

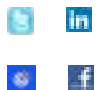
Programs At Risk: Assessing the Impact of the Mayor's PEG and Expiring Federal Covid-Era Funds On the Education Budget



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Executive Summary

During the Covid-19 pandemic, the City's Department of Education (DOE) received additional federal aid to address the impact of the pandemic on students. This funding followed several rounds of federal legislation, each with its own restriction on the date by which funds must be used. The City used that aid to support both short-term and recurring DOE programs, such as the expansion of the City's 3-K program and the Community Schools program, an initiative that partners schools with community-based organizations to provide academic and other supports to students and families. Previously, the Mayor's Office of Management and Budget (OMB) had stated their expectation that city funds would increase as the City recovered, and new city funds would be added to cover the eventual federal shortfalls. However, this most recent November financial plan reflected quite the opposite—and instead proposed budget reductions of 5 percent for each year of the financial plan period (2024 through 2027, all years refer to City fiscal years) in a Program to Eliminate the Gap (PEG).

In this report, the Independent Budget Office (IBO) examines the impact of Covid-era stimulus funds on the DOE budget, as well as two DOE programs facing the expiration of federal Covid-era funds and the Mayor's PEG: the early childhood program for 3-K students and the Community Schools initiative. IBO also provides a program-level breakdown of our estimate for the total city funds needed to sustain recurring DOE programs after the expiration of federal stimulus funds.

IBO found that:

- Between 2022 and 2024, \$7 billion of federal Covid-era funds drove large increases in the DOE budget. While the total DOE budget will decrease in 2025 when the last of those federal stimulus funds expire, DOE funding from all other sources—a mix of city, state, and other federal funds—will continue to grow through 2027.
- Beginning in 2025, the Mayor's PEG will reduce the overall budget for 3-K and pre-K by \$82 million. Additionally, IBO estimates the 3-K program will face a shortfall of \$10 million following the expiration of federal funds for each year in 2026 and 2027.
- The Community Schools program, which saw a substantial budget increase during the influx of federal stimulus funds (from \$25 million in 2022 to \$64 million in 2023), faces a \$10 million PEG in 2024, and \$8 million for each year in 2025, 2026, and 2027. And aside from the PEG, IBO estimates the City will need to add roughly \$30 million in 2025, and \$47 million in 2026 and again in 2027 to fill the gap after federal Covid-era funds end.
- In 2024, DOE programs were supported by a total of \$2 billion of stimulus funds. IBO estimates \$1.3 billion of those funds are allocated for long-term DOE programs, such as preschool special education, Mental Health for All, Summer Rising, as well as the 3-K program and Community Schools. In order to maintain those programs at their current level of operations, IBO estimates the City would need to add \$570 million in 2025, \$665 million in 2026, and \$665 million in 2027.

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Introduction

In the [Fiscal Outlook](#) report, the Independent Budget Office (IBO) estimates the City will need to provide additional funding in fiscal out-years for recurring education programs currently supported by expiring federal Covid-era funds. In prior budget cycles, the Mayor's Office of Management and Budget (OMB) stated that it was hopeful that city funds would increase as the City recovered, and those funds would be added to cover those shortfalls. However, this most recent November financial plan reflected quite the opposite—and instead proposed budget reductions of 5 percent for each year of the financial plan period (2024 through 2027, all years refer to City fiscal years) in a Program to Eliminate the Gap (PEG). IBO also published a [report](#) on particular reductions in the PEG program that could affect the life experiences of New Yorkers.

Within the Department of Education (DOE), the total of all PEGs amount to an overall decrease of \$550 million in 2024, \$600 million in 2025, \$620 million in 2026, and \$625 million in 2027. Among the DOE PEGs are two programs that are currently partly funded with Covid education aid stimulus funds: 3-K and Community Schools. The DOE's 3-K program provides free education to three-year-olds, although families are not guaranteed a slot in their own district. In 2017, then Mayor Bill de Blasio first announced plans to create 3-K for All, a program to provide universal access to 3-K programs, although that expansion has since been scaled back.¹ The Community Schools initiative, which began in 2014 with 45 schools and as of the 2022-2023 school year included 417 schools citywide, offers additional academic, health, and extracurricular supports to students, families, and their communities.² During the pandemic, federal stimulus funds significantly supported the expansion of both of these programs.

