

## Go Figure: How a Bigger Education Budget Became Less Money for Schools

Also available...

75 Percent of Students Still in Overcrowded High Schools

...at [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us)

AS PRINCIPALS PREPARED LAST SUMMER for the current school year, many discovered a surprise: their school's budget had been cut. This cut came despite a city budget adopted last June that included an overall spending increase for education of \$570 million. But as a review and analysis by IBO finds, with rising costs and a complex allocation process used by the Department of Education (DOE), more money for education can still equal less money to individual schools.

The cut to schools at the beginning of this school year totaled \$64 million out of a \$4 billion initial allocation—a reduction of 1.6 percent. Because of changes in how DOE allocated money to schools this year, individual school budgets may have varied by significantly more than the 1.6 percent. The complex changes in distributing education funds—some of which come from the elimination two years ago of community school district offices and the resulting centralization of allocations to schools—make it very difficult to compare annual budgets for each school. The lack of consistency from year to year is particularly challenging for school principals who are now expected to play a much greater role in shaping their schools' budgets.

With passage of the state budget in August, after the initial allocations had been distributed, aid to the city's school system increased by an additional \$280 million and DOE reversed the cut and adjusted school budgets so no school would suffer a reduction except for decreases due to a decline in enrollment. DOE also has increased the overall school budgets by over \$100 million. The relief has reduced the budgetary stress in schools, but the lateness of the additional funds may make it difficult for principals to reinstate programs that were cut over the summer.

*Resources and Allocations.* According to DOE, \$60 million was cut because of the elimination of two specific funding sources. Although the state had agreed to prepay \$30 million of school aid each of the past two fiscal years, there was no such prepayment this year. And last year, the department rolled over a \$30 million surplus from fiscal year 2003.

The decision to cut \$60 million from school budgets was made despite the fact that the city anticipated increased state aid for this year when the city's budget was adopted. Nor was the decision related to the lateness of the state budget. The city's adopted education budget from all sources for 2005 was \$570 million greater than the 2004 adopted budget and the expected city contribution for 2005 was \$286 million higher than projected at the start of the 2004 fiscal year. Much of this increase was targeted to anticipated collective bargaining agreements with the teachers' union and increases in fringe benefits.

Beginning in June, continuing throughout the summer and into the school year, DOE issues Allocation Memos that describe in detail the money schools can spend. The Allocation Memos provide schools with the details regarding how school budgets are developed and document the distribution of resources to individual schools. The memos are used to distribute a funding stream, such as tax levy money or a state or federal program such as Class Size Grants, to the 1,300 individual schools. In order to do this, DOE develops formulas to distribute the funds. Most of the formulas are based on the number of students in a school or the number of teachers needed. As a result, any changes in the individual school enrollment will affect the amount of money a school receives. For example, a simple allocation such as the New York State Textbook Law assigns a dollar amount of \$57.30 per student. Each school receives this amount for every student projected to be enrolled; if the school's projected enrollment changes, DOE adjusts the allocation.

The process of distributing all of the funds that comprise a school's budget is very complicated. For the 2003-2004 school year a total of 54 Allocation Memos were ultimately issued. For the 2004-2005 school year, 47 Allocation Memos have already been issued. The first of these memos (SAM#1) always includes the largest single distribution of money for the school year, totaling over \$4 billion in each of the last two years, which is more than half of what is spent on classroom instruction.<sup>1</sup> Schools use this initial money to pay for basic instructional services such as teachers, principals, librarians, secretaries, and supplies. Generally, specific programs are budgeted through subsequent allocation memos. Specific programs tend to require that the money be spent only on that program; these programs can be funded by the city, state or federal governments. The allocation for the New York State Textbook Law discussed earlier is an example of one of these specific programs.

The formulas used to distribute the funding in SAM#1 to all 1,300 schools include calculations that determine the number of teachers a school requires, the level of special education services a school is projected to need, and a school's additional instructional and overhead expenses. The education department made extensive changes to the formulas in SAM#1 this year that resulted in shifting money between schools and ultimately causing cuts to many school budgets.

