

SCHOOL ALLOCATION MEMORANDUM NO. 01, FY 12

DATE: June 27, 2011

TO: Community Superintendents
High School Superintendents
Children First Networks
School Principals

FROM: Veronica Conforme, Chief Financial Officer

SUBJECT: SAM # 01: FY12 School Budget

Since the beginning of the Bloomberg Administration, city-funded spending on education has more than doubled from \$5.9 billion in FY 2002 to the \$13.5 billion proposed in the FY12 budget pending City Council adoption. As a result, city funds, as a share of the DOE budget have grown from 51% in 2002 to 61% in FY12 while State funding has fallen from 49% to 39% over the same period. The FY12 Department of Education budget contains a \$2 billion increased revenue commitment from New York City to cover the loss of \$853 million in Federal stimulus funds and the State's \$812 million cut to education. The City has saved schools from the funding cliff caused by the loss of Federal stabilization funds expiring this June and reductions in State revenues.

Unfortunately, despite the additional city dollars, rising costs and new needs require school budgets reductions. But, on June 24, 2011, the Mayor, City Council and United Federation of Teachers reached a budget agreement for FY12 that includes no teacher layoffs. The union has agreed to end all teacher sabbaticals for one year and reforms to the Absences Teacher Reserve that will require all teachers in the reserve pool who do not have full-time assignments to work as substitute teachers, reducing substitute costs. The union concessions are expected to save approximately \$57 million. Non-school budgets will absorb an additional \$30 million PEG and increased tax revenue projections since the Mayor's Executive Budget was presented nearly two months ago are also being used to avoid more job losses. As a result, the direct cut to school budgets has been reduced from \$370 million to \$178 million.

While additional city funds will fill the Federal and State revenue gap in FY12 and help meet much of the rising costs, the new city revenue will not cover all of these expenses. Many of the rising costs are tied to State and Federal mandates that have little to no flexibility and often come without commensurate funding. In total, including pension and debt costs, *DOE costs will increase by \$1.6 billion between FY11 and FY12*; a bottom line increase of 7%. Many costs grow at a higher rate, such as pensions, which will grow 20% or \$490 million, and "pass through"¹ special education costs, which will grow 21% or \$331 million. In total, personnel compensation (salary, fringe and pension) will grow by \$703 million between FY11 and FY12. Mandated special education costs are expected to increase by \$423 million over this period. Additional cost increases are expected for necessary items such as energy, pupil register growth and basic operations.

INCREASING COSTS	
Year-over-year FY12 Exec Plan V FY11 Exec Forecast (millions)	
Personnel Compensation (salary growth, fringe, pension)	\$704
SE Costs (DOE & Non-DOE schools)	\$424
Register Growth (DOE & Charter)	\$243
School Operations (Food, Transportation, Safety, Debt)	\$256
Total Growth	\$1,627

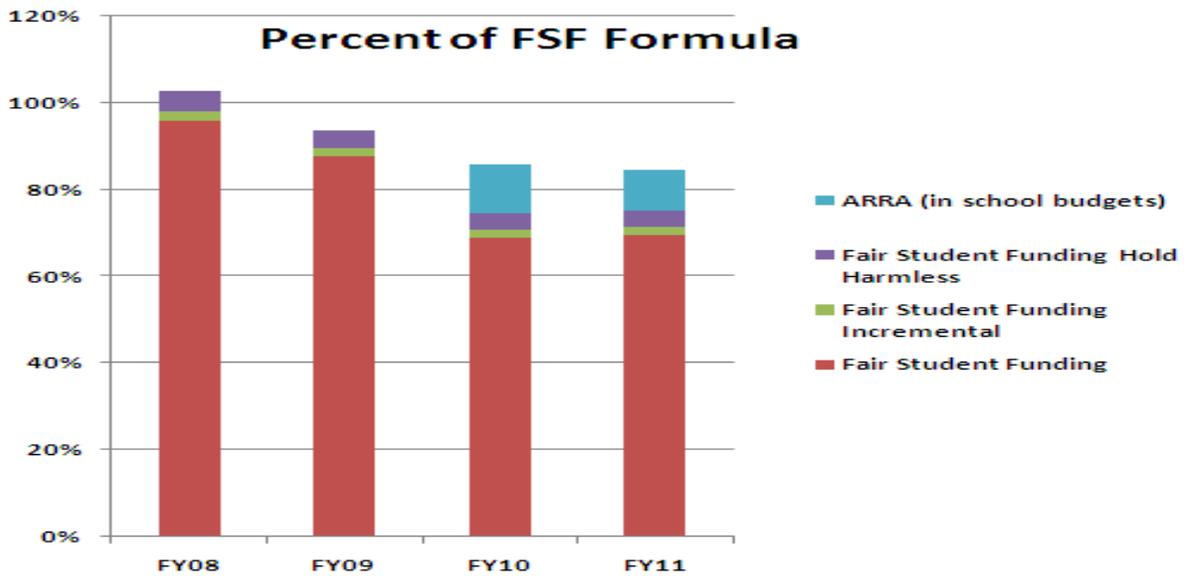
Much of the Department of Education’s budget is invested in mandates and contractual obligations, leaving less than half available for budget reductions, as shown below.

