Testimony of George V. Sweeting, Deputy Director  
New York City Independent Budget Office,  
Before the New York State Assembly Education Committee  
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Good afternoon Chairman Sanders and members of the Committee. Thank you for the opportunity to testify before you today on the city’s compliance with the new maintenance of effort provisions for education spending enacted as part of last year’s governance legislation.

The city’s 2003-2004 fiscal year budget, which was adopted last week, is the first to be subject to the new MOE provisions. Although our office has not yet received all of the information necessary to offer a definitive opinion, IBO’s preliminary analysis indicates that the adopted budget appropriates sufficient city funds to exceed the MOE requirement. Before turning to the specific budget numbers, it is useful to review some of the recent changes that shaped this year’s education budget. Indeed, the new MOE provision takes effect against the backdrop of large shifts in the sources of education funding.

Recent Trends in Education Spending in New York City
Spending on the Board of Education, now Department of Education, has been rising steadily over the past decade and is expected to continue rising. The accompanying chart shows total BOE/DOE spending and the city funded portion as measured for the new MOE, for fiscal years 1993 through 2007. The figures for 2003 through 2007 are IBO’s projections from our recent report on the Mayor’s Executive Budget updated to account for the enacted city and state budgets. We have also plotted the levels of spending that would have been required under the new MOE provision if it had been in effect before this year.

There are a few caveats on our estimates of the MOE level. The MOE level in a given year equals city-funded spending for the city’s public schools in the prior year excluding pensions and debt service. The city’s budget segregates debt service and most pension costs in accounts separate from the Department of Education and therefore these expenses are readily excluded. However, there are some pension costs for a small portion of the Department of Education’s employees which are included in the department’s budget. In our analysis we have assumed that these expenses will also be excluded when evaluating MOE compliance. There is also the question of whether to include funds that
are reported in the Department of Education budget but which are spent on non-public school students. In fiscal year 2003, nearly $425 million in city funds were budgeted for this purpose. Our preliminary analysis includes this spending in our MOE calculations, although whether or not to include it remains an open question.

**NYC Education Spending 1993-2007**

Spending from all sources grew at an annual rate of 5.8 percent from 1993 to 2002. Over the same period, annual growth in city funds was somewhat slower at 5.4 percent on average, although it still exceeded the growth in the overall city budget which averaged 3.5 percent annually. From 1998 to 2001, spending was well above the new MOE level. In the previous five years the differences were smaller with spending falling short in 1996. City spending in 2002 was once again below our estimate of the MOE level as the city began to cut back in response to the September 11 attack and the national recession.

**Outlook for 2003**

For 2003, IBO projects that spending from all sources for the Department of Education will show unusually strong growth. This is due in part to an inflow of World Trade Center-related FEMA money. Other federal aid, including Title I, is also expected to grow strongly as the No Child Left Behind Act is implemented. When the fiscal year accounts are closed, IBO also expects state aid to show an increase in 2003. City funds are expected to grow sharply, helped in large part by a one-time infusion of funds from the Municipal Bond Bank to help cover the cost of extended day under last summer’s UFT contract for this year. This money is recorded as $198 million in city funds in the latest budget modification, bringing city-funded expenditures to just over $5 billion for 2003.
Outlook for 2004

Under the new MOE, city-funded spending in the 2004 adopted budget must at least equal the level budgeted for 2003 when the 2004 budget is adopted. In the Executive Budget released in April, the Mayor proposed to exactly match the 2003 level in 2004. The state Legislature’s enacted budget and the related city assistance package have changed this picture somewhat.

The Executive Budget sought restoration of the Governor’s proposed cuts in state aid, which the OMB estimated would cost the city $478 million. The Legislature’s budget restored virtually all of the cuts to categorical programs. However, some changes to the operating aid formulas were enacted. IBO estimates that the result was a shortfall of approximately $80 million. The Executive Budget also sought new aid to continue the state support for the costs of the extended day initiative under the 2002 UFT contract. The state had provided one-time assistance for the 2002-2003 school year when the contract was negotiated. At that time the city assumed responsibility for the costs beginning in fiscal year 2004 by shifting funds from elsewhere in the Department’s budget. To avoid now having to now implement those shifts, the Executive Budget proposed that the state provide the city with $275 million in new aid. The Legislature’s aid package did not include this money, although it did provide some assistance by enabling the city to borrow more money through the Municipal Bond Back, one of the mechanisms used in 2003. IBO estimates that these actions created an additional shortfall of $213 million.

Although the state did not provide all of the education restorations and aid that the city sought, IBO estimates that it did provide other fiscal relief and taxing authority so that the total amount of assistance exceeded the total help sought by the Mayor. Drawing on some of these additional resources to help cover the shortfalls in the education aid requests and avoid some cuts proposed by the Mayor, the 2004 adopted budget added $228 million to the city-funded amount planned in the Executive Budget.

With these changes, IBO projects that the 2003 city-funded budget for MOE purposes at the time of the 2004 adoption was almost exactly $5 billion. City funds for MOE purposes in the 2004 adopted budget are estimated to be $5.015 billion, sufficient to meet the new MOE provision. IBO also projects that city-funded spending in 2005 through 2007 will also exceed the MOE level in each of those years.

Once again, thank you for the opportunity to testify. I would be happy to answer any questions you may have.