In this report, IBO first examines the impact of Covid-era funds on the overall DOE budget. We then examine funding for the 3-K and Universal Pre-K programs in greater detail, as well as the recent PEG reduction to early childhood of \$120 million in each year for 2025, 2026, and 2027 (\$82 million of which was for 3-K and Universal Pre-K). We also look at funding for the Community Schools budget, including the share of the program supported by federal aid, and the impact of the PEG reduction in the most recent financial plan. Finally, we provide an overview of all education programs receiving federal funds in this fiscal year and IBO's estimated city funds to respond to the end of the stimulus funds.

In Addition to \$7 Billion of Federal Stimulus Funds, City Contributions Have Also Grown

During the pandemic, the DOE received about \$7 billion in education aid from federal stimulus funds, all of which must be used within a certain timeframe: \$2.1 billion from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) by 2024 and \$4.8 billion from the American Rescue Plan Act (ARPA) by 2025. In addition to these two funds, DOE received \$336 million in ARPA local aid, which was provided directly to the City for general purposes but then allocated to DOE.

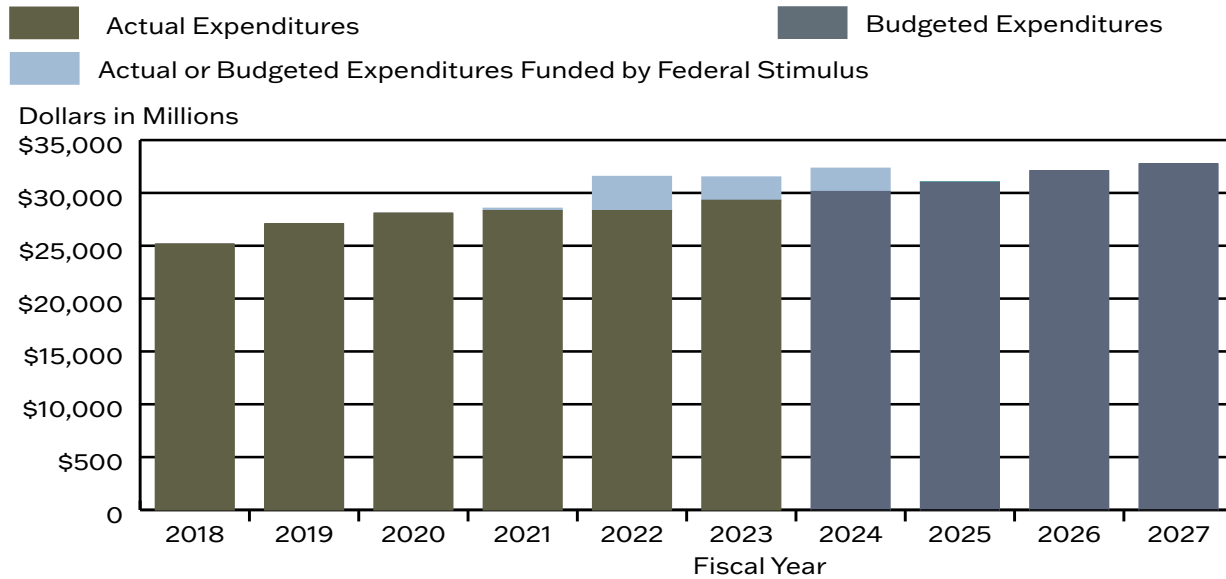
As a result, federal stimulus funds drove significant increases in DOE's actual and budgeted expenses for fiscal years 2022 through 2024. In 2022, federal stimulus funds represented roughly 10 percent of the DOE's total expenditures, followed by 7 percent of total expenditures in 2023. For budgeted expenses this fiscal year, the share of funds remains at nearly 7 percent. Overall DOE expenditures—which are supported by a mix of city, state, and federal funds—have steadily increased between 2018 and 2024. In 2025, that overall budget faces a notable reduction, as federal stimulus funds expire. In 2026 and annually thereafter, DOE will need to either match federal funds with city funds for recurring programs or reduce program budgets.