FY11 Feb Plan Forecast (millions)	
Department of Education Budget	\$22,932
LESS FLEXIBLE	\$12,402
Special Education	\$4,965
PENSIONS	\$2,457
DEBT	\$1,656
Transportation(SE & NYS funds)	\$909
ENERGY & LEASES	\$468
CHARTERS (NYS sets amount)	\$572
FOOD - NYS & Federal Funds	\$382
SAFETY	\$296
English Language Learners (Est.)	\$213
PRE-Kindergarten - state grant	\$216
NON PUBLIC SCHOOLS/FOSTER CARE	\$270
MORE FLEXIBLE	\$10,530
General Education- DOE SCHOOLS	\$8,901
CENTRAL & FIELD	\$678
FACILITIES	\$720
Transportation - GE (\$NYC)	\$124
FOOD (\$NYC)	\$107
Amounts shown include fringe costs for personnel	

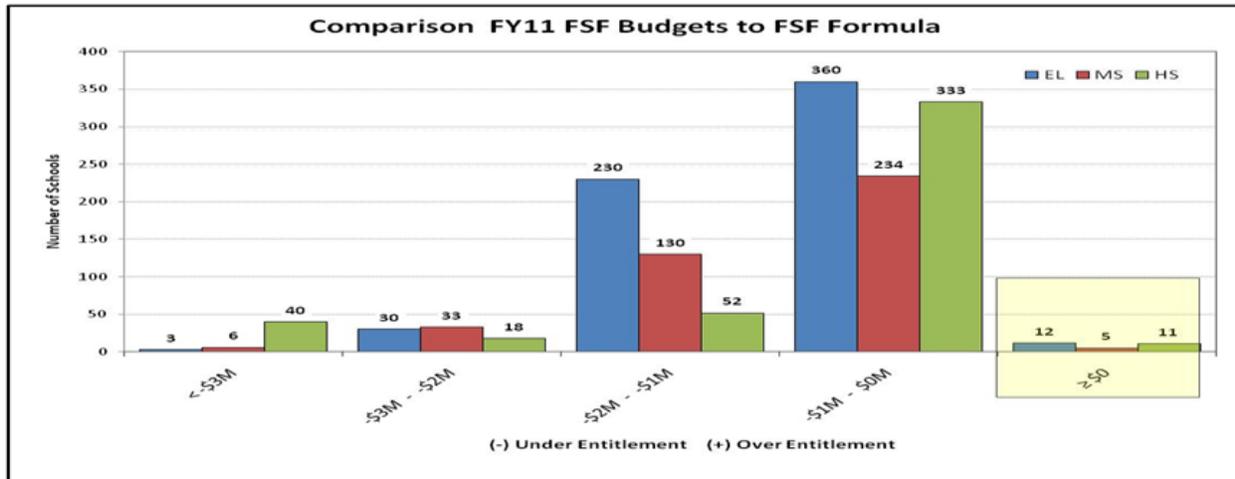
Among the more flexible portions of DOE’s budget, every effort has been made to reduce non-school budgets. Since 2008 through the FY12 proposed budget, the Education Department will have cut about 40 percent of the budget for its central and field offices, including eliminating 705 positions (with 221 layoffs), for a savings of about \$280 million. Cuts have also been applied to facilities, transportation and food totaling \$166 million over this period. The Department must continue to do more with less and continues to work on identifying savings and efficiencies elsewhere in its budget, including through collective bargaining agreements and mandate relief from the state and federal government.

