

\$32 Million Intended for Pre-K Used to Close City Budget Gap

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For the second consecutive year, the city's Board of Education (BOE) has been unable to use all of the state funding available to New York City for expanding universal pre-kindergarten. The board is dedicating \$32.8 million less state aid to running pre-k this year than originally planned. All but \$1.0 million of these funds were instead used to help close the shortfall in this year's city budget.

Last year, BOE was unable to spend \$28.9 million of its \$146.5 million pre-k grant. The board returned \$10.0 million to the state, and the remainder was placed in a reserve fund intended for this year's anticipated expansion of pre-kindergarten.

Prekindergarten Expansion Occurring Primarily in Community-Based Facilities					
<i>Number of Pupils by School Year</i>					
	1997/98	1998/99	1999/00	2000/01	Estimated 2001/02
Universal	-	13,668	24,948	35,319	39,791
Other	14,277	10,314	9,095	5,775	5,775
Total Pre-K	14,277	23,982	34,043	41,094	45,566
Universal Pre-K Pupils in Community Facilities					
Number	-	5,194	15,108	22,793	26,843
Percent	-	38%	61%	65%	67%
Total Pre-K Pupils in BOE Facilities	14,277	18,788	18,935	18,301	18,723

SOURCES: IBO; BOE Student Registers; New York State Education Department
 NOTES: Registers for 2001/02 not yet available; BOE has notified SED that universal pre-k enrollment equals 39,791.
 Funding for other pre-k programs in 2001/02 is same as 2000/01; assume enrollment is unchanged.
 General education pre-k enrollment includes special needs pupils served in integrated classes.

The state's universal pre-k initiative, now in its fourth year, offers half-day classes to four-year olds. Last year, around 35,300 pupils enrolled in universal pre-kindergarten in the city. Much of the growth of the program in the city has occurred through contracts with community-based providers, which served 22,800 students last year. (The board also has a declining number of students in other pre-k programs, such as SuperStart, that predate the universal program.)

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Growing pains. While New York City has by far the largest universal pre-k program in the state, expansion of the program has not met expectations. BOE planned to expand the program to serve 49,600 children at a cost of \$183.7 million—this year’s state grant plus the reserve fund and \$18.3 million in “discretionary” funds from the city and other sources (what the board terms a local contribution). Outreach by community school districts resulted this fall in universal pre-k expansion of around 4,500 students, nearly 10,000 participants below the initial goal. Consequently, BOE will spend an estimated \$147.2 million on 39,800 universal pre-k pupils, including 26,800 (67 percent) served through contracts with community-based providers. To fund the program, BOE will use \$132.6 million in state support and \$14.6 million in local contribution funds.

with “bare-bones” funding approved in August and supplemental funding approved in October. Consequently, the state did not notify New York City and school districts across the state of their complete education aid allocations until mid-November.

State aid changes. Further confusion ensued when the state budget omitted formulas for universal pre-kindergarten grants and other existing aid categories. The state folded universal pre-k along with numerous other allocations into a broader, more flexible category of general school district support. State general support aid to BOE for this school year equals \$4.555 billion, an amount set forth in a computer print out accompanying the Governor’s budget submitted last January. The print out estimated aid for school districts using over a dozen formula-based aid categories, including a proposed formula for universal pre-k estimated to provide

Universal Prekindergarten Funding				
<i>Dollars in millions</i>				
	2001/02			
	2000/01	Planned	Revised	Change
Maximum state grant	146.5	146.5	117.6	(28.9)
Less funds returned to state	(10.0)	-	-	-
Less funds shifted to general support	-	-	(3.9)	(3.9)
State funded reserve	(18.9)	18.9	18.9	-
State support (\$3,332/pupil)	117.6	165.4	132.6	(32.8)
BOE discretionary contribution (\$338/pupil)	13.0	18.3	14.6	(3.7)
Total funding (\$3,700/pupil)	130.6	183.7	147.2	(36.5)

SOURCES: IBO; New York State Education Department; BOE Budget Allocation Memoranda.

NOTE: BOE discretionary resources include city funds and state general support education aid.

New York City schools with \$146.5 million. The legislature ultimately accepted the aggregate amounts for each district shown in the print out as the amount of general support aid to be appropriated, while ignoring the underlying formulas and categories.

There are several reasons for the expansion difficulties. BOE faces serious challenges in expanding pre-kindergarten while simultaneously trying to ease overcrowding and reduce class sizes in grades K-3. Many areas of the city lack classroom space in schools and community-based facilities to serve all eligible four-year olds. Another difficulty is that universal pre-k is primarily a half-day program and demand for short sessions has been below expectations, leaving seats unfilled in some neighborhoods. The schedules of working parents often necessitate finding full-day placements for their children, rather than the 2½-hour sessions provided under the universal pre-k program.