Early Education Experienced Slower Than Expected Enrollment Growth As DOE Faces Both A Budget Reduction And The End of Federal COVID-era Aid

Former Mayor Bill de Blasio created 3-K For All in the 2017-2018 school year after the successful expansion of Pre-K for All. Prior to the pandemic, there was slow growth in 3-K as it was limited to select school

Figure 1

COVID Stimulus Funds have Substantially Increased DOE Expenditures in 2022 Through 2024



SOURCE: IBO Analysis of New York City Financial Management System Data

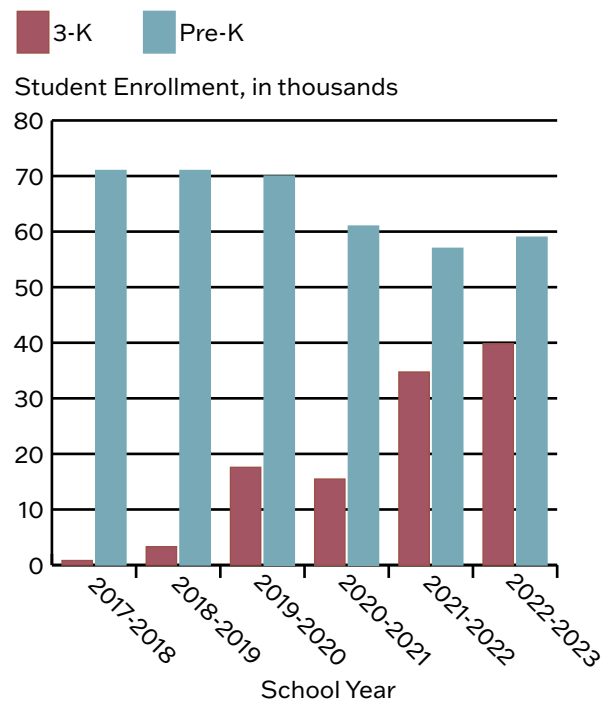
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districts, but with the influx of money from the federal stimulus aid, then-Mayor de Blasio used these time-limited funds to expand the program citywide. When expanding pre-K for four-year-olds in 2015-2016, Mayor de Blasio was able to secure a total of \$551 million in formula aid in state funding, but did not secure the same state revenues for 3-K. This is one reason for the slower expansion of 3-K, relative to Pre-K for All which was able to build upon the pre-existing pre-K programs, albeit at a smaller scale. Between the 2019-2020 school year and the 2022-2023 school year, 3-K enrollment grew from 17,600 to 39,800 (more than doubled), while Pre-K enrollment decreased slightly from 70,600 to 59,300 (a 16 percent decline).

The Mayor’s Early Childhood PEG. In addition to the budget gap that will follow the end of federal stimulus funding in 2025, both 3-K and pre-K programs are subject to the Mayor’s PEG, which include a \$82 million reduction in 2025, 2026, and 2027. According to OMB, the recent PEG reduction of \$82 million in 3-K and pre-K funding reflects the realignment of funding to actual enrollment. In communications with IBO, OMB has stated this reduction may come from the elimination of empty seats for 3-K or pre-K, or it might be achieved from additional personal services accruals. At the time of this publication, OMB said the plan to achieve this PEG target had not yet been finalized. The City plans to replace a large portion of formerly federally-funded dollars with city funds, but the 3-K program will still experience an overall budget reduction through the PEG.

