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**Testimony of George Sweeting, IBO Deputy Director
To the New York City Council Committee on Education
On the Amendment to the 2010-2014 Capital Plan for School Construction**

December 16, 2009

Good afternoon Chairman Jackson and other members of the Education Committee. My name is George Sweeting, and I am a Deputy Director of the New York City Independent Budget Office (IBO). Thank you for the invitation to testify at this oversight hearing on the Department of Education's (DOE) proposed annual amendment to the 2010-2014 school capital plan.

As this is the first of what will likely be multiple Council hearings on the amendment, and our office is just beginning to review the proposed amendment, my comments today will emphasize issues that merit further attention in the coming months rather than findings or conclusions by IBO. Of particular note, the amendment pushes back the target date for when all of the new seats will come on line, and the plan continues to count on the state to fund half of the program at a time when the state is facing severe fiscal difficulties.

Size of the Plan. The overall plan has increased by about \$400 million to a total of \$11.7 billion, with the new funding coming from the City Council, the Borough Presidents, other Mayoral sources (most of which will come through Reso A appropriations), and the state. The proposed amendment does not alter the overall structure of the plan, which is divided into two broad categories: Capacity and Capital Investment. The Capacity Program, which includes three subgroups, New Capacity, Facility Replacement Program, and Charter Partnership, would increase by \$169 million over the \$5.2 billion allocated under the adopted plan. New Capacity will grow by almost \$250 million, while the Facility Replacement Program would be reduced by \$79 million. Funding for Charter Partnership will remain the same at \$210 million.

The overall allocation for the Capital Investment program has grown thanks to \$300 million in Reso A funding from the Council and other officials. However, only one of the three subgroups under Capital Investment would see an increase: Mandated Programs would grow by \$112 million to \$2.3 billion, largely because the cost of completing projects started in the prior plan is now higher. This increase has been offset by a decrease of about \$113 million in allocations for the Capital Improvement Program (CIP) and Children First Initiatives. One question to consider is whether some of the Reso A projects in essence replaced projects that were funded as part of CIP and Children First Initiatives. There is no detail provided on the Reso A projects, which makes answering the question difficult.

Funding. As was the case in the previous capital plan, roughly half of the funding for the capital plan is expected to come from the city and the other half is expected to come from the state. In

the adopted plan, the city contribution was expected to be \$5.66 billion and the state contribution was expected to be \$5.62 billion. Under the proposed amendment, the city portion would increase by \$320 million to \$5.98 billion and the state portion would grow by \$70 million to \$5.69 billion.

The assumption that the state can provide substantial assistance may need further consideration. It was only in the last plan—as Albany was facing the resolution of the Campaign for Fiscal Equity case—that the state enacted laws to increase state assistance for the city’s capital plan. One form of assistance came from a one-time initiative (Excel bonds) which generated \$900 million in cash for the last plan without incurring debt service obligations for the city. A second initiative—which is ongoing—expanded the city’s debt capacity for education capital projects and allowed the city to pledge future state building aid to secure the new bonds. While the state is obligated to maintain sufficient building aid to cover all debt obligations already undertaken, the state could choose to limit the city’s ability to issue new debt that would qualify for building aid reimbursement as a means of reducing state obligations. Given that Governor Paterson just announced his intention to withhold \$84 million in school and municipal aid to the city, there may be reason to consider whether the state will contribute as much as the DOE is counting on.

New Capacity. One of the headline figures in the proposed amendment is the claim that it is adding 5,000 seats to the 25,000 already included in the adopted plan. These seats will be designed to accommodate pre-Kindergarten through eighth grades. Plans for high school seats remains unchanged. On net, there were 12 more projects listed in the proposed amendment for a total of 56 capacity projects. There were 18 projects (about 7,800 seats) added in the amended plan, while six others (about 1,800 seats) were cut. Capacity targets for projects that remain in the plan also shrank by about 1,000 seats.

Although the number of seats the amended plan would provide has increased, the timing of construction and completion for many projects has been pushed back from the dates used in the adopted plan. By 2014 only 30 percent of new seats will be completed, down from 50 percent in the adopted plan. In June’s adopted plan, the DOE expected that all new seats would be available by 2017, but that target has also been pushed back to 2018. In the adopted plan, more than half of the seats were expected to be in design phase in 2010, but that has been pushed back to 2011 in the proposed amendment. Similarly, many construction start dates have been pushed back so that only 20 percent of the new seats will be opened for 2010, down from 40 percent in the adopted plan.

Questions have been raised about whether the funds added to the capital plan will be sufficient to produce an additional 5,000 new seats. For some projects, the start of design has been extended an additional year to 2014 and construction starts have been extended to 2015. These extensions are mostly for projects that are funded only for design in this five-year plan, with construction scheduled for the next plan. Such projects account for 21 percent of the seats provided by new projects in the proposed amendment. Because only the design portion of these projects is covered in this plan, less than 2 percent of the sum of their estimated costs of about \$200 million has been included in the amended plan. This helps to explain why the additional 5,000 seats provided in the proposed amendment appear to cost a relatively modest \$250 million. In reality, much of the costs for these projects will actually be incurred after 2014.

While additional resources have enabled the DOE to increase the scale of new capacity expected in the current Capital Plan, it appears that the seats are expected to come online even later than expected in the adopted plan. If state funding is reduced, this time frame for new seat design, construction, and completion is likely to be pushed back even farther. Moreover, even the delays already incorporated in the amendment mean that the DOE will likely miss an opportunity to attract contractors and bidders who are currently facing limited demand from private developers.

Thank you, and I would be happy to answer any questions you may have.