Budget Options For New York City

Education

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Budget Option

Introduce a Tiered Payment Structure for 3-K Determined by Household Income

Revenue: $44 million annually

In 2017, then-Mayor Bill de Blasio introduced a program that provided access to free education to 3-year-olds. 3-K For All began in two school districts for approximately 1,500 students and has since expanded to enroll nearly 40,000 students citywide in the 2022-2023 school year. Under this option, the Department of Education (DOE) would institute a tiered payment structure that would be based on individual household income. In the absence of that data, IBO used the neighborhood income level of students' residence (see IBO's measure here, which uses data from the U.S. Census Bureau on median household income in a census tract), and created five tiers. The first tier would continue to pay nothing for their childcare, and there would be income-based groupings that would pay varying amounts annually above. The U.S. Department of Health and Human Services considers childcare to be affordable when the cost is below seven percent of the family's income. This option envisions that no family would pay more than half of that, 3.5 percent.

The first tier is determined by 1.85 times the Mayor's Office for Economic Opportunity 2020 poverty threshold for New York City, about $71,000 annually for a family of four. IBO uses a New York City-based poverty threshold and applies a multiplier for eligibility based on the federal government's eligibility for free and reduced-price lunch. Using actual enrollment of 3-K students in the 2021-2022 school year, IBO calculated the remaining four tiers by creating an even spread of families in each tier. The annual payments for each tier are calculated by multiplying the minimum income for each tier by 3.5 percent. It will be important to recalculate these tiers regularly to ensure it reflects the enrolled population. By IBO's calculation, the DOE pays an average of $16,600 per pupil for 3-K students, and this would serve as reimbursement for a portion of that cost.

The New York City Administration for Children's Services (ACS) provides annual market rates for early childhood programs. As of June 3, 2022, the weekly price for childcare for 3-year-olds was $325, with an annual total for a typical school year of 36 weeks, and the total annual cost comes to $11,700. Under this option, families would pay between $2,500 and $3,800 annually depending on their income. This means that even for families paying the most to the DOE, they would be paying $7,900 less than the typical annual cost.

Proponents might argue that this additional funding would allow for an increase in slot options including extended day/extended year, which would make the programs more accessible to families who work longer hours and potentially address under-enrollment. Additionally, with federal stimulus funding running out soon, these funds could be used to make up for some of those lost dollars. Finally, the costs are much lower than the ACS' estimated market rates.

Opponents might argue that 3-K is a public good and even the 3.5 percent cost could prove to be a financial burden. Alternatively, the DOE could reallocate slots throughout the city to reflect the demand in each district and reverse under-enrollment. Additionally, the introduction of charges made to families may increase the administrative burden of the DOE. Finally, even though the cost is still less than the annual cost of private school tuition, families with higher incomes may leave the public schools in favor of those alternatives.

Prepared by Emma Gossett

Budget Option

Collect PILOTS From Private Higher Education Institutions and Hospitals

Revenue: $165 million annually if applied to student, faculty, and staff housing

Under New York State law, real property owned or used by private higher education institutions and hospitals is exempt from the City's real property tax. In fiscal year 2024, these exemptions cost the City $1.5 billion—a $695 million tax expenditure for higher education and a $806 million one for hospitals. At universities and hospitals, exemptions for student, faculty, or staff housing represented 17 percent ($250 million) of the total. Under this option, nonprofit colleges, universities, and hospitals in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation.

There are many example universities paying PILOTs to municipalities. Brown University has agreed to pay the City of Providence $175 million over 20 years. Princeton University contributed $10 million to its town in 2020. In Boston, private universities and hospitals are required to make PILOTs equal to 25 percent of what their property taxes would have been.

Based on fiscal year 2024 tax assessments, if New York City universities and hospitals were to make PILOTs equal to 66 percent of the exempted tax liability for student, faculty, and staff housing properties, the City would receive $165 million in PILOT revenue—$51 million from hospital housing, $54 million from student dormitories, and $60 million from other higher education student or faculty housing. (If the PILOTs were calculated as 66 percent of tax exemptions on all of their properties, university and hospital PILOTs would boost revenue to the City by $990 million.)

Because university and hospital properties are tax-exempt, currently there is little incentive for the Department of Finance (DOF) to devote resources to assessing their value as accurately as possible. If these institutions were required to pay PILOTs, greater attention to these properties could change assessed values and estimates of additional City revenue. This option would require an amendment to the New York State Real Property Tax Law.

Proponents might argue that colleges and universities consume City services without paying their share of the property tax burden. With respect to housing facilities specifically, proponents could contend that housing is not directly related to providing education or medical services. Instead, housing is an optional service that organizations elect to provide. Finally, proponents might point to several other cities that collect PILOTs, including large cities such as Boston, Philadelphia, New Haven, and Hartford and smaller cities such as Cambridge and Ithaca.

