



THE CITY OF NEW YORK  
INDEPENDENT BUDGET OFFICE

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February 15, 2002

The Honorable David Yassky  
The Council of the City of New York  
114 Court Street, 2<sup>nd</sup> Floor  
Brooklyn, NY 11201

Dear Council Member Yassky:

Your office had asked the Independent Budget Office (IBO) to estimate the cost of one potential model for a settlement of the Campaign for Fiscal Equity lawsuit. Specifically, you wanted to know how much spending would need to be increased to bring New York City up to the average spending in districts with 80 percent passing rates on five or more Regents exams. You asked that we adjust the spending levels to account for differences in costs and the educational needs of students in the district. Using 1998/99 school year data—the most recent available—IBO estimates that New York City would need spend \$3,029 more per pupil to match the spending in these districts after adjusting for costs and needs. Removing this difference would require approximately \$3.3 billion, presumably from a combination of city and state funds. You had indicated that the option was initially developed by members of the State Education Department's (SED) State Aid Working Group. Like you, we were unable to obtain a copy of the SED analysis.

The data used in this analysis came from publicly available files on the SED Web site. But without the cooperation of SED we cannot be sure that we have exactly replicated their analysis, starting with the number of districts meeting the criteria. You report that they found 65. We found 74. The difference may be due to methodology, different data sources, or different years tested. We compared NYC per pupil spending with the average spending in these districts adjusted for differences in regional cost and the extraordinary needs index (ENI), a factor used in several state aid formulas that reflects poverty, students with limited-English proficiency, and geographic sparsity. Again, without a copy of the SED report, we can not be certain that we have used the same adjustment factors.

According to the SED's June 2001 edition of the "Statewide Profile of the Educational System" (the 655 report), in 1998/99, New York City Board of Education spent \$9,623 per pupil. The 74 high-performing districts averaged \$11,955, a difference of \$2,332. (The median was \$11,524, or \$1,901 higher than in the city.)

To adjust for differences in costs across the state we used the regional cost factors prepared for the Regents' current state aid proposals. (The Regents recommend changing state aid formulas to reflect differences in regional costs.) New York City and Long Island, which are treated as a

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single labor market under the Regents' proposal, have the highest local cost factor in the state. Because most of the high-performing districts are located in Long Island and in the Hudson Valley—which has the second highest costs—the difference in cost factors is not very great. Adjusting for the difference in the average cost factors increases the difference between the city and the high-performing districts by \$364 per pupil.

While there is little difference in cost factors between New York City and the high performing districts, there are greater differences in the educational needs of the students. To adjust for this we used the ENI, which is used in some of the state aid formulas and is often used in SED reports that analyze the relationship between district needs and district resources. Not surprisingly, the city's ENI is higher than the ENI of any of the high-performing districts, and is 1.3 times higher than the average for the 74 districts. In applying the ENI to district spending we used the methodology suggested by the Regents in their analysis of a new needs-based aid formula. Making this adjustment adds \$333 per pupil to the difference in spending levels.

After making these two adjustments, the difference between the two spending levels grows to \$3,029 per pupil. Given New York City's enrollment of 1.1 million students, total spending would have to grow by \$3.3 billion to bring per pupil spending in the city in line with the spending in the 74 high-performing districts.

As noted above, we can not be certain that we have used the same methodology or data that was used in the SED analysis you referred to. Nevertheless, we are confident that this is a reasonable estimate for a CFE outcome similar to the one you described.

Obviously there are many potential CFE outcomes, some of which might result in even larger per pupil adjustments for the city. For example, this option did not include any adjustment for differences in special education enrollments. There might also be more appropriate ways to identify high-performing districts used to set the benchmark spending level. Finally, the use of some construct other than overall district spending might be more appropriate in order to take into account differences in the treatment of debt service and pensions.

We would welcome the chance to discuss these initial results with you in more detail, as well as any alternative CFE outcomes you might want us to analyze. Please feel free to call me at 212-442-8642 or contact me via e-mail at [georges@ibo.nyc.ny.us](mailto:georges@ibo.nyc.ny.us) if we be of further assistance.

Sincerely,

George V. Sweeting  
Deputy Director