

Five Year, \$3.7 Billion School Spending Rise: Where Did It Go?

Even as the Campaign for Fiscal Equity lawsuit to increase funding for the city's public schools worked its way through the state's courts, spending on schools in the five boroughs increased considerably. From 1997 through 2002, education spending in the city grew from roughly \$8.8 billion to \$12.5 billion—a nearly \$3.7 billion increase in combined city, state, and federal funds. A new analysis by IBO using data from the Department of Education's School Based Expenditure Reports and underlying information on spending during the 1996-1997 and 2001-2002 school years "follows the money," tracking how the new resources were spent and how the share of funds dedicated to major school functions shifted over time.

Based on our initial review of the data, IBO finds that the largest share of this new funding went to direct spending in schools—from teachers to library books to summer school—while the share of funding for the system's central administration declined. At the same time, the biggest percentage increase in spending went to the community district, high school, special education, and other regional offices.

Distribution of Spending. The education department divides school spending into five major functional categories. During the 1997 through 2002 period, the new funding was not distributed equally across all areas of the city's public school budget. Spending on "direct services to schools," by far the largest functional category, grew from \$7.2 billion to \$10.7 billion, a nearly 49 percent increase. This was the largest increase among the functional categories in dollar terms. Direct services to schools includes expenditures on teachers, principals, and other school staff, teacher training and curriculum development, library and text books, summer school, universal pre-kindergarten, food, transportation, school safety, leases for school buildings, and after-school and other programs.

The largest *percentage* increase in funding among the five functional categories went to "district/superintendency costs," which rose 138.2 percent to \$416 million. This category includes spending on the community school district offices and boards, the six superintendent offices overseeing the high schools, the citywide special education office, and the special Chancellor's districts for troubled schools. "Systemwide costs" is the category that largely includes expenditures on the school system's central administration and the offices that develop special programs and services for schools across the city. This category had a small spending decline over the five-year period, falling from \$307 million to \$300 million, a 2.2 percent drop. "Systemwide obligations," which includes debt service and payments for retiree health and welfare benefits, decreased by 36.6 percent—from \$514 million to \$326 million. This decline is largely explained by a change in the timing of debt service payments by the city for education capital projects, rather than a true decline in debt service costs over the five years.

The final category, “pass-throughs,” covers spending by the education department on items such as tuition payments for general and special education students attending non-public schools, transportation and food services for students at non-public schools, as well as funding transferred to the Fashion Institute of Technology, the Board of Elections, and charter schools. Pass-through spending increased from \$669 million to \$789 million, or more than 18 percent.

Where the Money Is Spent. When expenditure under the department’s functional categories is pulled apart to look at which level of the education system—central administration, regional offices, or schools—actually spends the money, a somewhat different picture emerges. Some spending for a particular need or service occurs on multiple levels. For example, while most of spending for teachers occurs at a school, there are some administrative costs such as payroll processing and staff coordination that are provided in the central office.

budgeting. This means that their share of total spending will likely decline over the next year.

Spending by Grade or “Instructional Level.” From 1997 to 2002 elementary school spending increased 47 percent, from \$3.9 billion to \$5.8 billion; middle school spending rose 43.8 percent, from \$1.5 billion to \$2.1 billion; and high school spending grew 29.2 percent, from \$2.1 billion to \$2.7 billion. Over the same period, expenditures on non-public schools increased by 13.7 percent, from \$646 million to \$735 million; and citywide special education increased by 46.7 percent, from \$630 million to \$925 million.

There was little change during this period in the distribution of total spending among these categories. In 2002, elementary school spending made up 46.2 percent of total instructional spending, an increase of 1.8 percentage points from 1997. Middle school spending accounted for 17 percent in 2002, an

increase of only 0.3 percentage points from 1997. High school spending declined 2 percentage points during this period, falling from 23.7 percent to 21.6 percent of total instructional spending. Special education made up 7.4 percent of total instructional spending in 2002, an increase of 0.3 percentage points from 1997, while non-public spending accounted for 5.9 percent, down from 7.3 percent in 1997. In

