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ABSTRACT

This report discusses the impact on elementary and secondary education in New York State and New York City of: (1) a New York Court of Appeals decision to grant State Legislature control over Federal funds received by the State; and (2) passage of the Omnibus Budget Reconciliation Act providing block education grants to States. The report provides background information on block grants and on the general implications of the Federal budget changes; presents data on past Federal education assistance to New York State and New York City; analyzes current authorization levels, proposed additional cuts and their projected impact; and examines the administrative portion of the budget of the New York State Education Department and the distribution of its services to school districts. It concludes that the legislative changes, along with the reduction in total Federal funding, will have negative effects on the support, coordination, and delivery of public services, including public education, especially in New York City. Some recommendations are forwarded to ensure that the city continues to receive a fair share of Federal education funding. (Author/MJL)

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FEDERAL SCHOOL

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Does New York Stand a Chance?

November 1981

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EDUCATIONAL
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FEDERAL SCHOOL FUNDING:

Does New York Stand a Chance?

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FEDERAL SCHOOL FUNDING: DOES NEW YORK STAND A CHANCE?

SUMMARY

Background

Two recent events, one much more heralded than the other, are apt to change the nature of the fiscal relationship between New York State and the federal government for decades to come.

On July 6, 1981 the Court of Appeals, the highest court in New York State, by a narrow majority, decided a case relating to the role of the State Legislature in allocating federal funds.* This apparently technical and mundane decision attracted little public interest.

Three weeks later, the two branches of the United States Congress came to agreement on the "Omnibus Budget Reconciliation Act of 1981," completing the first stage of the budget process initiated by President Reagan during his first term in office. Passage and presidential approval of the Act, together with the political battles fought during the preceding months attracted a great deal of public notice.

Both events will have a significant impact on the operation of government in New York State and the nature, responsiveness and quality of services provided to New Yorkers. Taken together the effects are more complicated, and perhaps compounded.

In brief, the action by the New York State Court of Appeals decided that the State Legislature is entitled to some control over federal funds the state receives. In effect the Legislature, rather than the Executive Branch, will now have to appropriate all federal funds. Where those federal funds provide broad latitude in their

* Anderson v. Regan

application -- as do block grants -- the political battles are likely to be intense. On the national level, the Reconciliation Act lays out the block grants which Reagan had promised (and probably more to come in subsequent years) and gives a preview of the extensive federal budget cuts which are sure to follow shortly.

It should be noted at the outset that the long-term consequences of these events are by no means clear. The final budget for the next fiscal year and the extent of the cuts in federal programs as of this writing has not yet been determined. Nevertheless it seems certain that vast changes will occur. In the near future, those changes will be more the result of the cuts in the total allocations than of the change to the block grant concept. It is those short term impacts on which this report will concentrate.

Report Scope

This report focuses on only a small segment of the total federal funding picture: that part which deals with elementary and secondary education in New York State, with special attention to New York City. Past federal funding patterns were analyzed within the framework of the forthcoming program changes. The amount, proportion and trend of federal education program allocations to New York State and New York City were examined to provide a data base for assessing the elementary and secondary education block grants and funding levels once those are established. Particular attention was paid to the portion of the New York State Education Department budget devoted to the administration and monitoring of federal programs, since these functions are likely to be affected by both the block grants and the new State Legislature appropriation requirement.

Findings

Among the effects of the change to education block grants this report reveals are the following:

- The amount of funding available for educational services will decrease, with New York State and City likely to fare poorly relative to other regions;
- New York City and State, which have done better on competitive grants than on formula-based programs, are likely to lose money under the new formula-based block grants;
- New guidelines for Title I funding may be based more heavily on total population than previously and less on need, thus disadvantaging New York City and State;
- The authority of the states in the distribution of funds to local education agencies will increase with their new powers to set priorities and guidelines;
- State costs for administration and monitoring will increase to replace functions previously handled by federal agencies. Thus the savings predicted by proponents of block grants will accrue to the federal government, but not to the state, and the amount of money available for direct services will be diminished;
- Programs for the neediest and weakest groups in many places are likely to decline as state and local officials respond to the most powerful constituencies;
- These effects are somewhat mitigated by the fact that the consolidated programs represented less than ten percent

of total federal education funding, a level which had been diminishing, while those remaining as categorical programs have been growing. Therefore, the FY 1982 authorizations represent only a four percent cut, not counting inflation. However, the President's proposal to further cut actual appropriations would bring the total reduction to 14 percent or \$1 billion;

- Of this diminished amount, only 73 percent, the block grant will be available for local services, since seven percent is reserved by the federal government, and 20 percent is allotted to state education agencies for administration.

The report makes several projections for New York State and City funding based on past trends and new or expected guidelines:

- If funds were apportioned to the states according to the same percentage as their average over the last three years, New York State would receive an eight percent increase over 1980-81. If, however, the new formulae are based on total enrollment rather than disadvantaged students, the New York State portion would decline 1.8 percent.
- New York State is unlikely to be able to replace these lost federal funds because it faces a tax revenue cut as a result of automatic changes in its tax rates which are indexed to federal tax rates.
- Based on current authorization levels, and a New York State share of seven percent of all federal grants, allowing 20 percent for state administration, and allocating 58.8 percent of the available state money, which would be its

share if the trend over the last three years continued, New York City's allocation would only be about as much as it received two years earlier.

Since the Congressional appropriations are likely to be even less than the authorizations, the state distribution guidelines will be crucial to the city. Even under the best scenario, however, New York City public schools are likely to face difficult times under the new federal programs.

The analysis of the New York State Education Department (SED) also reveals several disturbing trends:

- Administrative costs have risen four times faster than the total SED budget since 1975.
- Federal funds constitute a much higher, and growing, portion of the administrative budget than of the total budget.

Therefore, SED will be hard put to replace lost federal funds for administration. The shortage of funds for administration will compound the pressure already applied by the need for new state-level administrative staff to handle new responsibilities noted earlier, further reducing service funding. Finally, New York City receives a much smaller share of state administrative assistance and support services than the size of the district would seem to demand. Many services which the state provides to other districts at no charge must be funded and provided by the New York City school budget.

Recommendations

To ensure that New York City continues to receive a fair share of federal education funding, and that school children receive as

much program service from that funding as possible, the EPP makes three recommendations:

- At least 58.8 percent of federal funds for New York State should be allocated to New York City, a fair share based on past trends and the higher cost of educating the 54 percent of the state's disadvantaged children who live in New York City;
- New state administrative functions should be funded out of the existing level of federal monies for administration since these have been growing disproportionately. To the greatest extent possible, funding cuts should be sustained in administration, not direct services to children;
- The City Board of Education and the State Education Department should re-evaluate the services provided to the city compared to those provided to other local school districts with the goal of a more equitable relationship.

* * * *

This report is organized in three major parts: Part I provides background information on block grants and on the general implications of the federal budget changes; Part II presents data on past trends in federal education program assistance in New York State and New York City and analyzes current authorization levels, proposed additional cuts and projections of the impact of these; Part III examines in greater detail the administrative portion of the budget of the New York State Education Department (NYSED) and the distribution of the services it offers to school districts.

PART I

Federal Funding: Background

The budget now being developed in Washington will likely mark a turning point in the history of federal assistance. After a period of several decades of generally increasing support, the Reagan administration is now acting to reverse the trend. On the grounds that a large federal bureaucracy adds another layer of costs wasteful of the taxpayers' money, that localities cognizant of their own most urgent needs are in a better position to determine priorities than are remote government officials, and that a decrease in government spending is necessary to balance the national budget and improve the condition of the economy, the Reagan administration is moving to accomplish two things: (1) reduce the number of special target programs by grouping numbers of them together into more generally focused priority areas, called block grants, and (2) reduce the overall level of federal spending. There is much speculation that President Reagan intends to curtail federal involvement in education entirely, aiming to return all responsibility and influence in this area to the states. This view is based on his proposal to dismantle the Department of Education as well as on the depth of his proposed cuts in education support.

There is much debate on the merits of the Reagan economic philosophy, the assumptions underlying approval of the block grant movement, and the long-term significance of the action now unfolding at the national level. This report deals with the near term future. First let us examine what block grants are about and what they are supposed to accomplish.

Block Grants, pro and con

Block grants have been defined as:

...programs that seek to further some broad national purpose in which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area largely at the recipient's discretion.¹

Proponents of block grant consolidations cite a combination of reasons in support of them:

1. Combining separate but related and sometimes overlapping programs into a single grant program to permit a wide range of activities clarifies the broad national purpose while increasing the discretion of recipients, who have a better sense of local priorities than do remote Washington bureaucrats. Thus, it is argued, block grants increase innovation.
2. Consolidation results in greater efficiencies because it reduces the federal cost of administering a larger number of separate program units, and it significantly simplifies the application and reporting requirements of local government agents (since they need to deal with only one set of regulations and procedures instead of numerous different ones). Moreover, block grants are normally designed so as to keep administrative, fiscal reporting, planning and other requirements to a minimum.
3. Distributing federal funds according to a statutory formula, while narrowing the discretion of federal administrators, reduces the recipients' uncertainty about future funding and thereby enhances their ability to plan. (Federal distribution of funds by formula, it should be noted, means that the appropriate state agency receives the funds and, in turn, is responsible for passing through further disbursements to local districts.)

¹ Timothy J. Conlan, "Back in Vogue: The Politics of Block Grant Legislation," Intergovernmental Perspectives, Spring 1981, Vol. 7, No. 2, p. 8.

