technical adjustment to refine the coding field administration costs that were previously included in central operations and leadership administration in FY 2013.

III. SYSTEM-WIDE COSTS

Overall system-wide costs, including Central Administration and Central Instructional Support, increased by \$64.4 million. Cost increases were attributable to support for development of a new teacher evaluation system, implementation of citywide instructional expectations, implementation of the Common Core curriculum, and increased phone costs due to federal E-Rate program changes.

IV. SYSTEM-WIDE OBLIGATIONS

System-wide Obligations increased by \$68.9 million in FY 2014, driven by additional Debt Service payments of \$36.3 million and Retiree Health and Welfare cost increases of \$32.5 million. Continuing the practice started in FY 2013, Debt Service now includes General Obligation Debt adjusted for Pre-Payments, and Transitional Finance Authority debt. While this methodology should mitigate some of the swings observed in prior years, 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 had a net increase of \$138.5 million. Charter school spending increased by \$238.0 million. Twenty-four new charter schools opened in FY 2014, and existing charter schools continued to phase-in additional grades, leading to substantially increased enrollment. Costs for special education services provided by non-public schools decreased by \$118.5 million. Within this area, non-public Special Education Pre-K tuition expenses and accruals were reduced by \$88.5 million from FY 2013, while special education transportation services were \$25.2 million less than the prior year. Additionally, related service contract expenses for non-public school were \$22.0 million lower this year.