IMPROVE SCHOOL OPERATING CAPACITY

Since Fair Student Funding was implemented in school year 2007-2008, the growth in teacher salaries and increases in mandated costs have exceeded available funding, due to delayed and diminished Campaign for Fiscal Equity (CFE) dollars from the State and other budget cuts. In FY10 and FY11, total funding remained below the FSF formula level, despite the DOE’s use of federal American Recovery and Reinvestment Act (ARRA) funds.



With the successive cuts to Fair Student Funding (FSF) over the last four years, the FY 2011 FSF budgets for all but a handful of schools are below what the FSF formula would predict, and a number of schools are still below what is needed to cover basic operations.



Therefore, in FY12, DOE will continue the effort started last year to increase the funding for the most under-funded schools, before implementing the 2011-2012 budget cut. City restoration funds will replace Federal stimulus dollars in all schools which received these funds in FY11. But, to promote equity, some of these funds are being redistributed from schools with funding over 90.3% of the FSF formula to schools below 82.7% of formula. (Calculations use the revised FSF formula, explained below.) To promote stability, no school will lose more than 1.5% or gain more than 10% of its FY11 base budget³ in this redistribution. The FSF formula is also being adjusted so that it will send dollars where the academic need is greatest based on the updated New York State test scores, and fund special education classes in accordance with student IEPs, historical school practice, and State and collective bargaining guidelines.

Fair Student Funding Formula Revisions

Of the 27 different weights that compose the 2007-2008 FSF formula, DOE is changing five weights, as described below, in order to better align FSF funding with the pupil needs they are designed to address.

Academic Weight: The DOE is revising the FSF Academic Intervention Poverty weight from .24 to .12. FSF uses the count of children in poverty, based upon pupils eligible for free lunch, to *estimate* academic need in grades where NYS ELA and Math test scores are not given, or, where pupils entering schools for the first time have not yet taken these tests.⁴ A review of *actual* pupil performance by grade level compared to funding generated by the original FSF formula shows a mismatch of academic funding with academic need; the revised formula better aligns funding with academic need, as shown below:

School Type	% Academic Need	% Academic Funds per Original FSF	% Academic Funds per revised FSF
EL	25%	61%	30%
MS	33%	10%	25%
HS	42%	29%	45%
Total	100%	100%	100%

May, 2009 Academic Data rescaled for NYS scoring change

In addition to revising the Poverty weight, the change will take into account the impact of the NYS test score rescaling implemented in spring, 2010. Under the original FSF formula, academic weights funded pupils based upon their proficiency when they *initially* register at school. Without the revision to the formula, FSF would have taken account of the impact of the NYS test score rescaling only for pupils first entering schools in September, 2011 (due to when NYS test results are available, FSF uses one-year-old academic data in the formula). Under the original formula, all other pupils, who were proficient when they entered school in past years -- but who now, based upon the rescaled scores, are not proficient, would not have received any FSF Academic funding. This formula revision will look at all students currently enrolled in schools which are funded based upon test scores, and recalculate what these students' proficiency would have been at the time of entry using the new State rescaling. As a result, schools will receive funding for these pupils in FY12, which will result in better targeting FSF funds to pupils who score below or well below standards on NYS ELA and Math exams based upon the significantly changed scoring method introduced by New York State Education Department ("NYSED") in Spring 2010.

Special Education Weight: The DOE is adjusting four of the Special Education FSF Formula Weights to align with self-contained (SC) and integrated co-teaching (ICT) IEPs and instructional models as outlined in compliance guidance. The original FSF formula funded all of these classes based upon the *early-childhood* SC and ICT models, which provide for classrooms of 12 special education pupils in SC and 10 special education pupils ICT classrooms. The revisions will update the weight for SC classrooms for students in grades 9-12 to 15 pupils. It will also update the weights for all ICT classrooms, except kindergarten, to reflect classes with 12 special education pupils. DOE will continue to support special education classrooms where empty seats need to be funded in order to pay for the classroom teacher(s) for schools that receive class funding. Consequently, up to 10 empty seats in elementary schools and up to 11 empty seats in middle schools will be funded (middle school classes cost more than elementary schools for the same size class due to the additional administrative period that middle school teachers receive).

Implementation Method: DOE is changing how it implements FSF in FY12 by flowing NYC restoration funding through the revised FSF formula, but providing slightly more of these funds to schools which would otherwise be below 82.7% of formula. Monies allocated in FY11 to schools through Children First Operational funding will be added to FSF in FY12. These changes will enable DOE to move schools most below the FSF formula closer to the formula. So as not to destabilize any school, loss of funding due to these changes will be capped at 1.5% of schools' FY11 base budgets³ and no school will gain more than 10% of its FY11 base budgets³.