4. Block grant consolidations have, in the past, always meant one other advantageous feature: more money. In order to win enough political support, to capture the interest groups whose special programs are to be merged, it has always been necessary to initially increase the total dollars available.

For each of the above arguments in favor of block grants, there is an opposing one, particularly in the case of the consolidation statutes for 1981 pertaining to elementary and secondary education.

1. There are no assurances, particularly in the absence of strong and clear federal guidelines, that state and local government recipients of block grant monies will apply them to the areas of greatest need. Whereas special purpose programs tend to target the needy, minorities or other underserved groups, many state governments will favor their own agendas which serve narrowly, if at all, the "broad national purpose" or else respond to local majority political pressures. In fact, it was the failure of state and local governments to provide for special needs that prompted the shift of responsibility to the federal government in the first place.

Moreover, examination of other block grant programs reveals little innovation resulting from the greater latitude afforded local recipients.¹

2. The claim of improved operational efficiencies and cost savings are disputed. A recent report (May 1, 1981) by the Congressional Budget Office concluded:

"There is some reason to expect that consolidation might even increase administrative costs and inefficiency, particularly in the short term."

Whatever savings are achieved at the federal level are offset by the costs which states will incur in filling the vacuum. As federal statutes and regulations are repealed, states will be saddled with the administrative burden of establishing guidelines, determining the mix

¹ See Conlan and the "Block Grant Briefing Book" (Ad Hoc Coalition on Block Grants, 1000 Wisconsin Avenue N.W., Washington, DC 20007, circulated manuscript) for a review of block grant program history.

of services, managing, monitoring and evaluating programs. To do this most states will have to expand their administrative structures -- meaning that state administration will absorb a larger proportion of the total federal funds.

Finally, the tendency of block grants to eliminate and/or simplify reporting and other requirements severely reduces accountability. Data collection on the use of funds is often poor (in turn undermining planning and reporting functions), citizen participation, even when required, is largely unrealized or pro forma, and, in many cases, serious questions arise about the equity of the distribution of funds.¹

3. "...the distribution of funds by formula, rather than competition creates a sense of entitlement among local officials, causing them to resent even the most basic federal standards: the stress on local flexibility strengthens this resistance to national standards and priorities, leaving the program vulnerable to pressure against spending funds to benefit politically weak lower-income people."²

Moreover, it is argued, a tendency of Congress to gradually lower appropriations, recategorize, or eliminate block grant programs³ nullifies the future planning advantages of formula grants.

4. While initial block grant appropriations always carried more money, often the intention was to exact dollar savings later. Regardless of intention, however, once established block grant allocations after a few years have been reduced, the program was recategorized into a number of new ones, or the program was eliminated completely.

The Omnibus Education Reconciliation Act of 1981

Before going on to consider the general impact on elementary and secondary education of the block grant consolidation, we should review the overall legislative process in its adoption, this year's

¹ See the "Block Grant Briefing Book."

² Andrew H. Mott, "Block Grants," The New York Times, (Op Ed), March 20, 1981

³ Conlan

modifications, and the extent of the budget cuts which are likely to occur.

Congressional budget appropriations: The federal budget-setting process tends to be confusing because Congress, following the President's submission of budget recommendations, first sets maximum spending ceilings; called authorizations, and, as a second step, fixes the actual dollars for each program, called appropriations. Appropriations cannot exceed the authorizations but may be lower. The total amount for each of the separate programs added up gives the total budget for a department, and the sum of those totals give the total federal budget. This process of establishing national expenditures has grown somewhat more complicated in recent years as additional steps in the process have been used with greater frequency. "Reconciliation," or coming to agreement on, differing proposals; "capping," a midyear decision by Congress to limit program expenditures to the amount already committed -- even though it may be less than the amount that had been appropriated; and "recisions," midyear cutbacks in the amount of money appropriated regardless of what has been expended, are some of these additional steps.

These budget steps are mentioned here, not just because of their increased application, but also because of their implications for decreased program funding for the coming year -- particularly for social and education programs. And, whereas in the past states could proceed to plan and operate programs with a reasonable degree of certainty once appropriations were established at the beginning of

the fiscal year, the Reagan administration's pattern of operation suggests that is no longer so.

This year the ground rules on the budget process were altered and it looks like such changes will continue. In past years reconciliation was used to finalize appropriations. This year for the first time the reconciliation process occurred at the authorization stage while finalizing the programs to be included in the block grants. And it now appears as if President Reagan will seek authority to impound funds -- thereby effectively reversing rules established in 1974 to prevent such actions -- at the same time as Congress is acting to finalize the budget appropriations. Uncertainty, particularly for social and education program planners, and further federal fund cutbacks are the two conclusions which seem assured.

For the reasons just noted, the overall level of federal funding is not likely to be clear until the end of the fiscal year, rather than the beginning. The extent of the cutbacks to education, however, is suggested by several known facts. First, the fiscal year (FY) 1982 authorizations for all elementary and secondary programs (consolidated and categorical) represent a 4.5 percent decrease from the appropriations for this year (FY 1981), not considering the effects of inflation which would further reduce the buying power of those dollars. Second, the administration recently suggested¹ that the final budget be reduced by an additional \$700 million which, if enacted, would work out to a cut in actual appropriations for FY 1982 of over 14 percent -- effectively about 20 to 25 percent in purchasing

¹ September 10, 1981

power depending on the inflation rate. These figures are less than the dollar cut of 25 percent which the administration originally advocated, but even that level of cuts could still be attained if the impoundment authority is granted.

Paralleling the process of establishing expenditure levels is the process of determining revenues, principally through taxation. The Reagan administration's determination to cut taxes in order to control inflation is a major factor influencing the size of the total federal budget. Changes in the federal tax structure, however, have an impact on state and local tax revenues as well as on the national budget because most state tax rates are automatically indexed to conform to federal tax rates. Thus tax law changes which reduce federal revenues will have a side effect of also reducing state revenues. Early estimates indicate the changes will cost states \$14 billion.¹ For this reason even states which might be inclined to make up the difference in program funding by using their own money will find it difficult to do so.

An analysis of the dollar impact of federal elementary and secondary education fund cutbacks is presented in Part II. First however, let us examine some of the ways in which the combination of fund cutbacks and block grant consolidations are likely to affect state and local administration, politics, program operations, and services to the needy.

¹ As estimated by the National Governors Association, and reported in the New York Times, August 9, 1981.

The impact of budget cutbacks and program consolidation: While administrations in the past have always had to "buy" support for block grant consolidations by increasing the total program dollars, this year the Reagan administration has succeeded in combining programs into block grants while at the same time substantially cutting total funds.

On the other hand, the major federal programs of support to elementary and secondary education, most notably Title I for the Disadvantaged, Education of the Handicapped, Bilingual Education, and Vocational Education, which together comprise over 90% of all federal education dollars, were not consolidated into a block grant. (A complete list of categorical and consolidated programs is included in Part II.) This is important because the constituent interest groups for those programs will be able to remain intact and possibly leverage increased funding levels at some future time (assuming that these programs are not subsumed into block grants at a later date). In addition, while these separate programs have not been funded at a level which would enable services to keep pace with inflation, thus far the authorized cuts have not been severe (though the appropriations are likely to be lower*).

Nevertheless, for those who are dependent on, involved in or committed to social programs and public education, the near term

* The Education for all Handicapped Children Act (PL 94-142) for example, has never been funded to its authorized level. See Educational Priorities Panel, Special Education Funding: A Story of Broken Promises (February 1981).

future looks bleak because of the cutbacks. Moreover, within the context of the overall cutbacks, New York State and New York City are likely to fare relatively poorly in comparison to other states and regions in the nation. Aside from the difficulty in maintaining services for those who need them most, some additional likely consequences include the following:

- Combining block grants with overall funding cutbacks has the political effect of passing the buck. In essence Reagan has shifted the burden of deciding between competing priorities to local officials who, in turn, will bear the brunt of resentment by those who don't get funded. In short, Reagan gets credit for cutting spending and taxes while local officials get the heat.
- The authority of the states, which are the first recipients of block grants, will increase as they will have the power of setting priorities and guidelines.
- The total percentage, as well as the number of federal dollars available, for direct service programs will decrease as states buttress their administrative and monitoring capacities to replace the functions previously handled by federal agencies.
- A period of chaos overwhelming any perceived gains in efficiency is sure to occur in most block grant areas. All block grants but education take effect October 1, 1981 which means that states will have about a month and a half -- virtually no time at all -- to find staff, set priorities and develop the administrative and planning capacity to manage their grants. In this particular area, New York, like California and a few other states, has a relative advantage because of the level of sophistication of its governmental structures and agencies.

However, agencies in all states dealing with elementary and secondary education will be less severely strained than departments dealing with other services. Because of the quirk of the "school year," education programs are funded a year in advance. As a result, education officials will have a full year more than anyone else to prepare for block grant program changes.

- Programs for the neediest and weakest groups are likely to decline as state and local officials respond to the most powerful constituencies.

- The decline in services, cut-offs in programs, and the resultant constituent frustration may well lead to an increase in litigation on issues such as due process, inadequate citizen participation and discrimination. Any litigation tends to be costly and time consuming and could result in detailed new case laws or obligations on the state to appropriate new monies for discontinued services.
- Similarly, special focus constituencies will find it harder to maintain an organized voice or presence once their program(s) is merged in a block grant, and even harder to regain strength if their organization dissipates.