Opponents might argue that colleges and universities already contribute to the city: provide employment opportunities, purchase goods and services from city businesses, provide an educated workforce, and enhance the community through research, cultural events, and other programs and services. Opponents also could argue that the tax exemption on faculty and staff housing encourages residence and consumption of local goods and services, thereby generating income tax and sales tax revenue.

Budget Option

Eliminate City Funding for Transportation And School Safety at Nonpublic Schools

Savings: $139 million annually

Students in private and parochial schools are legally entitled to some publicly funded services that are paid for either by the State or the local school district. State-funded programs and services include health services, textbook loan programs, computer software loan programs, mandated services reimbursement, and academic intervention services. City dollars provide additional funding for transportation and school safety. In school year 2021–2022, the Department of Education (DOE) provided roughly 100,000 private and parochial school students with transportation either through MetroCards or yellow bus service. Since the 2016-2017 school year, the City also reimburses nonpublic schools that hire unarmed security guards.

Under this budget option, the City would eliminate funding for nonpublic K-12 schools for transportation and school safety, except for private special education schools providing special education and related services under contracts with the DOE. For school year 2023-2024, City funding for nonpublic schools through the transportation benefit accounted for $125 million, and the reimbursement for school safety another $14 million. In total, the elimination of such City funding would save $139 million annually.

This option would require changes in related laws such as Section 3635 of State Education Law (transportation) and Section 10-172 of the New York City Administrative Code. The option does not account for additional savings at the state or federal levels.

Proponents might argue that when families choose to use nonpublic schools, they assume full financial responsibility for their children's education, and there is no reason for City subsidies except for those attending private special education programs. Proponents concerned about the separation of church and state might also argue that many nonpublic school children attend religious schools, and public money is therefore supporting religious education.

Opponents might argue that parents of nonpublic school students support public schools through tax dollars and are entitled to some public education-related services. Also, families using religious schools are not, on average, much wealthier than those in public schools, and the increased cost would be a burden in some cases.

Prepared by Youngwan Song

Budget Option

End the Requirement to Give Rental Assistance to Charter Schools

Savings: $75 million annually

In 2014, New York State passed a law that for any new or expanding charter schools in New York City regarding classroom space. The City must offer classroom space in existing an Department of Education public school building, offer space in a publicly or privately owned facility at the expense of the school district, or reimburse schools for rental costs in private spaces. Currently New York City is reimbursed annually for 60 percent of charter rental expenses under State law. These payments are known as charter rental assistance payments, lease aid, or facilities aid. This option requires a change in Article 56 of the New York State education law.

Charter schools authorized and operating after April 1, 2014, or charter schools that began operating prior to April 1, 2014, but that have since expanded, are eligible for rental assistance. During the 2020-2021 school year, 158 charter schools received rental assistance. The amount of rental assistance for a charter school is calculated as the lesser of either 30 percent of the State's per-pupil charter school payment for New York City multiplied by the number of students enrolled, or total rental costs. After accounting for State reimbursement, IBO estimates that the City will spend $75 million in charter rental payments in fiscal year 2023. This option would eliminate these payments.

For fiscal year 2024, IBO currently expects three new charter schools to become eligible for lease aid, a slowdown of prior year growth as New York City reached its statutory limit on the number of charter schools. Even without a future increase to the cap on charter schools, it is likely, however, that rental assistance payments will continue to grow in coming years as existing charter schools expand by adding new grade levels. Therefore, eliminating the payment could produce somewhat larger savings in future years.

Proponents might argue that the requirement creates an unfair burden on New York City, which is the only jurisdiction in New York State required to help pay for charter school rent. Additionally, many charter schools that opened prior to April 1, 2014 are able to operate without rental assistance. Furthermore, there are instances in which this aid is redundant because some charter schools use the rental payments for buildings owned by an affiliated organization, such as a Charter Management Organization.

Opponents might argue that charter schools are public schools and should be compensated for out-of-pocket rental costs if they are not provided public school space as these are costs traditional public schools do not have to bear. Alternatively, New York City public schools could avoid this expense altogether by providing charter schools with appropriate co-location in public schools. Finally, removing this financial support from charter schools currently receiving facilities aid could be disruptive to their school budgets.