Figure 2

3-K Enrollment Has Seen Relatively Consistent Growth While Pre-K Enrollment Has Fluctuated

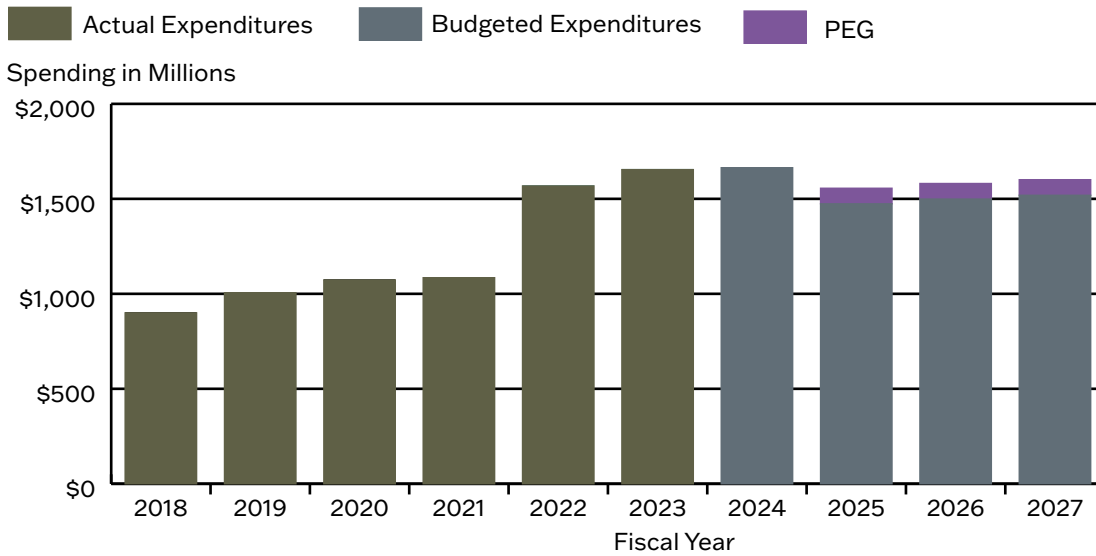


SOURCE: IBO Analysis of DOE Audited Register Data

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Figure 3

For Both 3-K and Pre-K, There is an Additional \$82 Million PEG in the Out Years Despite the End of Federal Stimulus Funding



SOURCE: IBO Analysis of New York City Financial Management System Data

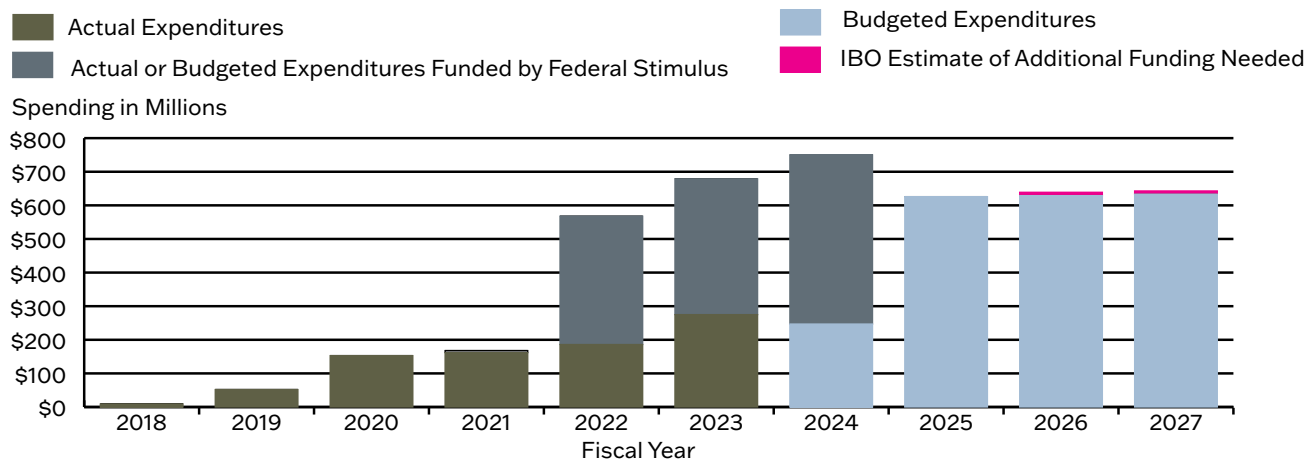
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Federal Stimulus Funds for 3-K. Prior to the pandemic, city dollars alone funded the 3-K program; since Spring 2021, funding has been split between city and federal sources. The federal share of 3-K funding grew over that time from 4 percent in 2021 to 67 percent in 2022 and 59 percent in 2023. For 2024, this current fiscal year, 67 percent of the 3-K budget depends on federal funds, with the remaining 33 percent funded by the City. Beginning in 2025, overall funding for the 3-K program decreases, even as the city share increases to 100 percent of all funding, with an additional \$458 million of city funds as compared with the 2021 spending level. In 2025 and annually thereafter, 3-K will return to be fully city-funded.