There are several aspects of the Omnibus Education Reconciliation Act which have implications for New York State and New York City especially.

- Formula-based grants, in contrast to competitive ones, are distributed evenly based on an established set of criteria. While some school districts in the state stand to benefit from such an arrangement, New York State as a whole and New York City in particular will suffer because they have tended to do well in national competition. Most of the programs consolidated in the block grant were competitive.
- The federal administration has proposed changing the basis of the formula for counting the eligible disadvantaged population under Title I. Also, the guidelines for distributing the formula-based block grants to states and in turn to localities (the latter formula established by the state) have not been specified yet. Those guidelines now provide higher per pupil allocations for children whose education imposes higher than average costs, and include a mix of factors such as the number of children from low-income families or numbers from economically depressed or sparsely populated areas. Decisions on the mix (and the source of data) will have major consequences for the distribution of funds. If funds are distributed based on total enrollment with less attention to special needs, as now seems likely, there will be a dramatic shift in emphasis, with affluent suburban areas receiving more, and New York State and New York City receiving less. Major cities and northeastern states which have been losing total population to the south but have large numbers of foreign language immigrants, welfare recipients and other poor people are likely to receive a lower portion of total funds under these guidelines.

In conclusion, the federal legislative changes which are now evolving are likely to create for state and local officials a double bind. On the one hand, the decrease in overall funding, compounded by the effects of inflation will result in greater conflict and competition among special interest constituencies for limited dollars, greater pressure on public officials, and more intense demands for accountability. Those pressures, when coupled with the disruptions as well as the larger staffs required to handle the shift of responsibility from Washington to the state, and then local, level will result in larger administrative structures, not cost-savings. Increased administrative costs will divert resources from programs and services. All of this will further inflame the public anger, thereby completing the vicious cycle.

PART II

Federal Education Funding in New York City and State:
Changes and Projections

This section presents background information on federal education funding which is likely to be affected by the consolidation of federal education programs into block grants. It discusses: programs which are being eliminated; past federal education funding for the nation as a whole, New York State, and New York City; FY 1982 categorical and block grant authorizations; and important trends revealed by the data. Finally, it offers preliminary findings on the impact of the Reconciliation Act and formula changes on education funding.

National Funding Overview

About 30 federal programs have been combined in the education block grant, as listed in Table 1. While the total number of programs may seem large, particularly in contrast to the nine that have been maintained separately (one of which, Follow-Through, will be phased out over the next three years), the consolidated programs comprised less than 10% of all federal education dollars in FY 1980. (Some of the 30 programs, it should be noted, were programs in statute only because they have had no money appropriated for them for the past few years.) Further, as Table 2 reveals, the consolidated programs' funding has declined since FY 1978 at an annualized rate of 7% a year, dropping from \$788 million in FY 1978 to \$638 million in FY 1981, and to an authorization of \$589 million in FY 1982.

As a percent of total education funding the consolidated programs dropped from 13.5% to 8.6% during that four-year period (an annualized decrease of 10.5%). These figures indicate that the consolidated programs, taken as a group, represented a low and diminishing priority among total federal education programs. Their consolidation into a block grant only confirms and continues that trend.

The programs which are remaining as separate categorical programs have gradually increased both in size, and as a percent of total funding over the period from FY 1978 to FY 1981. (See Table 2.) During that period the funding for categorical programs, taken as a group (excluding Follow-Through which is being phased out), increased from \$4,966 million to \$6,359 million, an annualized rate of nearly 9%. Essentially that rate of increase means program services have just about remained even, once inflation is accounted for.

An analysis of the federal education grant mechanisms suggests that about 95% of the available funds for the consolidated programs will be allocated by formula instead of competitive grants and contracts. Bilingual education, 15% of handicapped education, about 2% of vocational education funds, the Civil Rights Act, Follow-Through, and the Womens Educational Equity Program are the only remaining categorical programs that have competitive project grant features. These programs together account for less than \$400 million of the FY 1982 authorizations. In contrast, all but four of the programs consolidated in the block grant program had been the competitive project grant or contract type. As written, 6% of the total block grant program is to be set aside in the Secretary of Education's

TABLE 1

Organization of Education Programs in the 1981 Omnibus
Education Reconciliation Act and Authorizations
(in \$ Millions)

<u>Program</u>	<u>FY 1982 Authorization</u>
<u>Categorical Programs:</u>	<u>Total: \$6,147.32</u>
ESEA Title I	3,480
Education of the Handicapped	1,149.95
Vocational Education	735
Bilingual Education (ESEA Title VII)	139.97
Adult Education	100
Civil Rights Act (Title IV)	37.1
Women's Educational Equity Program (ESEA Title IX C)	6
Impact Aid	475
Follow-Through (with funding gradually reduced through FY 1984 when the program is eliminated)	44.3
<u>Consolidated (Block Grant) Programs:</u> ¹	<u>\$ 589.368</u>
ESEA Title II: Basic Skills	
" Title III, Metric Education	
Arts in Education	
Consumer Education	
Law-Related Education	
Environmental Education	
National Diffusion Network	
" Title IV: B. Instructional Materials and School Library Resources	
C. Improvement in Local Educational Practice	
D. Guidance Counseling and Testing	
" Title VI: Emergency School Aid Act (ESAA)	
" Title VIII: Community Education	
" Title IX: Gifted and Talented Children Ethnic Heritage Program	
HEA: Title V: Teacher Corps Teacher Centers	
Career Education Incentives (to be held harmless at FY 1981 level)	10
Alcohol and Drug Abuse Education (held harmless at FY 1981 level)	2.8

¹ Several other programs which technically are being eliminated are not included on this list because they had no money in recent years (e.g., Biomedical sciences, population education, safe schools) or had very little funding, and provided no money to New York State (e.g., PUSH-Excel).

TABLE 2

Federal Education Funding: Summary of National Totals
by Consolidated and Categorical Program Groups & Percent Change
from FY 1978 to FY 1982

	Committed Funds ¹			Appropriated ²	Authorization ³
	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Total for Consolidated Programs (includ. Career & Alcohol)	\$ 788,119,000	\$ 744,669,000	\$ 670,290,000	\$ 637,590,000	\$ 589,368,000
Change from prior year		-5.5%	-7.6%	-4.9%	-7.6%
Separate Programs (exclud. Follow-Through)	\$4,966,179,000	\$5,490,270,000	\$6,107,746,000	\$6,359,280,000	\$6,103,020,000
Change from prior year		+10.6%	+11.2%	+4.1%	-4.0%
All Programs (including Follow-Through & Indian Ed)	\$5,648,117,000	\$6,335,223,000	\$6,884,949,000	\$7,125,650,000	\$6,818,388,000
Change		+8.3%	+8.7%	+3.5%	-4.3%
Consolidated Programs as a % of Total Programs	13.5%	11.8%	9.7%	8.9%	8.6%

Sources:

- 1 Master Chart (Appendix 1).
- 2 Education Funding Research Council, 1981 Guide to Federal Funding for Education.
- 3 Omnibus Education Reconciliation Act of 1981.

Discretionary Fund which, presumably, will be administered on a competitive basis. In the unlikely event that the block grant program suffers no further reductions from its authorized level, the total amount in this discretionary fund would be \$35 million. (A complete listing of pre-Reconciliation Act education programs with grant mechanism and eligible recipients can be found in Appendix 2.)

Looking once again at Table 2, we see that the authorization reduces total federal education funds during FY 1982 4.3% not counting the effects of inflation, nor the additional cutbacks which will come. If the total program amounts had continued on a straight line trend, \$7,644 million would have been available in FY 1982, an increase of 7.25% over FY 1981. Instead, if the administration's intention to cut \$700 million more during the appropriations process is realized, the total decrease from FY 1981 appropriations will be 14% or \$1 billion.

How much of this diminished amount will actually go for direct services -- and how much for administration? Only 73% of the total appropriation or \$430 million of the block grant will actually be available for distribution by formula to local education agencies (LEAs) if the entire authorization were to be appropriated. Seven percent is to be reserved by the Secretary of Education -- 1% for the territories and 6% as discretionary funds -- and up to 20% by state education agencies (SEAs) for administration. Given the complexities noted in Part I, it is likely that states will use the full 20% for administration.

Federal Funding to New York State

Turning now to an examination of federal education funding to New York State, we find a more erratic pattern. As Table 3A reveals, education funding from all federal programs increased more than 15% from 1978-79 to 1979-80,* and then dropped 7% the following year, a net annualized increase of 3.5% over the two-year period. The pattern of increase in 1978-79 and decrease in 1979-80 was consistent for both groups of programs -- the categorical ones and those that are being consolidated. Table 3B shows that New York State received a somewhat higher percentage of total federal funds from programs now being consolidated, primarily competitive programs (an average of 8.9% for the three-year period), than the percentage it received of the programs which are remaining categorical, primarily formula-based (7.7% three-year average). While these findings confirm New York State's relative edge in competitive grants, these programs constitute a relatively small portion of the total federal dollars, an average of about 13% over the three years. (Thus an increase or decrease of 8% in categorical program funding affects the amount of federal money for York State by only 1%.)

Examining Table 3B once again, the projected totals for FY 1982 show that New York State would be entitled to \$525 million if the authorized federal amounts were apportioned to the states according to the average established during the three-year period of this

* Mainly because of federal aid to complete New York City's midyear deficit bail-out.

