

## Lawsuit Remains Unsettled, But School Spending Continues to Rise

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### Detailed Table of 15-Year School Spending

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**NOTE: This revised edition makes minor corrections to percentages and dollar figures due to a data entry error.**

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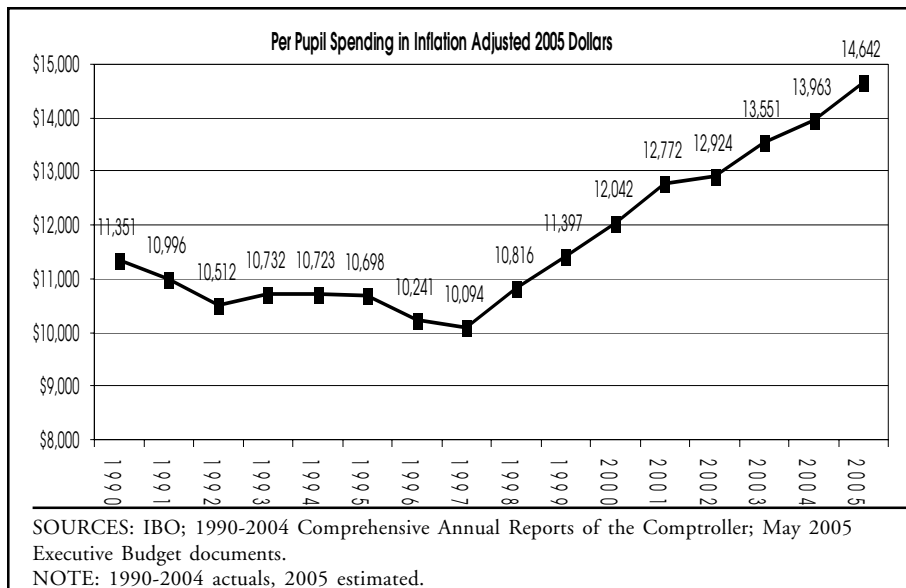
WHILE ANOTHER SCHOOL YEAR HAS COME AND GONE without a settlement of the Campaign for Fiscal Equity lawsuit over the adequacy of spending on the city's schools, an analysis by IBO finds that school spending has climbed appreciably in inflation-adjusted dollars. Over 15 school years, a period stretching from the 1989-1990 school year through the 2003-2004 school year, New York City spending per pupil, including debt service and pensions, has grown by 23.0 percent to \$13,963 (in 2005 dollars).<sup>1</sup>

Total school spending grew 42.3 percent over the same 15-year period, increasing from \$10.7 billion in 1989-1990 to \$15.2 billion in 2003-2004. Preliminary data for the school year that has just ended indicates this trend has continued, with per student spending reaching \$14,642 and total spending growing to an estimated to \$15.7 billion.

This growth in spending on the city's schools has been fueled by all levels of government—local, state, and federal. City spending has grown the most in dollar terms, rising by \$2.3 billion (47.1 percent) over the 15-year period. Federal spending increased by the largest percentage—94.5 percent—and rose from roughly \$948 million to \$1.9 billion. While state spending on the city's schools also has increased, it did not keep pace, growing by 26.1 percent. Over the 15-year period, the state's share of total spending averaged about 43 percent, although it has been below that level in the last three years. In 2003-2004 state spending comprised 39.7 percent of the total, Albany's smallest share of spending on the city's schools over the 15 years IBO reviewed. Preliminary data indicates the state share fell again to 39.4 percent in the school year that ended last month.

In January 2001, IBO published an analysis of education spending trends covering the 1989-1990 through 1999-2000 school years (Inside the Budget no. 76). A key finding of that analysis was that inflation-adjusted per pupil spending fell during the first half of the decade and then began to recover after 1997. By the 1999-2000 school year, per pupil spending had finally exceeded its 1989-1990 level. This article updates our analysis to include school years 2000-2001 through 2004-2005 (fiscal years 2001 through 2005). Data through 2003-2004 track actual spending, while the 2004-2005 figures are estimates based on the May 2005 Executive Budget.

The 2002-2003 school year marked a change in the governance of the New York City school system with the transfer of control from the Board of Education to the Mayor and the renamed Department of Education (DOE).<sup>2</sup> In the 2003-2004 school year the Mayor also reorganized the structure of the department, replacing local school districts with larger regions. Accompanying



these governance changes was a new state requirement that the city, at a minimum, maintain its current level of funding for the schools each year. It is not yet clear what long-term impact these changes will have on education spending.

Uncertainty also surrounds the status of the 12-year old Campaign for Fiscal Equity lawsuit. In February 2005, the New York Supreme Court ordered an increase in funding for New York City schools of \$1.2 billion for the 2005-2006 school year, with the increase growing each year so that by 2008-2009, annual spending for operating expenses would be \$5.6 billion higher. The Governor is appealing this finding and the state's most recent budget does not include the court-ordered resources. Thus, it is unclear when additional funding will be added to the education budget and how much will be paid by the state and the city. IBO's analysis indicates, though, that increased city, state, and federal contributions have already pushed education spending significantly above the levels prevailing when the case first went to court.

**Total Spending.** DOE's operating budget covers most education expenditures such as salaries, books and other supplies, contracts for transportation and instructional support services, food, school safety, and building maintenance and utilities. It also includes fringe benefits for all employees, pension contributions for the roughly one-sixth of DOE employees who are paid with categorical grants, and funds committed to non-public schools (primarily private special education schools).

