

## Report Card on 2001-2002 School Year Spending: A Modest Rise Is Not Enough to Prevent Classroom Cuts

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While most of the city's 1.1 million students have shut their textbooks with the end of the school year, the Board of Education's (BOE) "budget books" still must be closed. Based on current information, IBO projects that when the board's books are closed they will show a modest \$150 million increase in spending during city fiscal year 2002, which roughly corresponds to the school year that just ended. This increase—1.3 percent over the previous year—was less than the rate of inflation. The 2002 spending boost stands in marked contrast to the previous four years, a period during which city, state, and federal funding increases expanded the education budget by \$3.5 billion—an average yearly increase of 9.4 percent.

Last year's spending increase proved inadequate to keep up with rising costs, especially for teachers and other school staff. In response to these fiscal pressures, BOE imposed per-student spending cuts, eliminated well-known initiatives such as Project English and Project Science, and took steps to reduce other costs.

A closer look at the board's books offers insight into recent school spending and efforts to trim costs. These efforts may be particularly important given the state and city's continuing fiscal difficulties and the growth in labor costs fueled by the new teachers' contract. Furthermore, the schools are unlikely to soon see court-mandated state-aid increases—hoped for by education advocates—in light of the recent appellate decision overturning an earlier ruling that the state had failed to provide adequate resources for the city's public school students.

**Rising costs, increasing savings.** Among the mandatory cost increases the board faced in city fiscal year 2002, which ended last month, were \$262 million for salary increases (after the new teachers' contract), \$58 million for increased health insurance premiums, and \$15 million in cost-of-living allowances for pupil transportation contracts. In addition, BOE has incurred significant expenses as a result of the attacks on the World Trade Center, including relocation costs for Lower Manhattan schools and crisis counseling expenditures throughout the system. Conversely, IBO estimates that as a result of a drop of 7,100 students systemwide, including 2,600 fewer students in full-time special education, the board saved \$32 million because of lower staffing needs.

The 2002 spending increase would have been larger, save for decisions by community school districts and high school divisions to curtail discretionary expenditures during the spring semester in order to conserve resources for the next year. This slowdown in

spending resulted in a \$116 million surplus that will be used by the districts and high schools in the new school year. The \$116 million in savings enabled the city to prepay an equal amount of expenses for 2003, helping the city close its more than \$5 billion budget gap in the fiscal year that began July 1.

As labor and contractual costs have risen, the board took a number of steps in 2002 to save an estimated \$408 million. Two-thirds of the savings carry into this year. More than half of the 2002 savings (\$214 million) come from cutting school district allocations and programs underway the previous year. Another \$44 million in savings has come from canceling planned program expansions. BOE saved an additional \$17 million by transferring expenditures from its operating budget to its capital budget, a change that will cause the deferral of other planned capital projects. The balance of the savings has come from revenue increases (\$49 million), strategies to reduce procurement costs and downsize central administration (maximum of \$38 million combined), and one-time savings from job vacancies and a smaller than budgeted pre-kindergarten program.

libraries, Project English, Project Science, and in-school suspension centers.

The classroom libraries initiative was designed to purchase new book collections citywide for all K-8 classrooms in BOE, charter, and private and parochial schools over two years at a cost of \$31.5 million. While \$17.3 million worth of library books were purchased for all of the board's K-3 classrooms in 2001, plans were scrapped to include grades 4-8 in BOE schools and K-8 in charter and non-public schools in 2002. By canceling the second phase of the initiative, BOE realized a one-time savings of \$14.2 million.

Project Science and Project English, two initiatives to provide supplemental instruction on Saturday, both began on a pilot basis in spring 2001. The combined cost of the pilot was \$12.9 million with the full cost expected to equal \$33.9 million in 2002. Due to the budgetary constraints, these projects did not continue in the 2001-2002 school year.

Another program begun in spring 2001, the creation of in-school suspension centers for disruptive students, continued, albeit on a smaller scale than originally planned. The city initially provided 50 percent of the program's estimated \$38.2 million cost for 2002. Ultimately, BOE has not expanded the program as much as originally planned. BOE allocated \$10 million for the centers in 2002, saving \$9.1 million in city funds. For an additional \$1.0 million in savings, the board suspended a City Council initiative, begun in 2000, to provide telephones and copy machines for teacher workstations.