IBO estimated 3-K expansion programs would need additional city funds of \$10 million for 2026 and 2027, accounting for the already allocated city funds (\$376 million) in 2025 and the PEG (\$82 million) in 2026 and

Figure 4

Despite Initial Claims that City Funds Will Be Used to Make Up For Lost Federal Stimulus Funds, This is Not Fully Reflected in the Budget for 3-K



SOURCE: IBO Analysis of New York City Financial Management System Data

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2027. This estimate represents a decrease from the \$92 million of additional city funds IBO last estimated for 3-K expansion after the Mayor’s Executive plan from April 2023. Because IBO considers the \$82 million PEG a reduction in the 3-K program’s budget, we now estimate only an additional \$10 million will be needed in 2026 and 2027 to fill the remaining gap. These funds would maintain the program at its current level: as of the 2022-2023 school year, 39,821 students were enrolled in 3-K. This PEG also follows upon earlier reductions to 3-K expansion. In November of 2022, Mayor Adams scaled back the original plan for 3-K expansion, reducing the budget by \$283 million in 2024 and thereafter.

The Expansion of Community Schools Remains Vulnerable to Budget Reductions

The Community Schools initiative also faces substantial budget reductions. DOE planned to utilize the ARPA and CRRSA funds to support Community Schools in two ways: first, the restoration of funds previously cut from the program; and second, the expansion of the program to 100 new Community Schools. By 2023, 417 schools received funding from the Community Schools program.³ Based on communications with the DOE and IBO’s [prior report](#), IBO estimates that \$60 million, or 86 percent, of total federal funds in 2023 drew from federal Covid-era funds, and \$55 million of federal Covid-era funds will continue to support the program in 2024.

Funding for Community Schools is budgeted in a category that aggregates other initiatives within the DOE budget, and so IBO is unable to use the City’s Financial Management System to pinpoint the total program budget (see IBO’s [Budget Building Blocks: Units of Appropriation](#)). Instead, IBO used the New York State Education Department’s School Funding Transparency Data to examine the overall federal support for Community Schools, although these data do not distinguish between federal Covid-era funds and other types of federal support. IBO found that overall federal funding increased substantially in 2023 to a total of \$64.4 million, a 174 percent increase from the year before (in 2022, the program received \$25.3 million in federal funds). IBO estimates that in 2026 and annually thereafter, federal funding would return to pre-pandemic levels of roughly \$24 million--the average amount of federal support for the program from 2018 through 2020.

The Mayor’s PEG for Community Schools. As with the pre-K and 3-K programs, the most recent financial plan included a PEG for Community Schools. The City plans to reduce the program’s budget by \$10 million in 2024 and \$8 million annually for 2025 through 2027. This reduction will especially impact Other Than Personal Spending (OTPS) for the Office of Community Schools.

