

February 2017

Staff Costs and Pass-Through Payments to Charter and Nonpublic Schools Propel Education Department Spending

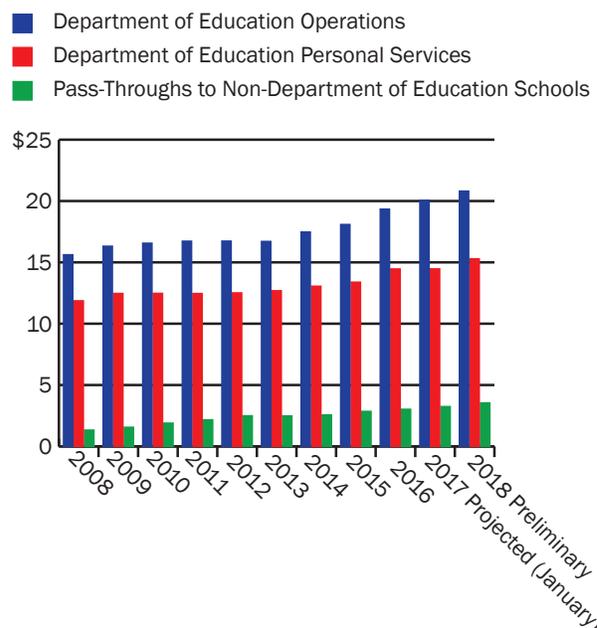
The Mayor’s preliminary budget for fiscal year 2018 includes over \$24 billion for the Department of Education (DOE), an increase of \$1.1 billion over the current budget for 2017. The growth in the agency’s budget is primarily the product of increases in two broad expenditure categories: salaries and benefits for DOE employees and pass-through payments to non-DOE schools such as charter schools and special education and other nonpublic schools. IBO’s analysis of historical budgeting within these two categories demonstrates how educational spending has evolved through the two most recent mayoral administrations.

Within four months of assuming office in January 2014, the de Blasio Administration successfully negotiated a contract settlement with the United Federation of Teachers (UFT), which had remained unresolved in the final four years of the Bloomberg Administration. The 2014 settlement included annual salary increases for teachers through October 2018 and also provided for retroactive increases to be paid out between 2016 and 2021—with most of the costs deferred until the last three years of the period.

Cost Comparisons: Bloomberg vs de Blasio. Not surprisingly, the cost of the salary increases and retroactive pay embodied in the 2014 contract settlement have had a major impact on the DOE’s budget. The DOE employs over 75,000 teachers whose salaries and benefits account for the single largest portion of the department’s budget. In the preliminary budget for 2018, DOE’s personal services costs—the cost of salaries and benefits for all DOE employees, not just teachers—are budgeted to increase by \$823 million, or 5.7 percent. (Unlike most city agencies, some fringe benefits are accounted for in the DOE budget rather than budgeted in the citywide fringe account.)

During the final four-year term of the Bloomberg Administration, the story was quite different. Reflecting the expiration of the teachers’ contract in 2009, salary schedules for teachers, and by extension other DOE employees, remained frozen. While individual teacher salaries did increase during this time—teacher salaries are determined by a schedule that reflects their level of education and seniority—the salary schedule itself remained frozen. As a result, overall spending on salaries and benefits at the DOE grew very modestly, averaging about 1.3 percent a year, from fiscal year 2008 through

Budget for Department of Education Personal Costs & All Operations vs. Pass-Throughs to Other Schools, 2008-2018
Dollars in billions



SOURCES: IBO analysis of the Comptroller’s Annual Financial Reports; January 2017 Financial Plan

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Comparison of Department of Education Budgets: Last Years of the Bloomberg Administration vs. First Years of the de Blasio Administration

Dollars in millions

Fiscal Year	Total DOE Budget	Pass-Throughs to Non-DOE Schools	DOE Operations	DOE Personal Services
2008	\$16,961	\$1,334	\$15,627	\$11,874
2013	19,202	2,489	16,713	12,694
2017 Projected (January)	23,318	3,253	20,065	14,476
2018 Preliminary	24,371	3,553	20,818	15,299
Change 2008-2013				
Absolute Terms (\$)	2,241	1,156	1,086	820
Average Annual Increase (%)	2.5%	13.3%	1.4%	1.3%
Change 2013-2018				
Absolute Terms (\$)	5,169	1,063	4,106	2,605
Average Annual Increase (%)	4.9%	7.4%	4.5%	3.8%

SOURCES: IBO analysis of the Comptroller's Annual Financial Report; January 2017 Financial Plan

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2013, an increase of \$820 million. Much of the DOE's budget growth in those years was instead driven by increased spending on pass-through payments to non-DOE schools, which grew by over \$1.1 billion, an average of over 13 percent a year.