<b>2002 BOE Budget Changes Saving City Funds</b>		
<i>Dollars in millions</i>		
<b>Type of Budget Action</b>	<b>Estimated Savings</b>	
	<b>2002</b>	<b>Recurring</b>
Per-student cuts to the districts	\$180.0	\$180.0
Program & district cuts	33.9	13.9
Deferral of planned program expansions	44.3	30.1
Revenue increases & funding swaps	49.3	10.0
Transfer to capital budget	17.0	-
Reduced spending on central admin. & procurement	37.8	37.8
Other savings	45.2	-
<b>Total</b>	<b>\$407.5</b>	<b>\$271.8</b>

SOURCE: IBO.  
 NOTES: Reduced spending on central administration & procurement reflects BOE expectations as of May. Savings partially offset by \$21.6 million of spending on info. technology to automate administrative functions.

**District and program cuts.** Prior to school opening last fall, Chancellor Harold Levy lowered allocations to school districts on a per-student basis, saving a total of \$180 million. The expectation was that district and superintendent offices would absorb around \$30 million of those cuts and that the schools would absorb \$150 million. The Chancellor cut community school district allocations by \$128.1 million, high schools by \$50.3 million, and citywide special education by \$1.6 million. In addition, the Chancellor reduced funding for four initiatives introduced by former-Mayor Giuliani in January 2001: classroom

The per-student cuts and most of the reductions to initiatives have been reflected in the board's base budget, meaning that both the savings and programmatic impact will carry through to 2003. In addition, BOE implemented a one-time reduction of \$20 million in spending by scaling back on some minor school building maintenance projects.

**Central downsizing and procurement savings.** In August 2001, the Chancellor announced a management restructuring, including the elimination of 465 central administrative positions in 2002 (including 328 filled

positions and 137 vacancies) and 100 more positions in 2003 and 2004. Reducing headcount has proven difficult due to the city and state delay in formulating early retirement incentives, particularly because many unionized administrative employees have protection from layoffs. The board has acknowledged that it will fall about \$6 million short of its goal of \$21 million in central personnel savings for 2002. The board also expects to realize about \$12 million in savings on contracts and other nonpersonnel costs at the school system's central office.

In addition to downsizing administration, BOE has been reducing procurement costs by leveraging its purchasing power to buy merchandise such as computers, software, copy machines, and office supplies at volume discounts. Last August, BOE announced a procurement savings goal of \$40 million per year. The board has since lowered its estimated 2002 procurement savings to \$10.5 million, while raising its target for 2003 to \$55 million. The bulk of the savings achieved to date comes from exclusive contracts negotiated with two computer manufacturers, Apple and Dell, to provide the school system with desktops and laptops at a discount of around \$500 per unit. The contracts also include enhanced system maintenance and technical support.

The board's net central savings will likely be lower in 2002 than acknowledged for two reasons. First, the savings has been partially offset by \$21.6 million of spending on information technology systems necessary to automate administrative functions. Second, IBO's analysis indicates that the number of filled positions listed under "central administration" in BOE financial status reports has decreased by only 41 (1.7 percent) in the past 12 months, seemingly short of the attrition needed to achieve the already reduced goals for last year. (This may understate the extent of the reduction because some central positions are reported in categories other than "central administration.")

**Revenue growth and other savings.** The board's bottom line benefited from \$49.3 million in mid-year revenue boosts. The state Assembly provided BOE with a "fiscal stabilization grant" of \$23.5 million. BOE increased the amount of pension contributions charged to federal and state categorical grants, generating a recurring \$10.0 million savings for the city. BOE also identified \$1.8 million worth of expenditures that could be paid with federal Temporary Assistance to Needy Families funds, supplanting the need for city dollars. Finally, BOE

accelerated its scheduling of rebates from the federal Universal Services Fund, which provides school districts with telecommunications aid. This will generate a one-time boost of \$14.0 million.

The board has also generated a one-time savings of \$45.2 million through three accounting procedures that did not reduce the previous level of school services. As IBO reported last January, the board was unable to use all of the state funding available to New York City for expanding universal pre-kindergarten. Consequently, the city was able to utilize \$31.8 million in state education aid for deficit reduction. Similarly, due to vacancies on the school safety force, BOE reduced its payment to the police department, and applied the \$3.0 million savings to deficit reduction. BOE also was credited with \$10.4 million due to reductions in prior-year bills.

**The school year ahead.** While the budget recently adopted for 2003 did not contain most of the cuts proposed in the Mayor's Executive Budget, the board may still need to do additional belt-tightening as the year progresses. And with one-time state aid plugging several holes for this year—and the state and city facing large budget gaps for the next year—the board may need to start clamping down on costs now in order to save resources for next year, much as it did last school year. Further IBO analysis of the board's budget for the year ahead and the fiscal pressures created by the new teachers' contract will be forthcoming.

*Written by Robert Weiner*

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