TABLE 3A

Federal Education Funding to New York State:
Summary of Categorical and Consolidated Program Group Funding
Totals and Percent Change from 1978-1982

	Committed Funds ¹			2 Year Annualized Change
	1978-79	1979-80	1980-81	
Consolidated Programs	\$61,456,000	\$71,872,000	\$61,172,000	
Change		+17.0%	-14.9%	-0.2%
Categorical Programs	\$390,804,000	\$450,106,000	\$424,215,000	
Change		+15.2%	-5.8%	+4.1%
All Programs	\$453,225,000	\$523,064,000	\$486,226,000	
Change		+15.4%	-7.0%	+3.6%

TABLE 3B

New York State Federal Education Funds as a Percent of National Totals³

	1978-79	1979-80	1980-81	3 Year Average	Projected Totals ² FY 1982
Consolidated Programs	7.8%	9.7%	9.1%	8.9%	\$45,381,000 -25.8%
Categorical Programs (exclud. Follow-Through & Indian Ed)	7.9%	8.2%	6.9%	7.7%	\$469,933,000 +10.8%
All E&S Ed Programs	7.7%	8.3%	7.1%	7.7%	\$525,016,000 +8.0%

- Sources:
- 1 Master Chart (Appendix 1).
 - 2 Computed at 7.7% of the federal authorizations as enacted by the Omnibus Education Reconciliation Act of 1981. Percent change figures are based on comparisons with 1980-81 amounts.
 - 3 Table 2.

analysis. That amount would constitute an 8% increase over the total fund commitment two years earlier. Unfortunately for New York State, however, the effective percentages are likely to be much lower. If the new formulae are based on 1970 census data,¹ for example, instead of on disadvantaged students as currently figured, the total New York portion would be closer to 7%, yielding \$477 million, a net decrease of 1.8% over the two-year period. Again, this does not account for any further cutbacks, nor the effects of inflation.

The federal dollars available for state administration will be considered in Part III which is concerned with the cost of administering and monitoring public education in New York State.

One other important consequence of the new federal budget needs to be noted. Although New York State has a well-deserved reputation for progressive government and support of the needy, it may be powerless to rescue worthwhile programs from extinction. First, New York State is also facing fiscal difficulties which began during the late 1970's. Second, federal tax rates are automatically coupled to New York State taxes unless state laws are specifically changed, which is unlikely. Thus, a side effect of the extensive federal tax law revisions will be loss of state tax revenues. Preliminary estimates predict a loss of \$55 million this fiscal year, \$179 million next year, and about a billion dollars in 1986 when the transition to the new federal tax laws is fully completed.²

¹ 1980 Census data are not yet complete.

² Citizens for Tax Justice, Impact of Recent Changes of Federal Depreciation Tax Rules on State Revenues, August 1981, p. 10.

If New York State or the local districts are not able to make up for the loss of federal funds, they may lose even more federal funds. This is because of a federal maintenance of effort requirement which penalizes districts for failure to maintain expenditures at 90% of the previous level. Thus, to protect children's services as well as funding levels, it is even more important for New York City and State to maintain spending levels.

In summary, while it will be very difficult to find new sources of revenue to pay for projected gaps in services, it is critical to do so.¹

Federal Funding to New York City

As is the case with overall federal funding to New York State, federal education grants to New York City for both the categorical and consolidated groups increased dramatically from 1978-79 to 1979-80 and decreased the following year. Nevertheless, overall there was an 8% annualized increase over the two-year period, as shown by Table 4A. Somewhat surprisingly, unlike the pattern for all of New York State, New York City secured proportionately fewer dollars from the largely competitive consolidated program group than it did from the predominantly formula-based grant group. This is because of the large concentration of educationally deprived students in New York City whose presence entitles the city to large

¹ As a part of this study the New York City Education Construction Fund was examined as a possible source of revenue for education in New York City. It was determined that the EFC will not be a viable source of income to the New York City Board of Education at least for the foreseeable future. For a report on this subject, see Appendix 4.

TABLE 4A

Federal Education Funding to New York City:
Summary of Categorical and Consolidated Group Funding
Totals and Percent Change from 1978-1982

	Committed Funds ¹			2 Year Annualized Change
	1978-79	1979-80	1980-81	
Consolidated Programs	\$ 30,012,000	\$ 34,301,000	\$ 28,621,000	
Change		+10.6%	-16.6%	-2.4%
Categorical Programs	204,254,000	248,588,000	245,886,000	
Change		+21.7%	-1.1%	+9.7%
All Programs	235,354,000	282,967,000	274,595,000	
Change		+20.2%	-3%	+8.0%

TABLE 4B

New York City Federal Education Funds as a Percent of
New York State Totals²

	1978-79	1979-80	1980-81	3-year Average	Projection based on 3-year Trend
Consolidated Prog.	48.8%	47.7%	46.8%	47.8%	44.8%
Categorical Prog. (excl. Follow- Through & Indian Ed)	52.3%	55.2%	58.0%	55.2%	63.7%
All E&S Ed Prog.	51.9%	54.1%	56.5%	54.2%	58.8%

Sources: 1 Master Chart (Appendix 1).
 2 Table 4.

amounts of formula-based funds. Of all the federal school aid New York City received during the three-year period, 11.8% were competitive grant funds, while 13.2% of federal funds the state received were competitive.

Table 4B shows that New York city received an average of more than 54% of all federal funds committed to New York State during the three-year period, an amount roughly equal to the percentage of the state's disadvantaged children who attend school in the city. Table 5 compares New York City enrollment as a percent of the state total for selected population groups to the federal program funds targeted to the corresponding need area. However, this percentage does not reflect the higher costs associated with educating children in New York City, estimated to be about 12 percent above the statewide average.¹ Therefore, 54 percent of state funds for disadvantaged children does not represent a fair share.

New York City public schools are likely to face difficult times under the new federal programs. If, as we have projected on page 25, state funds are apportioned on the basis of total enrollment, and New York State receives 7% of all U.S. funds, it will get \$477 million. After subtracting 20% for administration, or \$8.25 million, only \$468.75 million are left for distribution to the districts. Furthermore, if New York City received 58.8% of the available state money, based on the projected trend, it would receive \$275.6 million in federal money, virtually the same as the amount received in 1980-81,

¹ Wendling, Wayne, "Cost of Education Indices for New York State School Districts, Discussion Paper," Prepared for the Task Force on Equity and Excellence in Education, October 25, 1979, p. 9.

two years earlier. To be even more pessimistic, if New York City receives 56.5% (the same as its 1980-81 share) of the state total, it will get \$265 million, a decrease of almost 4% from 1980-81, not counting the effects of inflation. A 54% share (based on the three year average) would yield \$253 million, an 8% cut. Furthermore, the federal appropriations will surely be less than the authorizations already enacted. Including the President's new 12% proposed reduction, the city Office of Management and Budget (OMB) has compared projected federal Board of Education funding with the city's financial plan for FY 1983. OMB found a gap of \$80.5 million or a loss of 23% of the federal grants it had expected for that year.¹ Therefore, the distribution guidelines adopted by New York State will be very significant to the city.

¹ Office of Management and Budget, "The Impact of the Reconciliation Act and the President's New 12% Reduction Proposals on Services in New York City," October 15, 1981, p. 16.

TABLE 5

Comparison of New York City Federal Funding and Public School
Enrollments to New York State Totals in
Selected Categories (by percent): 1978-79 to 1980-81

Program Area	1978-79		1979-80		1980-81		Average	
	Enrollment	Federal Funding						
Total	32%	51.9%	32%	54.1%	33%	56.5%	32%	54.2%
Disadvantaged*	53%	58%	54%	60%	NA	59%	NA	59%
Handicapped	31%	29%	32%	32%	36%	42%	33%	34%
Vocational Ed	28%	13%	31%	39%	38%	43%	32%	32%
Bilingual	89%	77%	89%	67%	88%	92%	89%	79%

* Note: As indicated by the limited measure of the number of students receiving public welfare.

Sources: Enrollment: NYS Education Department, Bureau of Educational Data Systems (see Appendix 3).
Federal Funding: Master Chart (see Appendix 1) and Table 4B.

PART III

State Education Department
Administration Costs and Services

With a decline in overall funding levels, the amount of money devoted to central administration and program monitoring instead of program services becomes even more crucial than before. The issue is all the more important because of two other developments noted earlier in this report. First, the New York State Court of Appeals ruled that the State Legislature has the right to appropriate federal as well as state revenues. In order to carry out this function the legislature will probably create a new layer of staff to advise on and monitor policy. And, second, the new federal block grants programs are likely to leave an administrative void at the federal level which states will have to fill. Although we have no estimates yet on the costs of these functions, it seems probable that most of the 20% that the education block grants permitted for state administration will be absorbed by these dual developments.

With this as background, let us turn to an examination of the administrative portion of the budget of the New York State Education Department.

New York State Education Department: State Purposes Budget

Budget background: New York State Education Department (NYSED) budgets were analyzed for the four consecutive years from 1977-78 to 1980-81 with particular attention to the "State Purposes" sections that relate to elementary, secondary and continuing education. State.

purposes, with a few exceptions, pertain to administration, planning and program management. The Governor's Executive Budget, organized along the same divisions as are the program operations of the NYSED, has two sections that are particularly relevant to this analysis. One deals with the functions of elementary, secondary and continuing education (ES and C), and the other with central administration at NYSED. Thus, NYSED has two levels of administration. Central administrative functions encompass ES and C education as well as every other division within the NYSED (higher and professional education, cultural education, and vocational rehabilitation). Since the total budget for ES and C, including state purposes and local assistance, constitutes about 94% of the total NYSED budget, one can assume that a substantial portion of the central administration budget is devoted to ES and C education. Therefore, the budget totals and trends for central administration and ES and C education administration were examined both separately and together. Appendix 5 presents a complete table with state purpose expenditures over the four-year period, percentages of totals, and changes over time.