Federal Stimulus Funds for Community Schools. In April 2021, the City allocated roughly \$51 million of federal stimulus funds for the expansion of Community Schools in 2023 and 2024, followed by half that amount, about \$26 million, in 2025. In 2025, an additional \$26 million in City funds would be needed to make the program whole. Following the expiration of federal funds in 2026, the City will need to cover the entirety of federal stimulus funds, or reduce the program budget. As a result, IBO has

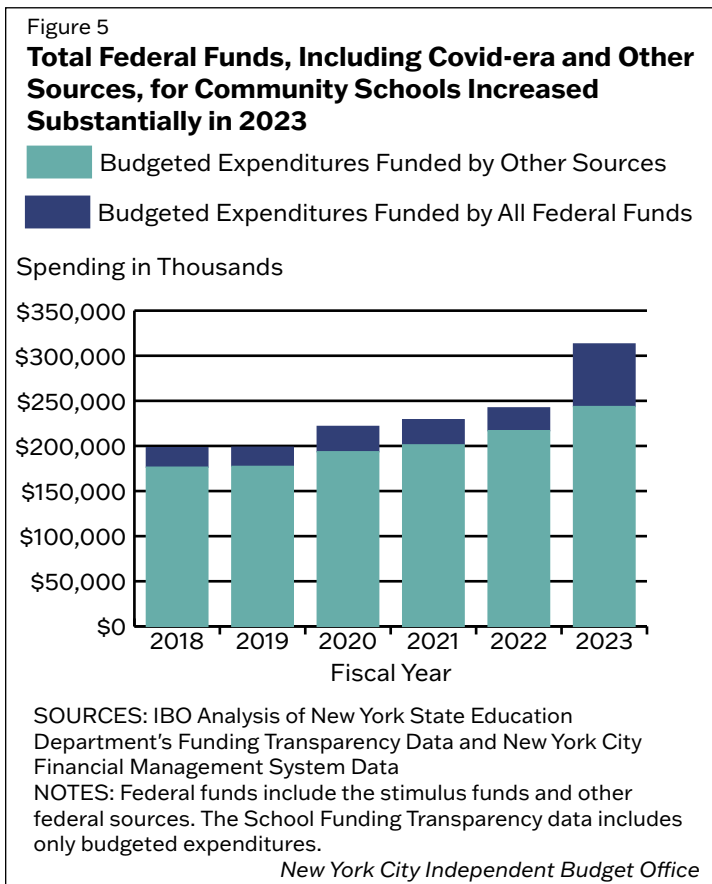


Figure 6

IBO Estimates That \$665 Million Will be Needed Annually Beginning in 2026 to Fund Ongoing Programs, Based on 2024 Funding Levels for Covid Federal Aid*Dollars in thousands*

Programs	Stimulus Funds (DOE Budgets) 2024	City Funds Needed (IBO Estimates)		
		2025	2026	2027
3-K Expansion	\$469,000		\$10,000	\$10,000
Community School Restorations and Expansion	55,000	30,150	47,300	47,300
Preschool Special Ed	96,000	48,750	96,000	96,000
Summer Rising	80,000	80,000	80,000	80,000
Mental Health for All	79,000	30,283	79,000	79,000
Expanded Arts Instruction Restoration	75,000	15,469	15,469	15,469
Contracted Nursing	65,000	65,000	65,000	65,000
PSAL Expansion	27,000	23,457	27,000	27,000
Restorative Justice Expansion	7,000	7,376	7,376	7,376
All Other Programs	313,000	269,066	237,771	237,771
Total	\$1,266,000	\$569,551	\$664,916	\$664,916

SOURCE: Prior IBO [analysis](#) of stimulus funds; NYC Financial Management System; Conversations with DOE

NOTE: Within All Other Programs, the DOE has budgeted stimulus funds for both small recurring programs (digital learning, bilingual education, career pathway programs, and more) and short-term programs (academic recovery supports, devices and IT supports, and more). IBO's estimate for additional City funds needed within the All Other Programs category includes only recurring programs.

