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## SCHOOL ALLOCATION MEMORANDUM NO. 01, FY10

**DATE:** May 20, 2009

**TO:** **COMMUNITY SUPERINTENDENTS, INTEGRATED SERVICE CENTERS AND SCHOOL PRINCIPALS**

**FROM:** George Raab - Chief Financial Officer

**SUBJECT:** **FAIR STUDENT FUNDING**

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This is a challenging year—not just in New York City but across the state and the country. Tax receipts are down and the State and City can't afford to spend as much on our schools. The federal stimulus package is helping us make this situation more bearable, and helping us to avoid massive teacher layoffs, but it does not make us whole. This means we still have to reduce our spending.

### OVERVIEW

How can the Department still have a budget gap, even though we're getting close to \$1 billion in federal stimulus funding and the Mayor's Executive budget shows an overall net budget increase of about \$1 billion? The answer is that nondiscretionary costs are growing beyond the dollars we have in our budget. Here are the facts:

- The total increase in the Mayor's Executive operating budget for the Department of Education (DOE) is \$1 billion, composed of a \$655 million increase in DOE's operating budget and \$444 million increase for pension and debt service.
- The year-over-year increase in DOE's operating budget of \$655 million adds funding primarily for mandated Special Education and contractual salary increases, which largely address needs outside of the budgets of our community schools. These additional funds will pay for rising costs in mandated Special Education instruction in D75, related services, special education pre-kindergarten programs, and special education instruction in contract schools and Carter Cases. About \$300 million is for collective bargaining adjustments in compensation, mainly for pedagogical employees. Finally, about \$55 million will address rising costs in transportation, food and energy and leases.
- Federal Stimulus funding received by the DOE in fiscal year 2010 totals \$962 million and includes:
  - \$459 million in ARRA (American Recovery and Reinvestment Act) stabilization funds
  - \$335 million in ARRA Title I funds
  - \$158 million in ARRA IDEA Funds
  - \$10 million in Community Development funds

- These added federal funds will prevent the proposed layoff of 14,000 teachers, forecast in the City's January Plan, by essentially helping to "backfill" the \$755 million reduction in State funds and the \$306 million reduction in City funds in the Department's FY10 budget. The federal funds, however, will not completely replace the revenues lost.
- Complicating this picture are increasing needs in the Department's FY10 budget that impact the school budgets directly. The Department is experiencing growth in demand for special education services in its community schools, such as growth in Collaborative Team Teaching (CTT) classrooms, over and above the special education services noted above. Additionally, DOE's success at recruiting and retaining high quality teachers is resulting in increased compensation costs as new teachers stay at the DOE longer and receive additional salary increments as they gain seniority and earn more advanced degrees in education. Finally, the Department's strategy of closing failing schools and replacing them with new schools and the expansion of transfer schools and pre-kindergarten programs adds some costs each year to the overall budget.

Taking all of these needs and revenues into account, funding in the Department's budget for community schools fall short of what's needed in fiscal year 2010 by about \$310 million, when all fund sources, including schools' surplus rolls, are included. This shortfall represents a 3.8% reduction in funding flowing to community schools in FY10 compared to what they would have gotten in FY10 to reflect register changes and increases in the average teacher salary. Schools in District 75 will also be absorbing a slight decrease in funds in FY10 of .28%. Please see SAM#28 for details.

It should be noted, the reduction to schools is after taking into account nearly \$20m in funds that will flow to schools in FY10 as a result of an additional cut to be absorbed by central and field offices. Since fiscal year 2008 through fiscal year 2009, central and field offices have taken a 13% cut, compared to a 3% cut to schools' budgets over the same time period. In this time, 550 central and field administrative positions have been eliminated -- the equivalent of an 8% reduction in staff.

## REDUCTIONS TO SCHOOL BUDGETS

Fair Student Funding (FSF) and Children First allocations in fiscal year 2010 are being reduced across-the-board at the same percentage for all schools in order to implement the funding reduction described above. Before the across-the-board reduction is made, each school's FSF Galaxy budget as of May 1, 2009, is "rolled forward" to a FY10 condition by adjusting for register changes, changes in average teacher salary, collective bargaining and non-recurring allocations (e.g. surplus roll, shared positions). The same percentage cut is then applied to each FSF allocation category and the Children First allocation category.

Funds added to school budgets from the American Recovery and Reinvestment Act (ARRA) are available in each school to help offset the impact of the FSF and Children First reductions. Each school is receiving funds in one or several of the allocation categories for ARRA, including TL DRA Stabilization, TL Stabilization, Title I ARRA and/or IDEA ARRA. Note that ALL ARRA funding allocations to schools will not require schools to fund fringe so that schools can apply 100% of each dollar of ARRA to basic school costs. Allocations of ARRA funds to schools are being used to "equalize" the reductions to total budgets across schools. However, when AARA Title I dollars are distributed according to regulations, some schools' budget reductions will be lower due to much higher Title I allocations relative to other schools' Title I allocations. When

surplus roll funds are taken into account, those schools that rolled money from FY09 to FY10 will see a lower cut than those that did not, the size of the decrease in the reduction based upon the size of the roll. In aggregate, total school budgets will decline by 3.8%, with some schools experiencing a slightly smaller percentage reduction in their budgets and others, a slightly higher reduction. See each school's budget overview at [schools.nyc.gov/AboutUs/funding/schoolbudgets/default.htm](http://schools.nyc.gov/AboutUs/funding/schoolbudgets/default.htm)

## HIRING RESTRICTIONS

Schools will be able to reduce spending without laying off teachers. As a result of teacher attrition and individual Principal decisions to meet budget reductions, the overall number of teacher positions will decrease. However, no teachers will be laid off. Schools will operate in FY10 under hiring restrictions. Schools will only be able to hire from teachers and other staff members who are already working in our schools today. Even so, Principals will maintain the discretion to manage their budgets to best meet the needs of their students. The Department will be reviewing the hiring limitations every week, and may lift them in certain geographic and subject areas. For example, we may hire new teachers in shortage areas like special education and science. But, in some subject and geographic areas the hiring restrictions may continue to be in effect through the opening of school. Although the Department is restricting hiring, there will be no forced placement of teachers, guidance counselors, or assistant principals. For more specifics on hiring guidelines, please contact your HR Partner.

## ACCOUNTABILITY

It is important that each Principal understand that his or her individual actions impact the availability of funding for all schools in two ways: *First*, the department as a whole cannot afford an increase in the number of centrally-funded excesses. Principals must do everything they can to maintain the integrity of their instructional program by not eliminating teaching positions except where absolutely necessary to balance their budgets. *Second*, the department is under intense scrutiny and accountability for documenting how schools will have used their stimulus funds productively. The stimulus funds will be added to the department's budget in increments and the state and federal government will be reviewing how the stimulus funds already allocated have been used before releasing the next portion of funds.

Despite a downturn in the budget, Principals, school staff and staff outside the schools, all remain accountable for improving student achievement. Everyone throughout the Department is working together to support Principals in implementing their educational plans, while meeting the new challenges of this budget environment.