It should be noted at the outset that this analysis was strictly budgetary -- we did not investigate the reasons for the cost and expenditure patterns we uncovered, nor did we look at the efficiency or effectiveness of SED management. There may be a variety of explanations for the growth in administrative costs described below; we did not pursue them at this time. However, when we embarked upon this study, several SED officials predicted we'd find a "lean administration," one that had been significantly pared by the state's fiscal constraints since 1975. In fact, that is not what we found at all.

Findings

An analysis of the NYSED budget reveals a number of trends which provoke concern, particularly in the context of the developments in federal education funding. Summarizing major findings:

1. Budget allocations for central administrative functions have been rising four times more rapidly than the total budget for the department.
2. Administrative allocations for ES and C education have been rising nearly 1 2/3 times more rapidly than the total budget for ES and C.
3. The increases in administrative budget allocations have not been matched by corresponding increases in staff; to the contrary, total departmental personnel levels have remained substantially unchanged over the three-year period and have risen only slightly within the state purpose administrative function areas.
4. Federal funds constitute a much higher percentage of administration expenditures than of the total departmental budget. Stated differently, federal funds account for a much higher portion of administrative allocations than they do of program funds which pass through the department to local districts.
5. Federal funds, as a percentage of ES and C education administrative costs, have been rising.

Before examining in greater detail the data which led to these conclusions, let us briefly note their significance:

First, rising administrative costs during a period of general fiscal retrenchment put greater pressures on the remaining program/service funds (and vice-versa). The fact that the administrative allocation increases do not correlate with expansions in staff suggests that they are instead linked to increased costs for the same level of services, particularly salaries and energy costs.

Second, the NYSED may well find itself in a financial bind because of its increasing reliance on federal monies for administration if additional federal education cutbacks are severe. ES and C and central administration consumed over \$27 million of federal funds in 1980-81.

Now let us review the data in greater detail.

Table 6 shows that budget allocations for both central administration and ES and C education administration have been increasing over the period from 1977 to 1981. Of the two function areas, central administration allocations have been rising the most rapidly, at an annualized rate of 25%, over twice as fast as the ES and C rate of increase which has been almost 12%. During this period, total central administration funds have almost doubled, going from \$14 million to nearly \$28 million, while the cost of ES and C administration has increased from \$23.4 to \$32.7 million.

As Table 7 shows, total ES and C funding during this period has increased at a rate of 7.2%, virtually the same as the rate of increase for the total departmental budget (7.3%). This rate, however, is only about 60% as fast as the growth in ES and C administrative allocations (11.8%) and one fourth as fast as central administrative allocation growth (25%), as revealed in Table 6.

Table 6 also shows that a substantial and growing portion of the administrative costs are being charged to federal funds. This portion has been increasing at an annualized rate of over 2%, growing from 42.6% in 1977-78 to 45.3% in 1980-81. The figures are particularly

TABLE 6

New York State Education Department State Purposes Allocations and Trends, 1977-1981
Elementary, Secondary and Continuing Education and Departmental Totals
(\$ in thousands)

	Central Administration			ES and C Ed Admin.			Central ES & C Combined		
	State Funding	Federal Funding	Total	State Funding	Federal Funding	Total	State Funding	Federal Funding	Total
<u>Total dollars</u> (in thousands)									
1977-78	9,810	4,401	14,211	11,794	11,645	23,439	21,604	16,046	37,650
1978-79	12,183	5,735	17,938	13,436	13,383	26,819	25,619	19,118	44,751
1979-80	11,981	5,874	17,855	13,890	16,837	30,727	25,871	22,711	48,582
1980-81	19,356	8,446	27,802	14,124	18,602	32,726	33,480	27,408	60,521
<u>Change (in %) from</u> <u>prior year</u>									
1977-78 to 1978-79	24.2	30.3	26.2	13.9	14.9	14.2	18.6	19.1	18.9
1978-79 to 1979-80	-1.7	2.4	-0.5	3.4	25.8	14.6	1.0	18.8	8.5
1979-80 to 1980-81	61.6	43.8	55.7	1.7	10.5	6.5	29.4	20.7	24.6
<u>Annualized rate of</u> <u>Change over 3-year</u> <u>period (in percent)</u>	<u>25.4</u>	<u>24.3</u>	<u>25.1</u>	<u>6.2</u>	<u>16.9</u>	<u>11.8</u>	<u>15.7</u>	<u>19.5</u>	<u>17.1</u>
<u>Federal Funding as a</u> <u>Percent of Total</u> <u>Administration</u>									
1977-78		31.0			49.6			42.6	
1978-79		32.0			49.9			42.6	
1979-80		32.9			54.7			46.7	
1980-81		30.4			56.9			45.3	
3 year rate of change		-0.6%			4.7%			2.1%	

Source: Based on data presented in NYS Executive Budget for FY's 1979-1982, inclusive. Also see Appendix 5.

dramatic for the ES and C administration functions. While just under half that division's administrative costs were charged to federal funds in 1977-78, the percentage increased to nearly 57% by 1980-81 -- a total of \$18.6 million in federal monies.

Moreover, a comparison of Tables 6 and 7, summarized by Table 8, demonstrates that the increase in the proportion of federal funds allocated to administration has not been paralleled in program monies as a whole. Indeed, for the four-year period, federal funding has maintained an even level of 14% to 15% of total monies. This has been true for both the departmental budget as a whole (14.7%) and for the ES and C division budget (14.1%). In each case the annualized increase in federal monies as a percent of the total budget was less than 1/2 a percentage point. In contrast, as was noted above, the portion of federal monies allocated to all administration has been increasing steadily.

Table 9 shows that, despite the increased administrative costs, the budgeted number of staff working in central administration and in the department as a whole has not increased. Indeed, there was a slight overall decrease in total departmental staff positions, from 3,971 in 1978-79 to 3,944 in 1981-82. Central administration staff increased by only 16 -- from 511 to 527. The ES and C division on the other hand, realized an increase of over 100 staff positions -- from 848 to 950 during the period -- a 12% increase overall and an annualized rate of 3.9%. This was half the increase in total ES and C division funds during the period (23% -- an annualized rate of 7.2%).

TABLE 7

Federal and Total Funding From all Sources for Education Department Programs in New York State
Changes, and Trends: 1977-78 to 1980-81
(\$ in thousands)

	<u>Total ES & C Funding</u>		<u>Total NYS Ed. Funding</u>	
	<u>Federal</u>	<u>Total</u>	<u>Funding</u>	<u>Total</u>
<u>Total Program Dollars</u> (in thousands)				
1977-78	530,084	3,763,309	589,326	3,998,744
1978-79	545,486	3,896,986	608,954	4,153,612
1979-80	566,209	9,109,363	635,292	4,380,017
1980-81	662,635	4,636,818	729,440	4,932,747
<u>Change (in %) from prior year</u>				
1977-78 to 1978-79	2.9%	3.6%	3.3%	3.9%
1978-79 to 1979-80	3.8%	5.4%	4.3%	5.4%
1979-80 to 1980-81	17.0%	12.9%	14.8%	12.6%
<u>Annualized rate of change</u> <u>over 3-year period</u> (in percent)				
	7.7%	7.2%	7.4%	7.3%
<u>Federal Funding as a % of Total</u>				
1977-78	14.1%		14.7%	
1978-79	14.0%		14.7%	
1979-80	13.9%		14.5%	
1980-81	14.3%		14.8%	
<u>Three-year rate of change</u>				
	0.5%		0.2%	

TABLE 8

Federal Funds as Percentage of
Selected Functional Budget in the
NYS Education Department: Trends from 1977-78 to 1981-82

	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>Annualized Rate Change</u>
<u>Administration:</u>					
- Elementary, Secondary & Continuing Education	49.6	49.9	54.7	56.9	4.7
- Central Administration	31.0	32.0	32.9	30.4	-0.6
- ES&C and Central Combined	42.6	42.6	46.7	45.3	2.1
<u>Total Program:</u>					
- Elem. Sec. & Cont. Ed.	14.1	14.0	13.9	14.3	0.5
- Total Departmental	14.7	14.7	14.5	14.8	0.2

Source: Table 6 and Table 7.

More dramatic than the net changes in departmental manpower overall, however, have been the changes in funding for these positions. In short, a steadily increasing number of staff members are being paid out of federal funds. Table 9 reveals that in each of the functional areas examined -- central administration, ES and C, and the departmental total -- not only has the number of staff members budgeted out of federal funds increased annually, but the ratio of federally funded positions to total positions has also increased annually -- at an annualized rate of 7% for central administration, 1% for ES and C, and 5% for the department as a whole. In 1981-82, over 50% of the ES and C employees and well over a third of the total department will be paid out of federal funds.

As was noted earlier, this large and increasing dependency on federal funds for the operation of the department during a time of federal fiscal retrenchment presents a clear danger.

(On the other hand, federal funds which have been allocated to NYSED administration still constitute a relatively small though steadily increasing percentage of the total federal funds which pass through the department -- about 4%, up from under 3% in 1977-78.)

