

Adding up the Numbers:

The Education Budget under Mayoral Control

Bulletin #1: 11/8/05

UNDER MAYORAL CONTROL IS THERE A LARGER SHARE OF CITY FUNDING GOING TO THE SCHOOL SYSTEM?

[✓] Yes, if city funding for pensions and debt service are included.

[✓] No, the school system's operating budget now accounts for a slightly lower share of all city funds.

CAN THE CITY AFFORD A LARGER CONTRIBUTION IF THERE IS A CFE SETTLEMENT?

[✓] Yes.

Proponents of mayoral control of the school system argued that there was never any incentive for a Mayor to provide significantly more funds to education, since he could not claim credit for any improvements. Opponents argued that this change in governance would allow the Mayor to decrease funding. Just in case the opponents were correct, the New York State Legislature strengthened the law requiring the city to maintain its fiscal effort for public schools. Were the optimists or the pessimists correct in their predictions?

A July 2005 report by the NYC Independent Budget Office (IBO) seems to support the optimists. The Educational Priorities Panel comes to a somewhat different conclusion after reviewing the city's adopted budgets for a 5-year period as reported by the Office of Management and Budget.

EPP asked different questions about city funding than IBO did in its report. We wanted to know if city contributions to public education had increased, but we also wanted to know if the city was dedicating a larger percentage of its budget to this function after the Mayor was given control of the school system. Every year government grows more costly, so even in years when newspapers are reporting huge budget cuts, funding amounts tend to grow larger. One of the ways to measure growth in resources is not to tally constantly growing dollars but to look at the changing shares of available city funds going to education.

There are two ways of answering this question, though with only five years of budget estimates it is too early to predict a long-range trend. In Fiscal Years 2001-02 and 2002-03, the Board of Education was an independent agency with the Mayor appointing only two out of seven seats on the Board. The last three adopted budgets reflect the new period of mayoral control. EPP looked at city budgets as of July 1st of each year, because they tend to be a better reflection of policy choices made by city officials. These budgets are modified throughout the year as cost estimates change.

Yes — If pension costs and debt service are included.**Adopted Budget as of July 1 of each year (in billions)**

Fiscal Year	2001-02	2002-03		2003-04	2004-05	2005-6
City Funds	\$26.608	\$28.837		\$30.308	\$33.288	\$35.197
City Ed. Funds	\$5.607	\$6.178		\$6.765	\$7.044	\$8.178
Share	21.07 %	21.42 %		22.32 %	21.16 %	23.23 %

For more details, see Table 1 in the Appendix to Bulletin #1

When most federal and state funds to the city are excluded, the share of the city's budget that was scheduled to go to education increased in two out of the last three years compared to the Fiscal Year 2002-03 adopted budget. The dollar increase from FY 03 is a whopping \$2 billion in the third year of mayoral control. Almost \$1 billion of this increase reflects a jump in anticipated pension costs. Another half of a billion reflects an increase in the city's payments of principal and interest for debt incurred to build and repair schools.

Both pension contributions and policies for debt service have driven up the level of city support for the public school system. While pension contributions are mandatory, city policy makers have leeway in deciding how much debt they plan to pay in any given year by accelerating payments of debt or stretching them out through refinancing. Increases in pension contributions and debt payments do not mean that there are more employees or schools, but they do mean that each employee and each building costs the city more dollars.

A look at actual expenditures (Table 4 in the Appendix) from FY 02 to FY 05 (as forecast) do not show an increase in the share of the city's actual expenditures dedicated to the public school system under mayoral control even when pensions and debt service are included. This is largely because of increases in total city funds above budget estimates.

No — If pension costs and debt service are excluded.**Adopted Budget as of July 1 of each year (in billions)**

Fiscal Year	2001-02	2002-03		2003-04	2004-05	2005-6
City Funds	\$23.903	\$24.699		\$24.897	\$27.393	\$29.060
City Ed. Funds	\$4.894	\$5.308		\$5.153	\$5.436	\$5.809
Share	20.47 %	21.49 %		20.70 %	19.84 %	19.99 %

For more details, see Table 2 in the Appendix to Bulletin #1

This five-year snapshot shows that the proportion of city funding for the operating budget of the public school system has decreased since the system came under mayoral control. In terms of dollars, over the last three years city funding for the Department of Education's operating budget has increased by \$501 million. Had there been a collective bargaining agreement with the two major education unions, the city would have, in all likelihood, raised its dollar contribution to the schools. (While the school system's budget has a labor reserve fund to cover expected collective bargaining increases, these budgeted amounts are significantly lower than the costs of the final agreement.)

In a similar shares calculation for the modified city budgets from FY 02 to FY 05 (see Table 3 in the Appendix to Bulletin #1), the proportion of city funding dedicated to the public school system drops from a high of 21.13 percent in FY 03 to a low of 18.90

percent in FY 05. The decrease is more modest when expenditures are analyzed, largely because they reflect the city's higher payments for debt service (see Table 5 in the Appendix to Bulletin #1).

Can the city “afford” an extra billion for CFE?

Whenever the cost variables of pension and debt service are added to a report on the city's contribution to its school system, critics tend to say that the Mayor is trying to overstate city funding policies, because pension contributions are mandatory. But the Mayor may also be casting an eye towards Albany. In the rest of the state, non-municipal school budgets routinely report pension contributions and debt payments and so their local contribution to education appears to be larger than New York City's.

After the state's highest court issued its ruling in the Campaign for Fiscal Equity lawsuit, the Governor, the Senate Leader, and the Assembly Speaker each issued his own separate proposal for how much more the state should provide to New York City. All of them required the city to raise its level of funding. The Governor's plan would have required New York City to add \$1.5 billion to its budget for education over a five-year period; the Senate's plan, \$554 million; and the Assembly's plan, \$1.2 billion. So far, nothing has come of these plans. The legislature has taken no action to comply with the CFE ruling, and the Governor has continued to file legal appeals. Nevertheless, because a mandatory increase may be imposed in the near future, there is no incentive for the city budget decision makers to increase the level of their support for the school system at this time.

The question of whether the city can “afford” an increase of \$1 billion in its funding for public education has been raised frequently, especially by the Mayor. Two of the candidates running in the Democratic mayoral primary, former Bronx Borough President Fernando Ferrer and City Council Speaker Gifford Miller, countered this assertion with their own tax proposals.

Should the Mayor have taken this negotiating posture in Albany? Are these new taxes necessary? When pension and debt are included, the city's level of support has already increased by over \$2 billion in three years. Given the growth of the city's overall budget, even with a less than robust local economy immediately after 9/11, the increase for the school system did not even appreciably alter the share of the city budget dedicated to education. Of course, there could be another unforeseen increase in mandated funding, such as Medicaid costs, or another round of pension contribution increases if stock market earnings decrease, or a drop in city revenues from yet another downturn in the economy. City officials, as usual, are predicting a budget gap in the next fiscal year (2006-07) of \$4.5 billion. Given any number of the potential risks, it may, indeed, be more difficult for the city to increase its funding for public education.

The issue is not whether the city will be forced to raise its support for its public school system, but how this increased support will be calculated. It is likely that legislators in Albany, some with school districts that receive just 10 percent of their funding from the state, will agree to vote for a CFE remedy only if the city is forced to make a larger contribution to its own school system. Would a billion dollar increase by New York City reflect its pension and debt service contributions or would the increase be targeted to the Department of Education's operating budget? Would it be above the city's current growth rate in funding for its public school system? These are questions that will be answered by Albany budget decision makers.