FSF Allocations

The amount of FSF funding a school receives in FY12 is based upon the school's *percent of formula* as that is determined from the redistribution of restoration funds and the revised formula, as described above. All of the calculations used to determine the percent of formula use FY11 budget and register data, so that *only formula and implementation changes* are included in the percentage, and other changes, such as register change, do not impact the percentage. For example, a school that has 90% of formula calculated based upon FY11 data will receive 90% of its FY12 FSF formula amount, regardless of whether it losses or gains register in FY12. The FY12 FSF *formula amount* goes up or down depending on register changes in the funded categories, while the amount of FSF funding the school actually receives stays at 90% of the formula, as determined by the FY11 funding percentage calculations discussed above.

Finally, about 600 schools received “TL FSF General Hold Harmless” in 2007-2008 that was equal to the amount of funds they were over the formula *at the time*. As explained earlier most of these schools are no longer over the FSF Formula, so this allocation category is ending, and the “TL FSF General Hold Harmless” amounts are being rolled into the basic FSF allocation category in FY12. Funds previously labeled “TL FSF Incremental” will also be included in the basic FSF allocation amount, and this allocation category is being eliminated. For a very limited number of schools, the combination of FSF funds, city restoration funds, and formerly Children First funds exceeds their FY12 FSF formula amount; these schools will receive any additional funds above the formula in FY12 in a new allocation category called “TL Funds over Formula.”

For school-by-school details that show all of these changes, see the “Fair Student Funding Overview by School” SAM 1.01b

FY 2012 Register Gain Reserve Policy

Current pupil enrollment projections for FY12 show a net gain of 11,739 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 4.1% growth. Register gain reserves equating to 5 pupils or fewer will not be set aside, and will be fully available to schools at the initial allocation.

For example:

- If School A projects 3.2% growth, initially funded as if 1.6% growth projected multiplied by the schools FY12 Fair Student Funding percent.
- If School B projects 9.8% growth, initially funded as if 4.1% growth projected multiplied by the schools FY12 Fair Student Funding percent. ($50\% \times 9.8\% = 4.9\% > 4.1\%$, then reserve equals $4.1\% \times \text{FSF Funding \%}$)

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. Once again this fall, a preliminary allocation adjustment for register loss will take place in advance of the audited register data. Further information about the register adjustment process will be issued before school starts in September. Final adjustments based on audited data will take place in February 2012.

EQUITABLE PERCENT REDUCTION ACROSS SCHOOLS

After school budgets have been adjusted for NYC restoration funding, which replaces expiring Federal stimulus funding, and for the revised Fair Student Funding formula, all school budgets will be reduced by 3.26% in order to absorb the remaining FY12 School Program to Eliminate the Gap (“PEG”) after actions taken by the Mayor, City Council and UFT on June 24, 2011. The reduction percentage is applied to flexible tax levy funding including FSF, Funds Over Formula, School

Support Supplement and FSF Legacy Teacher. Since some schools have other funding streams, the impact to schools’ *total budgets* will vary. Budget reductions, as percents of *total funds* will *average about 2%*. See SAM #6 for more details.

NOTES

1) "Pass through" special education programs serve significantly impaired children in day and residential facilities licensed by New York State. New York City pays a portion of the tuition, related services and transportation costs for NYC pupils in these facilities.

2) New York State has over 200 mandates above and beyond what Federal law requires. While some of these mandates are reasonable and important measures that should be protected, others are outdated and burdensome.

3) FY11 Base Budget amounts used in these calculations include: FY11 FSF Dollars; all Federal Stimulus ARRA funds and Children First Operational funding; School Support Supplement Legacy Teacher Supplement and Salary Subsidy allocations. (For details, see the "Fair Student Funding Overview by School" SAM 1.01b) Note that the 1.5% capped loss or 10% capped gain amount does not include the impact of other year-to-year changes to school budgets, including the FY12 PEG, changes to other targeted allocations, and register changes. When changes in these other factors are added to the capped 1.5% loss, the overall budget change may be less or more than the 1.5% capped loss or 10% capped gain that results from the restoration funding policy.

4) The FSF Academic Weight is based upon pupils' proficiency at the time they enter a school. Pupils are counted for the FSF Academic Weight only upon entering school for the first time. This is done so that schools which are able to improve pupil performance are not penalized by losing the associated academic funding.

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