Gap closer. This more flexible approach to state

education aid enabled the board to apply for a smaller universal pre-k grant without forfeiting the balance. The state is providing BOE with the entire \$146.5 million, including \$113.7 million as a categorical grant plus \$32.8 million as part of the state’s general support for public schools.

But in the last days of December, the Giuliani Administration and City Council prevented the city’s public schools from benefiting from the \$32.8 million boost in unrestricted state aid. To help close this year’s budget gap, the former Mayor and Council cut a total of \$94.6 million in city funds from the school system—one-third of it state aid initially intended for pre-k.

Written by Robert Weiner.

See IBO’s Web site for more on pre-kindergarten.

Confronting the Budget Shortfall: How Bad Are the Gaps?

Mayor Michael Bloomberg took the oath of office last week with the city's economy slumping badly, a stark contrast to the prior seven years of robust growth. When David Dinkins was sworn in 12 years ago, he faced similar economic conditions. But if current budget projections are correct, the future will not be as bleak for Bloomberg as it was for Dinkins.

The projected budget gaps that the new Mayor faces are much larger than the gaps that Mayor Dinkins expected when he assumed office, but not as large as the ones that Dinkins ultimately had to close. IBO now projects that the shortfall Mayor Bloomberg will face in 2003 (the first full fiscal year that he will be responsible for) is \$3.4 billion, or 12.5 percent of city funds. (IBO has revised the gap estimate from its December 2001 *Fiscal Outlook* report to account for the restoration of the full 14 percent personal income tax surcharge effective January 1, 2002. Tax revenues are now expected to be \$173 million higher in 2002 and \$347 million higher in 2003, when the restored surcharge is in effect for the full year.) The gap widens to 15.9 percent of city funds in 2004, and 16.8 percent of city funds in 2005.

In contrast, the financial plan in place when Dinkins took the reins showed shortfalls of only 5.1 percent of city funds in 1991 and 6.2 percent and 4.2 percent of city funds in the following two years. But had that plan been able to fully anticipate what was to come, it would have shown a gap of approximately 10.3 percent in 1991 (his first full fiscal year), followed by large jumps to 20.2 percent of city funds in 1992 and 27.1 percent in 1993. This does not mean that Dinkins had a 27 percent gap to close in 1993. It means that the gap would have reached 27 percent without the measures his administration took in 1990, 1991, and 1992—tax increases, other revenue enhancements, and spending cuts that were not contemplated in the financial plan in place when Dinkins took office.

Specter of the 1970s. It is difficult to compare either today's projected gaps or those of 12 years ago with the gaps faced at the height of the fiscal crisis in the mid-1970s. The measured gaps between 1975 and 1977 ranged between 15 and 19 percent of city funds. But these were just the gaps that

remained after the tax increases, spending cuts, and fiscal gimmicks employed to patch together budgets in those years, and it is difficult to reconstruct these today. The best we can say is that the gaps Dinkins closed appear to have been on the same order of magnitude as those faced during the fiscal crisis, and the gaps now projected for Bloomberg appear to be somewhat smaller.

Today vs. the 1990s. The contrast between the projections of 12 years ago and those of today stem from two crucial differences between 2002 and 1990. First, today's revenue and expenditure projections attempt to take into account the full impact of a major national recession, as well as of the attack on the city. Twelve years ago, forecasters were only beginning to recognize the slide in the city's economy at this point in the cycle—a slide that continued even after the national economy began to recover. Ultimately, this slide shrunk the city's tax base by over 10 percent in 1991 and at least 15 percent by 1993. By contrast, IBO projects 2003 tax revenues to be 4.7 percent lower than what was projected in the budget adopted last June, with the fall-off easing to 4.1 percent in 2005. That budget already anticipated an economic slowdown, although not a recession.

The second difference is that while the impact of the economic downturn on budget balance was cumulatively much stronger in 1990-93 than we expect it to be in 2002-05, this time around the projected budget was much further out of balance *before* the economy went sour. The budget adopted last June already carried a gap of 10.1 percent of city funds for 2003. That is the principal reason why Mayor Bloomberg has both a larger budget problem to solve under current projections for his first fiscal year than Mayor Dinkins did and a better measure of the problem going in: more of it predated the recent economic shock.

But there is a risk here. Should the city's economic recovery unexpectedly lag the national recovery as it did in the early '90s, Bloomberg may end up having to grapple with gaps in future years approaching those that Dinkins faced and closed.

Written by David Belkin.

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