

Back-to-School Budget Blues

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With students preparing to return to the city's public schools next week, the Board of Education (BOE) is expected to start the school year with a significant hole in its budget. IBO estimates that the combined effects of the city budget, which restricts how some funds can be used, and the state budget, which provides less-than-anticipated aid, leaves the board with \$242 million less to spend than it had last school year. In response to these constraints, the Chancellor has cut \$180 million from district budgets. This back-to-school budget scenario stands in marked contrast to the past four years, a period in which city, state, and federal funding increases enabled BOE's budget to grow by over \$3 billion.

The negotiations between the Administration and the City Council yielded an education budget that was largely unchanged from what the Mayor proposed in his Executive Budget. The city's Adopted Budget provides \$4.878 billion in city funds for schools—\$16 million, or 0.3 percent—more than proposed by the Mayor. The city's Adopted Budget also ratified an Administration proposal, which transferred \$80 million from the board's budget to an education escrow account subject to mayoral control.

The board's \$11.529 billion budget for 2002, including state and federal funds, appears higher than last year, but \$467 million of that total is reserved for prospective labor settlements with the teachers and other unionized BOE employees. Excluding funds reserved for collective bargaining, BOE's 2002 budget is \$92 million less than last year. Add the effect of inflation on the cost of providing classroom and support services, and the board's available resources are stretched even further to maintain last year's level of programs. ([Detailed budget tables](#) are available on IBO's Web site.)

Albany's bare bones. In setting the education budget, the city assumed the state would increase education aid to BOE in school year 2001-2002 by \$253 million, or 4.8 percent above the amount provided last school year. At the time it seemed plausible to bank on sizable state aid hikes given the desire to increase support for education across the state reflected in both the Assembly and Senate budget proposals. Negotiations between the Governor and legislature, however, subsequently collapsed. In early August, some three months after the statutory deadline of April 1, the legislature enacted a "bare bones" budget in an effort to compel the Governor to negotiate. Based on currently available information, IBO estimates that the bare-bones state budget would result in the city receiving an education aid increase of \$103 million, \$150 million less than was anticipated in the city budget. A portion of the increase comes with restrictions limiting its use to specific programs, and may not be used for collective bargaining or other needs.

The legislature's bare-bones budget further reduces support to the city by providing only \$33 million for aid owed to BOE from prior years. According to the New York City Comptroller, \$96 million in state aid still owed to the city from the 1992-1993 school year must be paid in fiscal year 2002. The Comptroller's policy is to drop, or "write down," receivables remaining unpaid for 10 or more years. If BOE receives only \$33 million in prior-year payments from the state, then the Comptroller would write down the remainder, resulting in a \$63 million charge against BOE in fiscal year 2002. During the past two years, the state has appropriated sufficient funds to pay for the receivables for school years 1990-1991 and 1991-1992. The \$63 million charge would leave the board with \$305 million less funding than last year.

Contingency cuts. Given these fiscal constraints, the Chancellor has directed superintendents to implement two sets of contingency cuts totaling \$180 million, including some reduction in administrative positions. A total of \$128.1 million is being cut from community school district budgets and \$50.3 million from high school districts. The cut to each district is based on enrollment. Citywide special education has a \$1.6 million administrative cut. The Chancellor also plans for additional savings by downsizing the board's central administration, revamping procurement procedures, and delaying the expansion of initiatives such as Projects English and Science.

As BOE takes these steps, the Administration and Council have indicated that they might provide additional funds to the board if it succeeds in curtailing administrative costs. The additional funding could include returning the \$80 million held in escrow. It is also possible the state will eventually agree upon a supplemental budget that includes greater education aid.

Capital concerns. The state enacted budget preserves existing building aid formulas, enabling BOE to receive state reimbursement for up to 64.7 percent of capital outlays incurred during the prior school year. Consequently, the city's earlier decision to eliminate "pay-as-you-go" funding for school construction and renovation from the BOE operating

budget has lowered the state building aid the board can claim. As previously reported by IBO in [Inside the Budget No. 83](#), the city moved \$400 million in pay-as-you-go capital from the board's expense budget for 2001-2005 to its capital budget. By definition, pay-as-you-go financing incurs the entire expense at the time the work is done. In contrast, debt financing spreads the expense over a period of years. Consequently, the \$85 million switched from pay-as-you-go financing to borrowing for 2001 will significantly lower BOE revenue in 2002, possibly by as much as \$50 million.

The state's bare-bones budget also reduces BOE support by providing no new appropriations for RESCUE (Rebuilding Schools to Uphold Education) aid. Over the past two years, RESCUE has supplied \$77 million to support the BOE capital program (\$58 million in 2000 and \$19 million in 2001). BOE has also been able to use RESCUE funding to leverage additional building aid reimbursements.

City Adopted Financial Plan for BOE as of June 2001			
<i>Dollars in millions</i>			
	FY01	FY02	Difference
Total funds projected in BOE budget	\$11,348	\$11,529	\$181
Collective bargaining reserve (CBR)	(194)	(467)	(273)
BOE budget excluding CBR	\$11,154	\$11,062	(\$92)
Combined Impact of City and State Adopted Budgets on BOE Funding			
<i>Dollars in millions</i>			
	School Year		
	2001/02		
Change in BOE funding in city Adopted Budget (excl. CBR)	(\$92)		
Estimated state funding below amt. forecast in city Adopted Budget	(150)		
Change in operating funds available to BOE	(\$242)		
SOURCES: IBO analysis of NYC Financial Plan, June 7, 2001 and State Adopted Budget, August 2001.			

Uncertainty for CUNY. The state budget also has created uncertainty about higher education funding. The state budget contains an estimated \$13.3 million less for the City University of New York community colleges than assumed under the city's 2002 budget and \$2.8 million less than in 2001. The city budget anticipated that the state would increase aid to the community colleges by \$10.5 million. The increase would have enabled CUNY to hire 100 full-time faculty and expand the College Now program by 50 percent, raising enrollment from 25,000 high school pupils to 37,500. CUNY originally requested city funding for these initiatives.

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