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previously estimated that the City would need to provide an additional \$51 million in subsequent years, to maintain the Community School program at its current level. Including the restoration of previous cuts to the program brought IBO's total for federal Covid-era funding for the program up to \$60 million. After the PEG, IBO now estimates the City will need to add roughly \$30 million in 2025, and \$47 million each year in 2026 and 2027 to maintain the program as it is now.

Recurring Education Programs Face Budget Shortfalls When Federal Covid-Era Funds Expire

IBO has identified other long-term DOE programs that would require additional City funds after time-limited federal stimulus funds expire. Unlike short-term programs that provided immediate relief during the pandemic, recurring programs have ongoing value after the end of federal funds. In communications with IBO, DOE indicated a total of \$2 billion of stimulus funds were allocated for 2024, this fiscal year. Of that \$2 billion, IBO estimates about \$1.3 billion were allocated to long-term programs. In addition to the federal Covid-era funds for 3-K expansion and Community Schools discussed above, those long-term programs include \$96 million for preschool special education, \$80 million for Summer Rising, \$79 million for Mental Health for All, and more.

Given the level of stimulus aid budgeted in 2024 and 2025, IBO estimated in the Fiscal Outlook Report that the City would need \$1.9 billion in City funds through the plan period to maintain ongoing programs (\$570 million in 2025 and \$665 million each year in 2026 and 2027). For five of those long-term programs, their federal Covid-era funds decreased by half in 2025—as they did for Community Schools and 3-K (although only additional City funds were added for 3-K to make the program whole).

Two other programs that are half-funded for 2025 are preschool special education and Mental Health for All. IBO estimated that in 2025, the City would need to include an additional \$49 million for preschool special education, \$30 million for Mental Health for All, and \$80 million for Summer Rising to maintain those programs at current levels. DOE used federal stimulus funds to expand preschool special education

for around 1,300 additional students with disabilities. Federal Covid-era funding for Mental Health for All supported the hiring of additional social workers, psychologists, and other support staff. Another newly revamped Covid-era program was Summer Rising, launched in Summer 2021 (funded in the 2022 City fiscal year), a summer program for academic and social-emotional support, as well as recreational funding. In 2026 and 2027, after the full expiration of federal Covid-era funds, the City would need to include \$96 million, \$79 million, and \$80 million, respectively, for these programs.

Conclusion

When the last of the federal Covid-era funds expire in 2025, the City will have to decide whether to add city funds to recurring programs, or to reduce program budgets. Many of these programs provide targeted support to low-income students, or direct services to students who will require them well beyond that time-limited window. In this report, IBO examined the programs currently receiving federal stimulus funds programs—with a deeper dive into 3-K and Community Schools—to track the extent to which the City has already taken actions that would trigger adjustments to these anticipated federal shortfalls.

As the fiscal year’s budget cycle continues, Mayor Adams has called for additional 5 percent reductions in the next two financial plans. Even after PEGs included in the November Plan, IBO projects a total annual gap of \$665 million in 2026 as a result of the end of federal stimulus dollars, representing 2 percent of the total \$32 billion DOE projected budget. IBO will continue to monitor how the City implements any future reductions and the impact on students who currently benefit from these programs.



Endnotes

¹ Mayor de Blasio Announces 3-K for All. (2017). The Official Website of the City of New York. <https://www.nyc.gov/office-of-the-mayo-news/258-17/mayor-de-blasio-3-k-all#/0>.

² Community Schools. (n.d.). The Official Website of the City of New York. <https://www.schools.nyc.gov/learning/programs/community-schools>

³ 2021 New York State School Funding Transparency Form. (n.d.). New York State Division of the Budget. <https://www.budget.ny.gov/schoolFunding/index.html>