Budget Option

Merge Administrative Functions of City Employee Pension Systems

Savings: Growing to $28 million annually after two years

New York City currently maintains five retirement systems: the New York City Employees' Retirement System (NYCERS), the New York City Teachers' Retirement System (TRS), the Board of Education Retirement System (BERS), the Police Pension Fund (PPF), and the Fire Pension Fund (FPF). This option would merge the administrative functions of the retirement systems, resulting in three administrative systems—the same number that New York State maintains—by merging the City's Police and Fire Pension Funds into one system for uniformed police and fire personnel, and by transferring employees currently covered by BERS to either NYCERS or TRS, though a move to NYCERS would achieve larger savings. The Police and Fire Pension Funds have very similar retirement plans. BERS covers civilian, non-pedagogical personnel employed by the Department of Education and the School Construction Authority, plus a small cohort of other personnel, such as education analysts, therapists, and substitute teachers, represented by the United Federation of Teachers (UFT).

The estimated savings from merging pension systems without modifying existing benefits, which would require approval of the governing boards of all affected pension systems and State legislation, would come from reduced staffing made possible by greater administrative efficiencies. Administrative overhead costs for both FPF and BERS are notably higher than the other plans on both a per member and per employee basis. There would be sizable one-time costs of moving offices, portfolio rebalancing, and other transition expenses if this option were implemented. The first year would start to bring savings from staffing attrition; at current rates of separation, a yearlong hiring freeze at all affected plans would bring the merged staffing levels into alignment with the more efficient plans. IBO estimates the consolidation of administrative functions to save around $28 million annually two years after implementation. Additional savings could result from consolidation of investment expenses.

Proponents might argue that given the broad overlap in the functions of the systems, it is wasteful to maintain separate administrative staffs in separate office spaces. Proponents could point out that the main differences between the police and fire pension systems relate only to actuarial assumptions and a few plan provisions. They could also note that 2012 pension reforms (Chapter 18) have placed almost all new BERS and NYCERS employees in the same retirement plan, thus facilitating any merger. Moreover, for BERS members who joined the pension plan prior to Chapter 18, there are plans in TRS and NYCERS with little, if any, differences regarding eligibility determination, benefit calculation, or credit for service time. Finally, one might argue that this option would achieve pension reform savings without adversely affecting retirement system members.

Opponents might argue that differences among plans would complicate implementation of the option. Non-UFT members of BERS currently qualify for an attractive tax-deferred annuity benefit, which NYCERS does not presently offer. Future school-based, part-time employees now in BERS would have to work about 25 percent more hours to obtain one year of credited service under NYCERS rules. Some would argue that there are occupational and cultural differences between the police and fire departments that warrant separate pension systems. Opponents might also note that the City has in the past proposed merging together pension systems but was subsequently dropped due to union opposition.

Budget Option

Require All New Education Department Staff to Meet the Same Residency and Tax Rules as Other City Workers

Revenue: $11 million in the first year and growing in subsequent years

Most of New York City's government workers, after meeting certain conditions, may live outside the city in one of six surrounding New York State counties: Nassau, Suffolk, Westchester, Rockland, Putnam, and Orange. Instead of paying the City personal income tax, they must make payments to the City equivalent to the liability they would incur if they were city residents. The term for these payments, Section 1127 payments, comes from the section of the City Charter mandating them as a condition of City employment for nonresidents. Department of Education (DOE) employees, however, are exempt from the in-state six-county residency requirement and from having to make Section 1127 payments. Approximately one-fourth of the DOE workforce lives outside the city—many outside New York State—and these employees neither pay City income taxes nor make Section 1127 payments.

Under this option, new DOE employees would be subject to the same residency requirements that other City workers face and be required to make Section 1127 payments if they move out of the city. IBO estimates that imposing residency restrictions and Section 1127 payments on new DOE employees, based on 2023 data, would have impacted 2,140 new hires and generated $11 million. Revenue from this option would continue growing as newly hired employees, some of whom will choose to live outside the city, replace current nonresident employees who retire. Also, as these new employees move up the wage ladder, revenue from Section 1127 payments would increase. Enacting this option would require amending the State's Public Officers Law.

Proponents might argue that DOE employees should be treated the same as other City employees with respect to residency and Section 1127 payments. The current Section 1127 exemption also creates unfair differences in after-tax compensation among DOE employees based solely on where they live. Others might argue that requiring newly hired City employees to live in the city or the surrounding counties and not out of state would benefit the region's economy since more City earnings would be spent locally, boosting both economic activity and City and State tax revenue. Some could argue as well that having City employees live in or closer to the communities they serve improves employees' understanding of community needs, which can result in improved services to city residents.

Opponents might argue that this option would restrict DOE's ability to recruit and retain highly educated and skilled teachers, administrators, and other professionals. They could argue that it would be unfair to impose residency restrictions or payments in lieu of taxes as a condition of employment when similarly situated counterparts in the private sector or city suburbs face none. Opponents would point out that the majority of major U.S. cities do not have residency requirements for their public school employees.