Payments to non-DOE schools continued to grow in absolute and in relative terms during the de Blasio Administration as existing charter schools continued to fill out their complement of grade levels and new charter schools opened. The increase in charter school payments has been partly offset by a decrease in spending on special education private schools in recent years. The preliminary budget anticipates payments to non-DOE schools in 2018 of \$3.6 billion, or 43 percent more than in 2013, the last full year of the Bloomberg Administration. In absolute terms, the increase in funding for non-DOE schools during the de Blasio Administration budgets (2014-2018) is similar to the increase over the last few Bloomberg Administration budgets (2009-2013): \$1.1 billion versus \$1.2 billion, respectively.

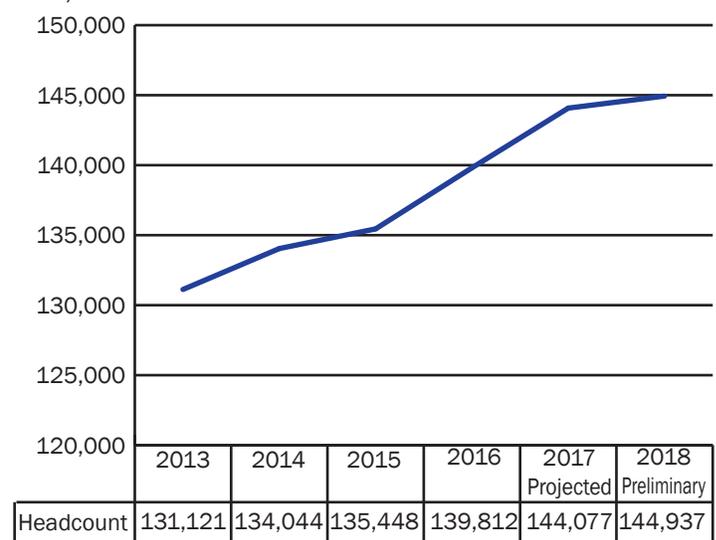
In relative terms, however, the rate of growth in funding for non-DOE schools was more rapid under Mayor Bloomberg than Mayor de Blasio because the earlier increases were built on a much smaller base. Conversely, spending on DOE operations has grown more rapidly under the de Blasio Administration than during Mayor Bloomberg's final term. Spending for DOE operations rose approximately \$1.1 billion from 2008 through 2013, with growth averaging 1.4 percent per year. In contrast, assuming that the adopted budget for 2018 reflects the proposals included in the January preliminary budget, the amount dedicated to DOE operations since the beginning of the de Blasio

Administration will have increased by \$4.1 billion, or an average of 4.5 percent per year, including increased personal services costs of \$2.6 billion.

By the end of 2018, total DOE staffing would be nearly 13,000 greater than in 2013. Yet, only about half the increase in budgeted personal costs since 2013 is the product of increased headcount; the rest of the increase is due to the higher salaries.

Rise in Employee Costs, Pass-Through Payments Will Continue. While the annual salary increases associated with the 2014 UFT contract will be fully implemented in 2018, 75 percent of the retroactive payments associated

Staffing at the Department of Education Up by Over 13,000 Since 2013



SOURCE: IBO analysis of Mayor's Office of Management and Budget data
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with that contract settlement will be paid out in 2019 through 2021. With the 2014 contract expiring in 2018, the DOE's personal services budget for the out-years of the financial plan are uncertain.

Payments to charter schools are expected to continue to increase through 2021 due to both increasing enrollment and likely future increases in tuition levels. Generally, charter school tuition is based on DOE per-pupil spending with a two year lag, increased by a factor determined by statewide per-pupil spending patterns in recent years. This formula was superseded in 2015 through 2017 by an act of the state Legislature, which substituted fixed per-pupil increases for those years rather than the formula-driven amounts. IBO anticipates that the Legislature will reapply the charter school formula for 2018 and subsequent years. This will likely result in an increase in charter school tuition as DOE's recent per-pupil spending increases are reflected in the charter tuition formula.

The city has experienced continued growth in charter school enrollment in recent years with growth expected to continue steadily in the near future. Currently, over 100,000 students, or 10.5 percent of the total enrollment in DOE-managed schools, are enrolled in charter schools. Enrollment and the related spending on charter schools grew steadily through Mayor Bloomberg's last term and has continued to grow through the de Blasio Administration. Under the de Blasio Administration, spending on DOE's traditional public schools has also grown, driven by both programmatic expansion—such as the implementation of universal pre-kindergarten—as well as a sharp increase in salaries and benefits of DOE staff. We expect spending on both charter schools and DOE operations to grow in the coming years, as charter enrollment and tuition grows and the DOE continues to pay out its retroactive salary increases to staff.

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