An additional question that arose when we looked at the NYSED budget was, "What services does the Department provide to the New York City school district, and how do they compare with those provided to other local school districts in New York State?" Certainly, if the Department's capability to provide these services is going to be stretched to its limit, it is important that they be distributed equitably among the districts. As the state further defines its role during the coming changes in federal funding, it must also keep in mind the following facts:

TABLE 9

NYS Education Department Staffing
Budgeting of Positions by State and Federal Funds
1978-79 to 1981-82

	Positions			Federally Funded Positions as % of Total
	State	Federal	Total	
<u>Central Admin.</u>				
1978-79	445	66	511	12.9%
1979-80	454	72	526	13.7%
1980-81	448	77	525	14.7%
1981-82	444	83	527	15.8%
3-year annualized change	-0.1%	+7.9%	+1.0%	7.0%
<u>ES & C Ed.</u>				
1978-79	425	423	848	49.9%
1979-80	430	446	876	50.9%
1980-81	425	469	894	52.5%
1981-82	460	490	950	51.6%
3-year annualized change	+2.7%	+5.0%	+3.9%	1.1%
<u>Total SED</u>				
1978-79	2,709	1,262	3,971	31.8%
1979-80	2,746	1,318	4,064	32.4%
1980-81	2,560	1,357	3,917	34.6%
1981-82	2,493	1,451	3,944	36.8%
3-year annualized change	-2.7%	+4.7%	-0.2%	5.0%
<u>ES&C as % of Dept. Total</u>				
1978-79	15.7%	33.5%	21.4%	
1979-80	15.7%	33.8%	21.6%	
1980-81	16.6%	34.6%	22.8%	
1981-82	18.5%	33.8%	24.1%	

Source: NYS Education Department, Office of Fiscal Management (Phone, 9/2/81).
See also Appendix 6.

1) Many statutes (laws and regulations) differentiate the treatment of New York City from other school districts in the state. Some of these appear to relate to economies of scale (e.g., the establishment and operation of a separate retirement system for teachers) and others seem to address problems particular to this uniquely large city (e.g., taking of school census, method of conducting of annual audits). In a number of areas, New York City has established offices to oversee functions which the State Education Department handles for non-city school districts: e.g, curriculum development, integration, all functions dealing with school facilities -- planning, specifications, development, operation and maintenance services. In order to maintain these additional administrative offices, NYC Board of Education has to allocate funds from its own budget while non-city school districts receive services free from the NYSED.

2) Personnel at the State Education Department frequently cite the special attention and services provided to New York City. For example, New York City represents an entire occupational planning region by itself and has a similar designation for categorically funded programs. Data collection, technical assistance, and workshops which are generally provided to groups of school districts must be targeted for New York City alone. However, considering that the city enrolls one-third of the state's public school population, it is hardly surprising that this school district demands more time and services than any other district. (The second largest of the state's 742 school districts has an enrollment that is only 5% of New York

City's.) In fact, by designating New York City as a single Local Education Agency, and not dealing with community school districts separately, the SED has probably achieved a major economy of scale.

Similarly, the extent of SED involvement with New York City's special education programs reflects the concentration of the state's special populations in New York City. Once again the ability to deal with one district representing 36% of the state's handicapped students should ease SED's administrative burden, rather than increase it.

3) The NYSED has established a regional office in NYC which processes and monitors some 13 categories of funded school programs (the largest of which is food management and nutrition) and provides a very small amount of technical assistance. This office currently has 87 employees. Other administrative functions are carried out in Albany. However, this office constitutes only 9% of the 950 NYSED staff devoted to elementary and secondary education and only 2% of the entire department. Again, this compares to the fact that a third of the public school students in the state are enrolled in New York City schools.

This issue of equitable distribution of state services to New York City goes along with our concern for equity in the distribution of federal funds. Both must be addressed in the coming months.

PART IV

Conclusions

The changes now going on at the federal level do not bode well for the support, coordination, and delivery of public services, with public education in New York State no exception. New York City schools could be hit particularly severely. The major problem, of course, is the substantial reduction in total dollars, an effect exacerbated by inflation. Moreover, the changes in Federal legislation and the court-required changes in the appropriations decision process will confound the situation even further. In effect, the entire governance structure for coordinating services which receive, or are influenced by, federal monies will be altered.

These governance structures carry out policy making, implementation, and evaluation functions according to their stated missions. These three functions are served by a fourth: planning. All four of these functions will be affected by the reductions in money and the changes in law. Using this framework to summarize some of the points made earlier in this report:

- 1) The mission, or who is to be served in what relative order of priority, will be modified. Needy groups are likely to suffer.
- 2) The policy-making function, decisions on resource allocation, is shifting from the federal to the state governments. This will be particularly true in New York State where, as a result of the above mentioned court ruling, struggles between the Legislature and the Governor's office for authority over federal funds may further complicate the process. Furthermore, the expanded advisory staff

needed to sort out the new procedures will absorb an increased share of the limited funds.

3) The implementation function is also likely to require more state level staff because of the increased responsibility for funding decisions thus reducing funds available for direct services.

Moreover, a spate of law-suits triggered by the loss of funds and necessary service reductions will keep the administrators busy defending the state's position.

4) The evaluation function, reviewing and auditing programs, particularly in the short run will probably be viewed as less important than getting programs launched. This, however, will leave the state open to charges of waste, abuse of power, etc. and could lead to more lawsuits and costly investigations as interest groups and localities seek to maintain funding they need and feel entitled to.

5) Finally, the planning function is likely to be thrown into chaos. First, the changes inherent in the block grants and the New York court ruling have come suddenly, and virtually simultaneously. Second, budgets seem no longer to be stable and fixed, but rather uncertain and in flux during the course of the fiscal year, with the result that actual budget appropriations are not known until the end of the budget year. In such a context planning attempts are futile.

In sum, pressures to decrease service dollars will result from a number of factors: lower federal appropriations; pressure to increase state level administrative and policy advisory staffs; inflation; lawsuits; poor planning; and concomitant decreases in

state tax revenues resulting from federal tax cuts. In such a context one might expect that localities, in their search for new resources, will not only fight harder for every dollar but will invent "creative financing" mechanisms (such as a greater reliance on debt to pay for current operations), some of which could pose long-term dangers.

In this new political environment, New York City will have to be vigilant. As the largest single entity and recipient of federal as well as state funds, the city has a great deal to lose from the changes. Cities remain a popular target of abuse with little public appreciation for the needy groups which are concentrated within their boundaries. New York City has always had to fight for its share of services from the state.

The Japanese word for "crisis" is composed of two symbols which taken by their parts mean "a-threatening opportunity." Perhaps it is premature to label evolving events a crisis. They are nonetheless threatening to public education. And it will take all the resources and imagination available to New York City as well as New York State education officials and advocates to turn them into realized opportunities.

