



**Department of  
Education**

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Ronnie Lowenstein  
Director, New York City Independent Budget Office  
110 William Street, 14th Floor  
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Dear Ms. Lowenstein,

The New York City Department of Education (DOE) disagrees with both the conclusions and methodology of The Independent Budget Office's (IBO) latest examination of per pupil funding between district schools and charter schools in New York City ("Charter Schools Housed in the City's School Buildings Get More Public Funding per Student than Traditional Public Schools," published February 15, 2011). For its analysis of this issue last year ("Comparing the Level of Public Support: Charter Schools versus Traditional Public Schools," published February 2010), the IBO developed a methodology in close consultation with the DOE, and both the IBO and the DOE found that charter school students in both public or private space received fewer dollars per pupil than their district school peers. This year, the IBO revised its methodology based on mistaken assumptions and reversed its previous conclusion.

The DOE's own analysis finds that charter schools continue to receive fewer dollars per student than traditional district schools. In reversing its previous conclusion, the IBO has erred in certain revisions to its methodology and continues to ignore improvements that the DOE suggested last year. Additionally, the process by which the IBO shared information prior to the release of this update was inconsistent with the Memorandum of Understanding (MOU) between the DOE and the IBO.

## **RESPONSE TO FINDINGS**

According to the IBO calculations, charters located in DOE schools buildings for Fiscal Year 2010 received \$649 more per student ( $\uparrow 4.1\%$ ) than district schools, while charters located in private space received \$2,358 less per student ( $\downarrow 14.7\%$ ) than district schools. Considering that about two thirds of charters schools in New York City are located in DOE buildings with other district schools - according to the IBO calculations - overall, charter schools received approximately \$353 less per student ( $\downarrow 2.2\%$ ) than district schools.

The DOE disagrees with the IBO on the conclusion that public school pupils in co-located charters receive more than pupils in district schools: according to DOE calculations, charters located in DOE schools buildings (FY10) received \$164 less per student ( $\downarrow 1.0\%$ ) than district schools, while

charters located in private space received \$3,171 less per student (↓19.2%) than district schools. Considering the co-location percentage, overall charter schools received approximately \$1,166 less per student (↓7.1%) than district schools.

The variance between the IBO and DOE numbers and conclusions fall into two categories: costs that the IBO adds to the charter adjusted operating expenses (AOE) per capita, and costs that the IBO omits from traditional public schools per capita calculations. Both are detailed below.

#### Costs Added to the Charter Adjusted Operation Expenses (AOE)

*Cost for opening new charter schools:* This year, the IBO adds \$266 to the charter AOE per capita for supplies, furniture and fixtures associated with the opening of new charter schools. The DOE believes that including these one-time opening costs in the calculation of ongoing operating costs overstates the support provided to charters. Each charter student receives a new school allocation only once, not on an ongoing basis.

*Administrative services:* This year, the IBO adds \$33 to the charter AOE per capita for the cost of the DOE Charter Schools Office. The Charter Schools Office serves primarily to administer charter school authorization, oversight and disbursement of payment to charter schools in line with the DOE's role as a "pass through" entity for the State. The Charter Schools Office staff spends roughly a third of its time on operating support, resulting in an additional per capita value for those services of \$11 per student (\$22 less than IBO's estimate).

The DOE provided similar comments last year on the IBO's Charter Adjusted Operation Expenses.

It is important to note that AOE calculations use two-year-old public school expenditure data and adjust for this lag using a statewide inflation factor. Given this method of calculation, there will always be natural cyclical variations when comparing public support for charters and traditional schools. Even with a perfectly fair allocation model, there will always be some years in which charter schools seem to receive more or less public support than traditional public schools.

#### Costs Omitted for Traditional Public Schools Per Capita

The IBO's new revision to its methodology regarding pension costs significantly underestimates the true cost of benefits per district school student. Additionally, the IBO has again omitted costs for students who receive special education support for less than 20% of the week, which the DOE pointed out last year.

*True cost of NYC pension benefits:* In the district's pension system the City of New York has to bear all of the funding liability, so annual contributions to retirement funds do not necessarily represent true pension costs. The additional cost of this risk should be included in the per capita funding calculation for district schools. The real present value of pension cost in a given year should reflect what the DOE would have contributed to fully cover the pension cost. Currently, the funded ratio of the teachers' retirement fund is approximately 0.67 (as of Fiscal Year 2008-2009), yet experts contend that a funded ratio of approximately 0.80 would minimize the liability risk. Thus, the cost of this risk is better approximated at 20% (0.67 → 0.80). Applying this 20% to the DOE pension expenses in FY10, the cost associated with the pension liability risk rises to \$417 per district school student. While the DOE plans to work with the City to further refine the true pension cost as it relates to public school per capita, \$417 per student is still likely a conservative estimate of the risk associated with funding liability.

*Cost for students with special education support for less than 20 percent of the week:* The IBO excludes most special education spending and other categorical spending from its calculations, stating that these items are reimbursed at essentially equal rates for charters schools and district schools. By removing all special education expenditures from its calculation of DOE per pupil costs, the IBO also omits costs for approximately 34,000 students who spend less than 20% of their time per week in special education classes. However, these pupils are included in the general education pupil count used by the IBO in its denominator. To correct this, the IBO should have added \$74 to its per capita calculation for district public schools. The DOE previously suggested this refinement.

### Memorandum of Understanding

As has been previously communicated, the DOE believes that the process by which the IBO released this updated study was not in keeping with either the letter or spirit of the Memorandum of Understanding dated June 3, 2010 (“MOU”) between the IBO and the DOE. Section IV, F. of the MOU provides as follows:

“As is the current practice, IBO will share with the BOE drafts of written reports or analysis in progress, where practicable, which IBO prepares in order to carry out IBO’s Education Responsibilities at least five (5) business days prior to publication, unless sharing such drafts of written reports or analysis in progress with the BOE is not feasible when utilizing reasonable efforts. The purpose of this disclosure is to solicit comments from the BOE and does not provide a right of censorship.”

Prior to the release of this information, the IBO’s only communication on this topic was an e-mail to a DOE staffer on February 10, 2011 that contained only select data tables, but did not include a draft copy of this release. The omission of that information in this context is troubling since this release was presented by IBO as both an update to, and a change in methodology from, a report from February 2010 for which DOE was presented a full copy in advance and provided meaningful feedback to IBO. The opportunity to review such information in advance is exactly what the above referenced language in the MOU contemplated. The IBO should have followed this established protocol before deciding to release this updated analysis.

### **SUMMARY**

The DOE disagrees with the IBO’s methodology and conclusions in its latest attempt to compare per pupil funding for district school students and charter school students. Charters do not pull a disproportionate amount of funding away from district schools. Rather, charter schools in New York City receive anywhere from \$160 to \$3100 less per student than district schools.

We thank the IBO for its continued work studying important issues in our public school system, and look forward to a more collaborative effort in the future.

Sincerely,



Cathleen P. Black  
Chancellor