This is only the second school year that DOE has distributed SAM#1 funds to all schools. In prior years, DOE developed allocation memos that would divide funding among the 32 Community School Districts. The Community School District

offices would then allocate money to the individual schools. But two years ago DOE replaced the 32 district offices with 10 Regional Operating Centers and budgets were sent directly to the schools from the centralized DOE—not via the regional centers. Critics have suggested that the elimination of this intermediary level may have led to a less nuanced budgeting process for the schools. DOE contends that budgeting through district offices sometimes led to inequitable budgeting practices with some schools receiving either unfairly large or small budgets. DOE continues to change and refine the distribution formulas.

*Changing the Formulas.* The amount of money allocated in this year's SAM#1 was just over \$4 billion and was significantly less than last year's initial allocation of over \$4.5 billion. However, the two years' allocations encompass different funding sources. For example, last year, funding for Project Arts was included in the SAM#1 allocation, this year it was taken out of SAM#1 and allocated through its own memo. When SAM#1 is adjusted to account for these differences, IBO estimates that this year's initial allocation is approximately \$64 million—or 1.6 percent—less than last year's.

Individual schools were affected both by the overall decline in the initial allocation and by changes in how the funding is distributed. While overall funding may have decreased by 1.6 percent, most schools experienced cuts that were larger than this global effect. Reasons for these cuts may include large changes in enrollment and some changes in the distribution formulas of the initial budget. The major changes in the distribution of school budgets affected roughly four formulas used in the initial allocation: the base number of teachers per school, the overhead allocation, the per capita allocation, and the Special Needs/Academic Intervention Services calculation (Special Needs).

*Base Number of Teachers.* Between \$2.5 billion and \$3 billion in SAM#1 is allocated to cover the expense of each school's base number of teachers. This year over 840 schools, or 73 percent of schools open both last year and this year, had *increases* in the base number of teachers assigned and therefore monetary increases for this particular budget allocation. The total budgeted amount for the base number of teachers increased by over \$200 million this year. At the same time, these schools experienced a median decrease in enrollment. As a result, the median pupil-to-teacher ratio for these schools decreased from almost 22 to 19.<sup>2</sup>

In an attempt to more accurately calculate the number of teachers a school needs, individual schools—with oversight

from the regional centers—submitted information on the number of special education-only classes anticipated for the 2004-2005 school year. DOE assigned additional teachers for these classes, which require a lower pupil-to-teacher ratio than general education classes. DOE also added a category for mixed special and general education classes with additional teachers.

Last year, students in special education-only classes were counted as general education students and no additional allocation was provided for mixed classes. But last year's Special Needs formula (which is separate from the formula for base number of teachers and is discussed below) included additional weighting and money to account for special education-only classes. DOE undertook the formula change this year to provide adequate funding for those schools with large numbers of special education-only classes as well as mixed classes. This may have resulted in a shift of funds from schools with fewer special education students to schools with more special education students.

*Special Needs/Academic Intervention Services.* The changes to the Special Needs formula were so significant that last year and this year cannot be compared on a school by school basis. Over \$500 million was distributed in the Special Needs formula this year to the individual schools via SAM#1; an additional \$130 million for speech and counseling services and certain paraprofessionals was allocated directly to regional centers. The centers then distributed the money directly to those schools with specific needs. The additional money was given to the regional centers through SAM#1 and the schools did not receive the \$130 million until after they had received their initial allocations. No information on the allocation of these funds to schools is currently available.

The formula that distributed the initial \$500 million directly to the schools for Special Needs also changed. For example, last year a weighting was built into the formula for special education-only classes. This year, as special education-only classes are provided an allotted number of teachers in the calculation of the base number of teachers, no such weighting exists in this category. This formula change exacerbates the difficulty of comparing the two years' school budgets.