MASTER CHART OF FEDERAL EDUCATION PROGRAM GRANT COMMITMENTS:
NATIONAL, NEW YORK STATE, AND NEW YORK CITY TOTALS

Source (unless noted differently)	New York City			New York State			Federal Totals			Appropriations FY 1961 ⁴
	FY 1978 (1970-79)	FY 1979 (1979-80)	FY 1980 (1980-81)	FY 1978 (1970-79)	FY 1979 (1979-80)	FY 1980 (1980-81)	FY 1978	FY 1979	FY 1980	
Separate Programs										
Title I	146,764,000	179,562,000	162,894,000	251,419,000	290,142,000	275,329,000	2,715,261,000 ¹	2,807,163,000 ¹	3,215,593,000 ⁷	3,457,770,000
Handicapped	8,364,000	13,090,000	14,930,000	20,032,000	40,613,000	35,539,000	627,025,000 ⁵	976,637,000 ⁶	1,049,025,000 ⁷	1,097,120,000
Voc Ed Act	5,301,000	10,441,000	10,006,000	41,719,000	42,604,000	41,403,000	635,000,000 ⁵	681,614,000 ⁶	776,000,000 ⁷	772,490,000
Bilingual	15,596,000	16,091,000	10,000,000	20,327,000	24,217,000	20,494,000	137,641,000	145,051,000	146,963,000 ⁷	152,230,000
Adult Ed	3,921,000	3,224,000	3,504,000	7,513,000	7,639,000	3,614,000	90,750,000 ⁵	100,000,000 ⁶	100,000,000 ⁷	120,000,000
Civil Rights (Title IV)	994,000	1,119,000	1,094,000	1,701,000	1,800,000	2,599,000	20,754,000	36,000,000	45,211,000	45,670,000
WEP	451,000	233,000	860,000	801,000	273,000	860,000	7,307,000	7,681,000	9,795,000	10,000,000
Impact Aid (SAPA)	22,063,000	10,020,000	20,214,000	30,012,000	34,010,000	40,169,000	733,561,000	734,435,000	744,279,000	740,000,000
Subtotal	204,254,000	240,580,000	245,006,000	390,004,000	450,106,000	424,219,000	4,966,179,000	5,490,270,000	6,107,746,000	6,395,200,000
Phased Programs										
Follow-Through	2,520,000	2,097,000	3,097,000	3,906,000	4,284,000	4,037,000	50,543,000	56,677,000	42,034,000	29,000,000
Pseudo-Phased Programs										
Career Ed Incentive	993,000	115,000 ²	100,000 ²	1,144,000	1,390,000	999,000	10,135,000	19,493,000	14,455,000	
Alcohol & Drug Abuse	-	-	-	343,000	363,000	541,000	1,470,000	1,991,000	3,126,000	
Subtotal	3,521,000	3,012,000	3,197,000	5,393,000	6,037,000	5,577,000	11,605,000	21,484,000	17,579,000	
Consolidated										
Title II (RIF/Basic Skills)	501,000	940,000	2,259,000	954,000	1,470,000	3,559,000	20,643,000	26,904,000	30,950,000	
Title III										
Metric Ed	170,000	201,000	110,000 ²	233,000	275,000	146,000 ^{2,6,3}	1,906,000	1,616,000	1,040,000 ⁴	
Arts in Ed	10,000	20,000	49,000	30,000	116,000	49,000	2,000,000	2,707,000	3,500,000	
Consumer Ed	437,000	760,000	265,000	834,000	1,000,000	543,000	4,015,000	3,592,000	3,509,000	
Law Related	-	-	36,000	-	-	-	78,000	-	990,000,000	
Environmental	216,000	305,000	-	250,000	303,000	-	3,500,000	3,200,000	-	
National Diffusion Network	-	121,000	106,000	-	501,000	459,000	-	13,024,000	9,935,000	
Title IV										
B. Libraries & Learning Ref.	4,002,000	5,797,000	5,510,000 ³	11,350,000	14,006,000	12,636,000	171,102,000	171,000,000 ⁶	170,120,000	
C. Support & Innov.	2,552,000	3,100,000	2,993,000	11,670,000	12,207,000	12,207,000	234,096,000	155,400,000 ⁶	146,400,000 ⁴	
Title VI (ESAA)	16,327,000 ²	17,317,000 ²	20,977,000 ²	25,600,000	30,433,000	20,044,000	206,127,000	200,175,000	246,571,000 ⁷	
Title VIII (Comm Ed)	40,000	35,000 ¹	150,000	-	147,000	107,000 ^{1,6,2}	3,553,000	3,177,000	3,035,000	
Title IX										
Gifted & Talented	260,000	70,000	53,000	2,000	105,000	199,000	2,525,000	3,759,000	6,007,000	
Ethnic Heritage	110,000	127,000	426,000	2,000	194,000	474,000	2,254,000	1,059,000	2,994,000	
NEA Title V										
Teacher Corps	1,101,000	1,619,000	1,574,000	2,946,000	3,062,000	2,079,000	36,517,000	37,374,000	29,321,000 ⁴	
Teacher Centers	869,000	853,000	900,000	1,237,000	1,590,000 ⁶	1,959,000	0,196,000	10,500,000 ⁶	12,924,000	
Subtotal	27,491,000	31,209,000	25,424,000	56,042,000	65,072,000	55,595,000	776,514,000	723,105,000	670,290,000	637,590,000
Other										
Indian Ed	00,000	70,000	00,000	906,000	1,049,000	039,000	35,274,000	43,607,000	47,300,000 ⁴	53,520,000
Subtotal	00,000	70,000	00,000	906,000	1,049,000	039,000	35,274,000	43,607,000	47,300,000	53,520,000
TOTAL	235,354,000	282,967,000	274,595,000	453,225,000	523,064,000	406,226,000	5,040,000,000	5,335,223,000	6,004,949,000	7,125,650,000

¹ Geographic Distribution of Federal Funds in NYS (FY 1970, 1979, 1980)

² NYC Board of Education; Office of Funded Programs (Unofficial Data)

³ NYSSED, Office of Federal Programs

⁴ Estimate by researcher

⁵ 1981 Guide to Federal Funding for Education, Education Funding Research Council

⁶ Congressional Record 9/25/78

⁷ 4/4/80 (Congressional Research Service)

⁸ U.S. Department of Education Printout

⁹ Committee on Education and the Labor Force, House of Representatives, 96th Congress, 1st Session, July 31, 1979

PUBLIC SCHOOL ENROLLMENT IN NEW YORK STATE AND NEW YORK CITY:
TOTALS AND SELECTED CATEGORIES: 1978-79 to 1980-81

(Source: NYSED, Bureau of Educational Data Systems)

	<u>Total K-12</u>		<u>Vocational</u>		<u>Title I</u>		<u>Bilingual</u>		<u>Handicapped</u>	
	<u>Enrollment</u>	<u>% of State Total</u>	<u>Enrollment</u>	<u>% of State Total</u>						
<u>NYC</u>										
1978-79	996,577	32%	111,421	28%	434,983	53%	125,753	89%	55,454	31%
1979-80	960,242	32%	119,360	31%	420,963	54%	126,199	89%	59,788	32%
1980-81	941,159	33%	135,085	38%	NA		122,848	88%	78,944	36%
<u>NYS (excluding NYC & BOCES)</u>										
1978-79	2,064,334		227,628		384,806		14,482		97,126	
1979-80	1,975,522		212,745		354,263		15,829		99,370	
1980-81	1,897,234		160,527		NA		16,049		112,215	
<u>BOCES</u>										
1978-79	22,889		57,296				274		29,228	
1979-80	22,961		55,686				154		27,745	
1980-81	21,978		55,349				314		25,183	
<u>STATE Total</u>										
1978-79	3,083,800		396,345		819,789		140,509		181,808	
1979-80	2,958,725		387,791		775,226		142,182		186,903	
1980-81	2,860,371		350,961		NA		139,211		216,342	

APPENDIX 2

FEDERAL PROGRAMS: FUND EDUCATION TYPE AND ELIGIBILITY

Title I:	Grant/Contract Type	Eligible Recipient	CODE:
Headquartered: All W. Child (Basic - 75% of all Prop Funds) - Pre-school Incentive - Early Ed of W. Child - Severely & Profound - Hand. Res./Centers & Services for Deaf/Blind - Reg. Ed Prog. - Instr. Media - W. Reg. Rec. Cent. - W. Teacher Recruitment - W. Personnel Prep.	Formula Grants Project Grants Project Grants or Contracts Project Grants or Contracts Project Grants or Contracts & Services Project Grants or Contracts Project Grants or Contracts Project Grants	SEA which passes on to LEA's SEA which may pass on to LEA SEA, LEA, IRE, NPO " " " " other IRE, NPO, Voc. & Tech. Inst. All categories SEA, LEA, IRE All categories SEA, LEA, IRE, NPO	SEA - State Education Agency LEA - Local Education Agency IRE - Institution of Higher Education NPO - Non-Profit Organization
Vocational Ed: Major programs within act (including basic grants & other -- accounting for 90% of funds) Other 10%	Formula Grants Project Grants or Contracts Project Grants	SEA, which in turn fund LEAs Various categories of applicant LEA's eligible for virtually all parts (except one for high ed)	
Bilingual: (Various Parts)	Formula Grants	SEAs with subgrants to LEAs	
Adult Ed	Project Grants & Contracts	SEAs, LEAs, IRE, & NPOs	
Civil Rights (Title IV)	Project Grants & Contracts	All	
WEP	Project Grants & Contracts	LEAs	
Impact	Formula Grants	SEA, LEA, IRE & NPO	
Follow Through	Project Grants & Contracts	SEA	
Career Ed: State Allotment (91% of total) Incentive Prog. (9% of total)	Formula Grants Project Grants & Contracts Project Grants	SEA, LEA, IRE & NPO " " " "	
Alcohol & Drug Abuse Ed Programs	Formula, Project Grants & Contracts	All	
Title III: (Basic Skills)	Project Grants & Contracts	SEA, LEA, IRE, NPO	
Title III: (Metric, Consumer, Arts, Law Related, Nat. Diffusion Project)	Formula Grants	SEA	
Title IV: (Both Parts SAC)	Project Grants	LEAs (Note: About \$15 billion is targeted toward special purposes for which others -- e.g., SEA, NPOs -- also eligible.)	
Title VI: SCAP (for 95% of the funding)	Formula, Project Grants & Contracts	SEA, LEA, IRE & NPO	
Title VIII: (Community Ed)	Formula, Project Grants & Contracts	" " " " (with one part targeted only to SPAs)	
Title IX: Gifted & Talented	Project Grants	" " " "	
Ethnic Heritage	Project Grants	LEA or IRE	
NEA Title V: (Teacher Corps & Teacher Centers)	Project Grants	LEA or IRE	

APPENDIX 4

Revenue Potential to the NYC Board of Education of The New York City Educational Construction Fund

Background

The New York City Educational Construction Fund (ECF) was created in 1966 to finance and develop schools in combination with housing or commercial office space. Established as a public benefit corporation, or "authority," the ECF was seen as a vehicle for providing needed new school buildings for the New York City Board of Education in an expeditious and cost-effective way. As a public authority, the ECF was able to operate outside the city's capital budget and debt limit. Also, the very constraints of development in New York City -- namely the high cost of land -- provided an opportunity the ECF was intended to exploit. In brief, the ECF would provide a long-term lease to a private developer for the "air-rights" above a proposed school; that is, for the right to build a structure in the air space above the school building within the limits allowed by zoning laws. The non-school portion of the development -- a housing or office tower -- would then generate income to the city in two ways: first, through lease payments for the air rights, and second through payments in-lieu of property taxes. (Schools, like all public and most not-for-profit buildings, are not subject to property taxes. Thus, under most circumstances, the land on which they are built would be removed from the tax rolls. Private developers, through agreements with the ECF, would arrange to pay a negotiated amount instead of property

taxes.) Thus, it was hoped ECF developments would offset the cost to the city of building new schools and perhaps pay for the new schools entirely.

Summary of Current Status

The ECF has not fulfilled its original promise and is currently viewed with disappointment by many city and state agency officials familiar with its operation. A highly critical report on the ECF issued by the State Comptroller's Office, Division of Audits and Accounts (June 8, 1977) concluded:

The ECF did not adequately fulfill the purposes for which it was established...

