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SCHOOL ALLOCATION MEMORANDUM NO. 1, FY11

DATE: June 2, 2010

TO: **COMMUNITY SUPERINTENDENTS, HIGH SCHOOL SUPERINTENDENTS, CHILDREN FIRST NETWORKS, AND SCHOOL PRINCIPALS**

FROM: Photeine Anagnostopoulos, Deputy Chancellor for Finance and Technology

SUBJECT: METHODOLOGY for OVERALL REDUCTIONS in SCHOOL BUDGETS, INCLUDING THE IMPACT ON FAIR STUDENT FUNDING

At this time, the FY11 budget for the Department is uncertain and challenging. Based on our best estimates—which could shift as Albany has yet to pass its own budget—we are planning for a cut of \$500 million in State education aid. At the same time, our costs continue to rise, resulting in an actual budget gap of \$750 million. The Mayor's recent decision not to increase UFT and CSA members salaries, including teachers and principals, and instead to move the \$400 million in collective bargaining reserve into schools budgets, will help offset rising costs and mitigate the impact of cuts on school budgets. As a result, the impact on the average school budget will be a reduction not to exceed 4.2%.

REVENUE CHANGES

In addition to a \$500 million cut in education aid, the Governor's 2010-11 Executive Budget proposes to further delay the phase-in of Contract for Excellence funding to NYC so that full phase-in would not occur until 2017, instead of 2014 under the current plan. Under the original plan, set in 2007, NYC would have received 100% of the \$2.3 billion additional funding by 2011. To date, NYC has received \$997 million of the \$2.3b. Further, the Governor's Budget states that school districts with Contracts for Excellence funding are "required to maintain funding for existing Contract for Excellence programs less the percentage reduction in the Gap Elimination Adjustment", which is 6% for New York City. These funds will be taken via an across-the-board cut to the C4E discretionary dollars first allocated to schools in FY09 as well as cuts to district-wide initiatives. (See SAM #5 for details).

All ARRA funding is due to expire in FY12, but some ARRA funding streams are already declining in FY11. ARRA Stabilization funds, provided to the Department

via New York State, will decline in FY11 from current year levels because NYS used a greater proportion of these funds in FY10 to cover its current year shortfall. As a result, in aggregate there is a reduction of \$328 million in ARRA Stabilization funding available for school budgets. (See SAM #6 for details).

The Mayor's FY11 Executive budget increases funding to the Department by more than \$800 million. In FY11, city funds of \$11.8 billion will comprise 52% of the Department's total budget of \$22.8 billion.

EXPENDITURE GROWTH

In 2010-2011, the Department of Education's total budget of \$22.8 billion represents growth of \$306 million over our current year budget. However, our nondiscretionary expenditures are outpacing this increase and will grow by nearly \$1.2 billion. Included in this growth are uncontrollable expenses such as the following:

- \$280 million for pension and other compensation obligations,
- \$140 million for the City's portion of mandated instruction for special education students,
- \$125 million to cover an increase in charter school enrollment of nearly 10,000 students an additional cost we would incur whether these students were in a district public school or a charter public school,
- \$80 million for debt service, and
- \$40 million to pay for feeding our students and leasing and operating our buildings.

Additionally, we estimate another \$100 million is needed to cover enrollment growth in DOE schools. To date, no State budget proposal has taken this increase into account.

To cover a good portion of our growing expenses, the City is increasing funding to the Department by more than \$800 million and the Department is reducing non-school budgets by \$130 million. This includes another \$38 million budget reduction and cut of 300 positions in Central administration. These reductions come on top of a nearly 20-percent cut to central administrative budgets and a reduction of 550 positions, achieved between 2008 and 2010. However, even with the \$400 million of UFT and CSA salary savings, these additional dollars and non-school savings aren't enough to cover the \$500 million cut from the State and the \$1.2 billion growth in nondiscretionary costs. This results in a reduction to school budgets of \$313 million. Overall, nearly all schools will take a cut to their total budget of 4.2% and no school will see a budget cut larger than this.

IMPROVING OPERATIONAL CAPACITY FOR ALL SCHOOLS

Before we implement this budget reduction, we will shift funds between school budgets to help all schools reach a basic level of operating capacity as we enter this next round of budget cuts. We allocate the majority of unrestricted dollars to schools through our Fair Student Funding (FSF) formula. FSF funds will continue to be allocated according to the current formula. This money funds basic classroom operations, including special education and English language learner instruction. The FSF formula also provides supplemental funding for additional instructional services for students who are struggling academically.

Over the last two years, a series of budget cuts have reduced all FSF funding by over 25%. Note, however, that amounts allocated in the “FSF Increment” and “FSF Hold Harmless” Allocation Categories will continue to reflect historic funding levels for these Allocation Categories. When cumulative budget cuts to basic FSF allocations are taken into account, however, the values of the FSF Increment and FSF Hold Harmless no longer represent the actual relative position of schools to their FSF “entitlement” (i.e. their full allocation based upon the formula). (For more details see Appendix B).

Through the implementation of Fair Student Funding, we’ve moved relatively more dollars to traditionally under-funded schools, enabling them to manage recent budget reductions better than they would have under historical funding patterns. However, for a number of schools—particularly middle schools—their Fair Student Funding budgets are now well below what is needed to cover basic operations with these dollars.

One reason for this disparity is that many middle schools started out very close to or well below their FSF formula. Another reason is related to the improved performance of students entering middle schools. Since greater numbers of proficient students are graduating from our elementary schools and entering our middle schools, middle schools are receiving fewer FSF dollars relative to elementary and high schools.