*Overhead and Per Capita Formulas.* This year the overhead allocation was distributed to schools based on their size and

grade level—larger schools received less money and smaller schools received more, elementary schools received less and high schools more. In other words, a small high school would receive the largest overhead allocation while a large elementary school would receive the smallest overhead allocation (new schools were not subject to the size formula). DOE provides two explanations: first, larger schools receive a greater student per capita allocation which is available to cover some overhead expenses. Second, DOE claims that last year larger schools had an excess of overhead money and this year's formula attempts to reduce the excess. For this reason, the overhead allocation and per capita allocation are discussed together in this section.

---

While overall funding may have decreased by 1.6 percent, most schools experienced cuts that were larger...

---

The overhead allocation includes expenses for principals, assistant principals, librarians, guidance counselors and other non-instructional staff. The per capita allocation provides funding per student for instructional expenses not

provided through other formulas.

Last year's overhead allocation was based only on the level of a school: all elementary schools received \$230,000 for overhead; middle schools received \$325,000; existing high schools received \$430,000; and new high schools received \$405,000. IBO compared overhead allocations for 1,117 schools in 2004 and 2005.<sup>3</sup> Total overhead allocations decreased, and as expected, overhead decreased for large schools and increased for small schools. In large schools, overhead made up 4.0 percent of the total initial allocation last year; this year it made up 3.1 percent of those schools' total. Conversely, for small schools overhead made up 12.3 percent of the initial allocation last year and 13.6 percent this year. While a percentage point decline in the overhead allocation for large schools appears modest, for schools with more than 1,200 students the dollar loss averaged over \$92,000—roughly the cost of an assistant principal.

As anticipated, large schools do receive more *per capita* money than small schools not only because they have more students, but also because so many large schools are high schools and the per capita funding formula for high schools is greater than for elementary and middle schools. It is difficult to compare last year's and this year's per capita allocation because several funding sources for the per capita allocation were provided in separate allocations this year, and as the name of the category suggests, it is especially responsive to changes in student enrollment. When the vast majority of funding is put back into

the per capita allocation for the 2004-2005 school year, the value of the total per capita allocation falls for both small schools and large schools, compared to 2003-2004, and increases for those schools with between 600 and 1,200 students. The decline for large schools, however, is much smaller than the decline for small schools: 11 percent versus 18 percent. In other words, even though per capita allocations fell in total value for both large and small schools, large schools are still receiving relatively more per capita money than small schools.

*Conclusion.* The complexity of the allocation methods makes comparison between years very difficult for outside analysts and more importantly, for individual principals. IBO's accounting of the changes in the allocations confirms that the cut to the initial allocations was limited to \$60 million. This means little to the individual schools, however. From a school's perspective, what matters is how much money they receive and when they receive it. The cuts that many of the schools initially experienced arose from formula changes that shifted money between schools and between types of students. This reallocation of resources—even if done in order to distribute money more fairly—has the potential to result in the elimination of some basic services at some schools.

Increased state aid has ameliorated the problem for now. Schools have been made whole for cuts and shifts in funding and have received unanticipated increases in their budgets. However, the department is continuing to learn how to allocate funds to individual schools. This process will continue to evolve and how that might change budget allocations next year is not clear.

*Written by Martina Madrick*

#### END NOTES

<sup>1</sup> When discussing SAM#1 in this context, we are only referring to what is considered the “corridor” allocation. The “non-corridor” allocations that are also included in SAM#1 total over \$1 billion and are typically tied to specific programs.

<sup>2</sup>The class size figure aggregates self-contained special education classes with general education classes and the special education classes have much smaller class sizes, therefore, these schools will not on average have the resources to provide an actual class size of 19 students in general education classes. Median is often used as opposed to mean or average because there are several outliers - schools that had drastic increases or decreases in the number of students enrolled—that affect the data.

<sup>3</sup> Of the 1,300 schools in 2004-2005, approximately 100 are new, several schools from the 2003-2004 school year closed and IBO was unable to identify a handful of schools' overhead allocation for 2004.

You can receive IBO reports electronically—  
and for free. Just go to [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us)