The basic concept of building private, income producing structures over the schools (piggyback) so as to make maximum use of limited land, derive income from the sale or lease of previously unproductive air rights and obtain tax income from improved property previously non-taxable, was not accomplished.

The opinion of the State Comptroller's Office has not changed in the four years since that report was first issued.

The issues are quite complicated. The critics of the ECF argue that it did not produce income generating properties (only three of the 13 projects the ECF finished are profitable), it did not produce schools in areas of greatest need (which tend to be in inner city, low land value areas), nearly as many projects were aborted as were completed, the ECF mismanaged and wasted funds, and, most important, the city had to bail the ECF out of near bankruptcy in 1975 because it was not self sustaining.

The ECF counters these charges. Most of the projects the ECF developed are not income producing because the greatest need was

for subsidized housing. Thus ECF projects served a social purpose not adequately addressed in the city. It was unable to build schools in high need ghetto areas because of the realities of real estate development in the city. The charges of poor management (some of which they say were petty, some standard practice) were addressed at the time of the audit. And on the most serious concern of all, that of income flow and bail out, the ECF argues that it was the victim of politics during the city's 1975 fiscal crisis. The ECF contends that, on balance, its revenue picture is positive: although most of its projects are income losses, one, a downtown telephone building, produces rents of \$7 million which outweigh all other losses. That money, now going directly to the city to retire an \$81 million bond issued in 1975, will represent unencumbered income within a period of six or seven years, according to the ECF. Finally, the city is considering floating another bond of about \$50 million in the near future to cover remaining ECF costs.

Summary

Whatever income produced by ECF projects goes directly to the general city treasury and is only indirectly dispersed to the NYC Board of Education -- in proportion, one may assume, to its share of the city's budget. Whether or not the net result of ECF projects is an income contribution or deficit to the city and/or whether the subsidized housing produced by that agency represents a cost-effective social contribution are both questions that would require further investigation.

APPENDIX 5

NEW YORK STATE EDUCATION BUDGET FOR ADMINISTRATION
 (Source: NYE Education Budgets for Fiscal Years 1979 through 1982)

Program	1977-78			1978-79			1979-80			1980-81 (Available)			Annualized change over 3-Year Period (1977-81) (1978-81) (1979-81)		
	State	Federal	Total	State	Federal	Total	State	Federal	Total	State	Federal	Total	State	Federal	Total
Administration	5,010,000	2,001,000	14,311,000	12,102,000	9,735,000	17,930,000	11,901,000	5,074,000	27,055,000	29,256,000	8,446,000	27,007,000			
Admin. of Dep't.	2,295,000	850,000	3,063,000	3,223,000	1,050,000	4,273,000	3,114,000,000	1,041,000	4,191,000,000	2,079,017,000	1,375,000	4,204,013,000			
Central Services	7,605,000	3,541,000	11,140,000	8,960,000	4,605,000	13,605,000	8,070,500,000	4,793,000	13,643,500,000	16,525,702,000	7,071,000	23,506,702,000			
Change from prior year (Fed. Funds as % of total)			(21.0%)			(26.2%)			(-1.7%)			(-33.7%)	23.0%	20.3%	23.1%
Elem. & Sec. & Cont. Ed. Admin.	11,794,000	11,645,000	23,439,000	15,430,000	11,301,000	26,019,000	11,000,000	10,037,000	30,727,000	14,124,000	20,402,000	32,726,000	(-6.6%/yr. roll)		
Change from prior year (Fed. Funds as % of total)			(49.6%)			(47.9%)			(-14.6%)			(-54.7%)	6.2%	16.9%	11.0%
Ed. Planning, Imp. & Eval. Serv.	2,903,000	1,030,000	4,730,000	2,040,000	1,060,000	4,014,000	3,967,000	4,320,000	8,295,000	4,590,691,000	3,645,000	8,226,000			
Ed. Planning & Support Serv.	1,912,000	94,000	2,004,000	8,972,000	2,221,000	4,195,000	1,001,000	1,005,000	1,004,000	2,167,051,000	2,224,000	4,797,000			
Dist. Serv. & Support Serv.	1,000,000	2,501,000	3,670,000	1,160,000	2,240,000	3,400,000	2,650,000	4,790,000	7,450,000	2,032,574,000	5,519,000	8,752,000			
Res. for Ed. of Child. w/Hand.	670,000	1,199,000	1,069,000	670,000	1,060,000	1,740,000	1,005,000	1,004,000	4,001,000	1,079,502,000	1,706,000	4,016,000			
Plan. & Eval. Serv.	1,415,000	4,600,000	6,023,000	4,009,000	4,365,000	9,064,000									
Admin. Ed. Serv.	711,000	1,120,000	1,039,000	770,000	1,135,000	1,913,000									
Examination Center	1,094,000	199,000	1,293,000	1,201,000	476,000	1,679,000									
Administration Totals	21,604,000	10,646,000	37,650,000	25,619,000	19,210,000	44,757,000	25,071,000	22,711,000	60,502,000	33,400,000	27,000,000	60,521,000			
Change from prior year (Fed. Funds as % of total)			(42.6%)			(18.9%)			(-1.0%)			(-27.6%)	15.7%	17.5%	12.1%
Total Elem. & Sec. & Cont. Ed. Budget	15,762,000	530,000,000	3,763,307,000	17,170,000	545,400,000	3,070,900,000	17,735,000	560,209,000	4,109,367,000	10,644,000	667,635,000	4,036,010,000	(2.1%/yr. roll)		
Change from prior year (Fed. Funds as % of total)			(14.1%)			(14.0%)			(-11.0%)			(-14.3%)	0.9%	2.3%	2.2%
Total for Education Dept. (All Annual)	52,001,400	509,325,000	1,970,744,000	64,519,000	600,954,000	4,152,612,000	66,002,000	635,292,000	4,200,017,000	60,000,000	729,400,000	4,222,747,000	7.2%	7.4%	7.2%
Change from prior year (Fed. Funds as % of total)			(14.7%)			(14.7%)			(-14.5%)			(-14.0%)	7.2%	7.4%	7.2%
ESAC Admin. as % of Total ESAC Budget	77.7%	2.2%	76.4%	2.5%	64	70.3%	3.0%	71	75.0%	2.0%	76				
All Admin. as % of Total ESAC	77.7%	2.2%	76.4%	2.5%	64	70.3%	3.0%	71	75.0%	2.0%	76				
ESAC Budget as % of Total ESAC Budget	77.7%	2.2%	76.4%	2.5%	64	70.3%	3.0%	71	75.0%	2.0%	76				
Central Admin. as % of Total ESAC Budget	10.7%	76	10.9%	9%	41	10.1%	9%	41	10.1%	1.2%	61%				

1. This category of \$20,000 from original source (NY 1979 NYE Executive Budget).
 2. Administrative amount figured at 9.44% of total Federal funds (based on figures provided by NY 1981 NYE Exec. Budget).

WISCONSIN DEPARTMENT
STATE POSITIONS

(Source: Wisconsin Department, Office of Fiscal Management, Phase: 9/2/81)

	1978-79			1979-80			1980-81			1981-82			3-year Annualized Change		
	State	Federal	Total	State Funded	Federal Funded	Total Funded									
Administration	445	86	531	454	72	526	448	77	525	444	83	527	-0.1%	+7.9%	+1.0%
General Admin.	153	39	192	154	44	198	151	48	199	149	32	181			
Central Services	292	27	319	300	28	328	297	29	326	295	31	326			
Elem. Sec. & Continuing Education	425	423	848	430	466	896	425	469	894	468	499	967	+2.7%	+5.0%	+3.9%
General Ed. Reguc.	163	96	259	153	112	265	183	123	306	175	128	303			
Plant & Support Svcs.	21	53	74	21	34	55	55	64	119	55	64	119			
Dist. Services	45	17	62	47	16	63	32	14	46	77	7	84			
General Ed.															
Curricular Svcs.	143	130	273	151	149	300	98	114	212	95	112	207			
Occup. & Cont. Ed.	53	127	180	58	135	193	58	154	212	58	179	237			
Child w/Handicap Off.															
Rural/Urban Ed.															
Department Total	2,789	1,262	3,971	2,746	1,310	4,064	2,560	1,357	3,917	2,493	1,451	3,944	-2.7%	+4.7%	+0.2%
Admin. Change from prior year				2.0%	2.1%	2.9%	-1.3%	+6.9%	-2%	-0.9%	7.0%	0%	-1.1%	7.9%	1.0%
ESAC Change from prior year				1.2%	5.4%	3.3%	-1.2%	5.2%	2.1%	8.2%	4.5%	6.3%	2.7%	5.0%	3.9%
Dept. Total Change from prior year				1.4%	4.4%	2.3%	-0.6%	3.0%	-3.6%	-2.6%	6.9%	7%	-2.9%	4.0%	-0.2%
ESAC as % of Dept. Total	15.7%	33.5%	21.4%	15.7%	33.0%	21.6%	16.6%	34.6%	22.0%	18.5%	33.0%	24.1%			
Admin. as % of Dept. Total	16.4%	5.2%	12.9%	16.5%	5.0%	12.9%	17.5%	5.7%	13.4%	17.0%	5.7%	13.4%			
ESAC & Admin. as % of Dept. Total	32.1%	38.7%	34.3%	32.2%	37.9%	34.5%	34.1%	40.2%	35.2%	35.2%	38.7%	37.4%			