While funds from sources other than FSF have helped to support schools operations during these declining budget times, we need to bring all schools’ unrestricted budgets to a basic operating level before implementing another large cut to 2010-2011 budgets. Given that FSF funding has been cut by more than 25% already over the last two years, and the pending loss of \$850 million of ARRA funds from the DOE that will occur in FY12, it is critical that we make this supporting adjustment in FY11.

We plan to do this by shifting dollars from schools where Fair Student Funding, combined with other unrestricted funds, are above a minimum operating level and redirecting them to the severely under-funded schools. We are shifting \$115 million dollars in ARRA Stabilization and Children First funds between schools, so that every school has enough unrestricted dollars to cover 86.1% of its basic

operating costs, as defined by the FSF formula (excluding the academic weight). This means that, prior to the budget cut, about 400 of our schools will see an increase in their total budget, while nearly another 1,000 schools will see a decrease in their total budgets. However, before the budget cut, this decrease will be no more than 3% of total budget for any given school and no school will receive less FSF than it would have received if no reallocation had taken place. See Appendix A for the methodology used to improve the operational capacity of all our schools.

EQUITABLE % REDUCTION IN TOTAL BUDGETS ACROSS SCHOOLS

GENERAL METHODOLOGY

After school budgets have been adjusted to reflect the shift in funds between schools for operating capacity, all school budgets will be reduced by a percentage not to exceed 4.2%. (Due to differences in funding streams across schools and their requirements, about 14.7% of schools, or 219 sites, will receive a lower percentage cut).

Nearly all our schools will experience this percentage cut and no school will experience a cut to their total budgets larger than this. The general methodology for determining individual school cuts is:

- All schools FSF dollars are cut by the same percentage (4.03%).
- All schools C4E dollars are cut by \$29 million.
- To account for the different mixes of funding streams across schools, we then distribute the ARRA Stabilization Funds across schools with the goal of getting all schools to the same percentage cut on their total budgets (as defined below).

We are making adjustments to school budgets, to improve operating support for schools in the most difficult financial shape, and distributing ARRA Stabilization dollars across schools to equalize the cut, so as to preserve the **relative** improvements made in more equitable funding for schools through FSF over the last three years. (See Appendix A for details).

BASE BUDGET USED IN DETERMINING ADJUSTMENTS FOR OPERATING CAPACITY AND THE DOLLAR AMOUNT OF EACH SCHOOL'S BUDGET REDUCTION

To establish an equitable FY11 cut base (i.e. "Final FY11 Cut Base"), FY10 FSF allocations and other allocation common to all schools -- for example, Children First -- are updated for FY11 conditions such as the annual register changes and annual changes in average teacher salary. In addition to these routine updates, in order to determine an equitable base budget across schools, additional adjustments have been made to other allocations to first determine the preliminary FY11 Cut Base:

- FSF is adjusted to reflect the full (100%) FY10 mid-year adjustment for general education students (this is NOT retroactive to FY10 budgets);
- Shared allocations, which are "hosted" in a particular school's budget but that pay for resources shared by multiple schools, such as School-based Support Teams (SBSTs), are excluded;
- All Pre-kindergarten allocations are excluded;
- Discontinued FY10 reimbursable allocations, such as Title IV, are excluded.

The preliminary FY11 Cut Base is used to calculate the reallocation of funds to ensure that every school has enough unrestricted dollars to cover 86.1% of their basic operating costs.

A school's final FY11 cut base equals the preliminary FY11 cut base, described above, plus the total adjustments made to bring all school to the minimum 86.1% of operating threshold. With the goal of equalizing the percentage cut taken by all schools, the average 4.2% budget reduction is applied to the Final FY11 Cut Base for each school. Please see Appendix A for the detailed calculation.

METHODOLOGY FOR FUNDING CHANGES IN PROJECTED ENROLLMENT

Fair Student Funding allocations for grade weight and special education weights are based upon FY11 projected registers compared to FY10 registers, per the October audited registers. To take account of the impact of prior budget reductions to the overall Fair Student Funding budget and FSF per capita, the FSF allocations have been changed as followed:

- Schools projected to **lose** enrollment next year will see per-student funding reductions based on an *effective per capita* calculated from

their current base FSF budget, thereby taking into account cuts made to Fair Student Funding in FY08, FY09 and FY10.

- Schools projected to **gain** enrollment are fully funded at the FY11 weighted FSF per capita of \$4059.71

In addition, note that all calculations using the FY10 FSF allocation have been adjusted to reflect the full (100%) FY10 mid-year adjustment for **growth in** general education students. (Please note that this adjustment will be for FY11 and is not retroactive to FY10).

Current pupil enrollment projections for FY11 show a net gain of 18,617 pupils system-wide. To lessen the risk of hiring more teachers than necessary, should enrollment increases not materialize, and to address unexpected enrollment increases, funding for 50% of the projected register growth will be held in reserve on school budgets. The reserve is capped at 4.6% growth.

For example:

- If School A projects 3.2% growth, initially funded as if 1.6% growth projected
- If School B projects 9.8% growth, initially funded as if 4.6% growth projected ($50\% \times 9.8\% = 4.9\% > 4.6\%$)

Schools will work with their CFNs to release reserved register growth funds when actual register growth is evident. This policy applies only to currently open schools; new schools and phase-out schools are excluded.

SPECIAL EDUCATION PHASE ONE

Consistent with our systemic effort to significantly improve academic achievement and outcomes for students with disabilities, the Department of Education is implementing a Two-Year Phase-In Process. For schools participating in Phase One beginning in FY11, FSF funding for schools will remain consistent with FSF funding for schools system-wide. (See SAM #30 for details.)

[Click here to download a copy of the School Allocation Memorandum](#)