The amount of funds committed to non-public schools is not an insignificant portion of total education spending.<sup>3</sup> The Department of Education makes payments to private and parochial schools to provide special education and

transportation services and textbooks. DOE also contracts with private schools to educate special needs children. Of the \$15.2 billion in total spending in 2003-2004, spending on students other than those in public and charter schools amounted to \$1.1 billion or 7.0 percent of the total. The \$1.1 billion also includes nearly \$33 million in funding for the Fashion Institute of Technology, a community college that DOE officially sponsors. Data on these non-public school payments are only available beginning in 1997.

Although they are not included in the official DOE budget, IBO's measure of total support for DOE includes pension spending for

other employees and debt service for school construction, both of which the city funds almost entirely. IBO adds these two items to the DOE operating budget to obtain a more accurate measure of funds allocated to education in the city. In school year 2003-2004, when spending for DOE operating expenses amounted to \$13.6 billion, there was an additional \$677 million in education-related debt service spending and \$878 million in pension contributions for DOE employees bringing the total support for education to \$15.2 billion.

Using IBO's comprehensive measure, total inflation-adjusted education spending rose \$4.5 billion (42.3 percent) from 1990 through 2004; an average increase of 2.6 percent per year. Total spending from 1990 through 1996 showed no clear trend, first declining, then rising, and then declining again. In contrast, total inflation-adjusted spending has risen each year since 1997, growing at an average annual rate of 5.0 percent. IBO's preliminary estimate for 2005 shows additional growth of 3.6 percent.

Large yearly spending increases were the norm for the four years following 1997, averaging 6.4 percent each year. In 2002, total education funding grew slightly, although the city's contribution fell, marking the only year since 1997 with such a decline. This drop reflects the effects on the city budget of the local recession that began in early 2001 and that deepened following the September 11 attacks. Even prior to September 11, 2001, the education department had already planned cuts of \$180 million due to local economic constraints and the receipt of less state aid than the city had anticipated in the state budget enacted in the summer of 2001.

**Funding Shares.** City, state, and federal contributions to

education varied annually between 1990 and 2004, although over time the city and federal shares of total education spending have generally grown while the state's share has declined. Average contributions were 46.1 percent from the city, 43.2 percent from the state, and 10.4 percent from the federal government for the 15-year period. During school year 2003-2004, both city and federal shares were above average (47.8 percent and 12.2 percent, respectively), while the state's contribution reached its lowest level in the 15-year period analyzed (39.7 percent). The decline in the state's share, which has been particularly pronounced in the last three years, is due to faster increases in city and federal support, rather than an absolute decline in state funds. The increase in the federal share is primarily due to increases in Title I funding for public schools with large populations of poor children.

**Enrollment and Per Pupil Spending.** Enrollment in New York City public schools increased an average of 1.9 percent per year between 1990 and 1997. Growth began to slow after 1997, increasing only an average of 0.7 percent a year through 2001. At this point, enrollment began to decrease each year through 2004. Student-teacher ratios have also declined every year since 1996. Despite the 43.4 percent increase in total education funding between 1990 and 2004, inflation-adjusted per pupil spending only grew by 23.0 percent. The smaller per pupil spending growth is a result of the enrollment increases early in that period. Per pupil spending including debt service and pensions was \$13,963 in 2004 and averaged \$11,521 each year between 1990 and 2004.<sup>4</sup>

This overall per pupil spending figure includes both general education and special education students. Examined separately, spending on the two groups is quite different. For example, in school year 2003-2004, spending per pupil for general education students was roughly \$10,500; spending per pupil for special education students was over \$34,000.

**Recent Changes.** The Bloomberg Administration's changes in education governance have coincided with changes in education spending. In the budget for the 2002-2003 school year, the first budget fully under the control of the Bloomberg Administration, total education funding grew by 4.2 percent from the prior year; the city's contribution grew by 4.2 percent. In the first three budgets of the Bloomberg Administration, total funding for education increased by an average of 3.5 percent per year, compared to a 6.3 percent average increase in the three years from 1998 to 2001. Growth in city expenditures on education significantly exceeded the growth in total spending in the three years after 2002, averaging 5.7 percent per year. In contrast, despite robust

economic growth in the three years before 2002, city education expenditures grew at much the same rate as overall spending, averaging 6.5 percent annually.

Funding for non-public schools was responsible for much of the increases in recent years, growing 35.8 percent between 2000 and 2004. The primary cause of this growth was significant increases in mandated payments to out-of-state schools for the education of special needs children. Excluding the funds passed through to non-public schools, the amount of total education spending committed to city public schools and charter schools show a substantially smaller increase of 13.2 percent from 2000 to 2004.

**The 2004-2005 School Year.** Using May 2005 data from the Office of Management and Budget, IBO estimates that the recent trends in education funding continue in school year 2004-2005. Total spending increased by 3.6 percent since 2003-2004. The shares of education funding remain fairly steady in 2004-2005, with the city edging up slightly so that its share is its highest since at least 1990 (48.1 percent) and the state making its lowest contribution since 1990 (39.4 percent). Enrollment continued to decline in the city and per pupil spending rose, reaching \$14,642. Large increases in debt service and pension costs in 2005 account for much of the growth in per pupil spending this year.

*Written by Adira Siman*

## END NOTES

<sup>1</sup> Historical spending adjusted for inflation using state and local government output deflator for New York State 1990 to 2004 from U.S. Department of Commerce, Bureau of Economic Analysis; for 2005 estimated by IBO.

<sup>2</sup> In this article, DOE refers not only to the current Department of Education, but also to its predecessor, the Board of Education.

<sup>3</sup> Charter school payments are considered spending for public schools and are not included in the payments to non-public schools.

<sup>4</sup> Per pupil spending is computed using total spending divided by reported enrollment. Lack of data on private school pass-throughs before 1997 prevent computation of per pupil spending for public and charter school students over the full period.

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