Spending by Function						
<i>Dollars in millions</i>						
<i>Functions</i>	Total Spending			Proportion of Total Spending		
	<i>1997</i>	<i>2002</i>	<i>% Change</i>	<i>1997</i>	<i>2002</i>	<i>% Pt Change</i>
Direct Services to Schools District/Superintendency Costs	\$ 7,203.3	\$ 10,709.72	48.7%	81.2%	85.4%	4.2
Central Administration & Instructional Costs	174.46	415.57	138.2%	2.0%	3.3%	1.3
Other Systemwide Costs*	306.49	299.88	-2.2%	3.5%	2.4%	-1.1
Pass-Throughs**	513.89	325.86	-36.6%	5.8%	2.6%	-3.2
Total	668.54	789.22	18.1%	7.5%	6.3%	-1.2
Total	\$ 8,866.71	\$ 12,540.25	41.4%			

SOURCES: IBO; Department of Education.
 NOTES: *Includes debt service, and retiree health and welfare benefits. ** Funding in Department of Education budget for non-public schools, Fashion Institute of Technology, Board of Elections and charter schools.

From 1997 through 2002, the largest dollar increase in spending was by the schools. Spending by schools grew 50.4 percent, from \$5.2 billion to \$7.8 billion—a \$2.6 billion rise. Spending that occurred at district or other regional offices increased by 183 percent, from \$338 million to \$957 million. Spending by the department’s central administration increased 12.9 percent, from \$3.3 to \$3.7 billion.

Measured as a share of total expenditures, spending at schools increased from 58.9 percent to 63.3 percent of the total, spending at district and regional offices increased from 3.8 percent to 7.3 percent, and the share of spending in central administration offices decreased from 37.4 percent to 29.4 percent. A key component of Chancellor Joel Klein’s Children First initiative is the restructuring of the district and high school offices to reduce both their number and their role in

general, these spending changes reflected shifts in enrollment. One exception is elementary schools, where enrollment declined slightly but spending grew because of the class-size reduction initiative for early grades.

Spending by Activity or Service. The largest dollar increase during the five-year period was for classroom instruction, which includes spending on teachers and other classroom staff as well as text and library books. This increase was largely fueled by a rise in the expenditure on teachers. Spending on teacher salaries and fringe benefits rose from \$3.7 billion in 1997 to \$5.1 billion in 2002—a 38.9 percent increase. Despite this increase, spending on teachers declined 0.7 percentage points—to 40.4 percent in 2002—as a share of all education expenditures.

Although the number of teachers grew in these years—spurred

by initiatives such as early grade class-size reduction and universal pre-kindergarten—retroactive pay increases built into the 2002 teachers’ contract also contributed to the growth in spending. Spending on principals and other school management staff grew faster on a percentage basis, increasing by 79.7 percent over the five years, from \$291 million to \$524 million. Salary increases incorporated in the 2000 contract for principals and supervisors account for much of this growth. Spending on professional development also grew significantly, increasing by \$204 million or 164.8 percent.

The data reveal a shift in spending on instructional support and administrative functions from the education department’s central offices to district and high school regional offices. Central headquarters spending for instructional support, which includes offices and program staff for services such as bilingual education and support programs for school faculty, declined by \$66 million (40.7 percent). At the same time, spending on instructional support and administration at district and high school offices grew by \$275 million, an increase of 214 percent over the five years. The implementation of the Chancellor’s

Children First initiative will likely reverse some of the shift towards district spending that occurred from 1997 to 2002.

Other notable changes include: an increase in spending for computer support at the school level of \$110 million, up from \$29 million in 1997; a decline in spending on text books from \$100 million in 1997 to \$91 million in 2003 (9.6 percent), although this was almost exactly offset by a \$11 million increase (51.5 percent) in spending on librarians and library books; and a 165.2 percent increase for instructional supplies and equipment from \$55 million in 1997 to \$145 million in 2002.

Looking Ahead. Over the coming months IBO will continue to review and analyze spending trends over the past five years and provide more details on how the additional \$3.7 billion was spent. This detail will help provide a context for reviewing spending changes under the Children First initiative as well as the ongoing discussions around the settlement of the Campaign for Fiscal Equity lawsuit.

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