Chart C1

PUBLIC SCHOOL EXPENDITURE COMPARISON: FY 2013 - FY 2014						
(Dollars in 000's)						
			FY 2013 - FY 2014		% of Public School Spending	
	2013	2014	\$ Diff	% Diff	2013	2014
I. Direct Services to Schools						
Classroom Instruction:	\$9,544,860	\$9,940,385	395,525	4.1%	46.3%	46.3%
Teachers	7,957,418	8,178,740	221,322	2.8%	38.6%	38.1%
Education Paraprofessionals	388,033	440,105	52,072	13.4%	1.9%	2.0%
Other Classroom Staff	14,769	15,688	919	6.2%	0.1%	0.1%
Text Books	93,551	139,602	46,051	49.2%	0.5%	0.6%
Librarians & Library Books	86,696	79,817	(6,879)	-7.9%	0.4%	0.4%
Instructional Supplies & Equipment	204,693	249,186	44,493	21.7%	1.0%	1.2%
Professional Development	378,805	373,155	(5,650)	-1.5%	1.8%	1.7%
Contracted Instructional Services	205,346	234,761	29,415	14.3%	1.0%	1.1%
Summer & Evening School	215,549	229,331	13,782	6.4%	1.0%	1.1%
Instructional Support Services:	\$2,896,849	\$3,066,753	169,904	5.9%	14.1%	14.3%
Counseling	449,116	463,520	14,404	3.2%	2.2%	2.2%
Attendance & Outreach Services	172,618	170,328	(2,290)	-1.3%	0.8%	0.8%
Related Services	1,553,301	1,682,930	129,629	8.3%	7.5%	7.8%
Drug Prevention Programs	23,800	22,438	(1,362)	-5.7%	0.1%	0.1%
Referral & Evaluation Services	299,403	297,319	(2,084)	-0.7%	1.5%	1.4%
After School & Student Activities	253,258	274,757	21,499	8.5%	1.2%	1.3%
Parent Involvement	145,353	155,461	10,108	7.0%	0.7%	0.7%
Leadership/Supervision/Support:	\$1,751,775	\$1,834,266	82,491	4.7%	8.5%	8.5%
Principals	364,898	372,788	7,890	2.2%	1.8%	1.7%
Assistant Principals	584,919	590,884	5,965	1.0%	2.8%	2.8%
Supervisors	94,786	97,740	2,954	3.1%	0.5%	0.5%
Secretaries, School Aides & Other Support Staff	588,815	576,294	(12,521)	-2.1%	2.9%	2.7%
Supplies, Material, Equipment & Telephones	118,357	196,561	78,204	66.1%	0.6%	0.9%
Ancillary Support Services:	\$1,770,931	\$1,777,439	6,508	0.4%	8.6%	8.3%
Food Services	540,136	531,014	(9,122)	-1.7%	2.6%	2.5%
Transportation	848,125	844,882	(3,243)	-0.4%	4.1%	3.9%
School Safety	319,286	322,000	2,714	0.8%	1.6%	1.5%
Computer System Support	63,384	79,543	16,159	25.5%	0.3%	0.4%
Building Services:	\$1,404,403	\$1,478,932	74,529	5.3%	6.8%	6.9%
Custodial Services	619,807	633,340	13,533	2.2%	3.0%	2.9%
Building Maintenance	353,837	385,014	31,177	8.8%	1.7%	1.8%
Leases	136,539	144,078	7,539	5.5%	0.7%	0.7%
Energy	294,220	316,500	22,280	7.6%	1.4%	1.5%
Direct Service Add to Salary/Proj Expense	107,985	86,697	(21,288)	-19.7%	0.5%	0.4%
Additions to Salary / Projected Expenses	107,985	86,697	(21,288)	-19.7%	0.5%	0.4%
Direct Services to Schools Subtotal	17,476,803	18,184,472	707,669	4.0%	84.9%	84.6%
II. & III. Field and Central Support Costs:	\$879,136	\$994,156	\$115,020		4.3%	4.6%
Instructional Support & Administration	292,923	322,272	29,349	10.0%	1.4%	1.5%
Sabbatical, Leaves, Termination Pay	68,499	90,183	21,684	31.7%	0.3%	0.4%
Additions to Regular Salary	1,547	817	(730)	-47.2%	0.0%	0.0%
Projected Expenditures	108	661	553	512.0%	0.0%	0.0%
Central Instructional Support	87,484	99,876	12,392	14.2%	0.4%	0.5%
Central Administration: Instructional Offices	89,934	110,518	20,584	22.9%	0.4%	0.5%
Central Administration: Operational Offices	302,324	333,744	31,420	10.4%	1.5%	1.6%
Central Educ Policy & Chancellor's Offices	36,317	36,085	-232	-0.6%	0.2%	0.2%
IV. Systemwide Obligations:	\$2,239,067	\$2,307,946	68,879	3.1%	10.9%	10.7%
Debt Service	1,760,405	1,796,680	36,275	2.1%	8.5%	8.4%
Retiree Health and Welfare	470,432	502,964	32,532	6.9%	2.3%	2.3%
Special Commissioner of Investigation	8,230	8,301	71	0.9%	0.0%	0.0%
Total Public School Expenditures	20,595,007	21,486,574	891,567	4.3%		

Chart C2

PASS-THROUGHS EXPENDITURE COMPARISON: FY 2013 - FY 2014						
(Dollars in 000's)						
			FY 2013 - FY 2014		% of Pass Through Spending	
	2013	2014	\$ Diff	% Diff	2013	2014
Total Public School Expenditures	20,595,007	21,486,574	891,567	4.3%		
<i>V. Pass Throughs:</i>	3,227,712	3,366,212	138,500	4.3%	13.5%	13.5%
Non Public Schools: General Education	233,838	252,567	18,729	8.0%	1.0%	1.0%
Non Public Schools: Special Education	1,927,828	1,809,363	(118,465)	-6.1%	8.1%	7.3%
Fashion Institute of Technology	52,449	52,654	205	0.4%	0.2%	0.2%
Charter Schools	1,013,598	1,251,628	238,030	23.5%	4.3%	5.0%
Grand Total	23,822,719	24,852,786	1,030,067	4.3%		

Chart D

COMPARISON OF SPENDING: FISCAL YEARS 2013 - 2014

	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Total Expenditures	\$23.823b	\$24.853b	\$1.030b
Public School Spending	\$20.595b	\$21.487b	\$0.892b
Enrollment	1,036,053	1,032,314	-3,739

