

The Council of the City of New York

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Report on the Fiscal Year 2015 Executive Budget for the

Department of Education

May 28, 2014

Executive Budget Highlights

Budget Overview

- \$20.6 billion total budget for Fiscal 2015
 - \$758.7 million increase compared to Fiscal 2014 Adopted Budget
- \$13 billion in Personal Services (PS), a \$154.6 million or 1.2 percent increase
 - 120,390 budgeted positions, including 109,866 pedagogical positions and 10,524 non-pedagogical positions
 - Funding increase includes \$90 million for Universal Pre-Kindergarten expansion
- \$7.59 billion in Other Than Personal Services (OTPS), a \$604.1 million or 8.7 percent increase
 - Increase includes \$246.7 million increase for charter schools, \$215 million for Universal Pre-Kindergarten expansion, and \$145 million for middle school after school programs

School Budgets

- \$9.28 billion estimate for school budgets in Fiscal 2015, a \$75.8 million increase from Fiscal 2014, excluding UPK and middle school after school expansion funding
 - New needs include: Arts Instruction, English Language Learners, New District Schools, School Technology, and Teacher Evaluation Probation Reassignment
- School budgets and Fair Student Funding will likely not increase in Fiscal 2015

Revenue

- \$9.33 billion in state aid, a \$669.1 million or 7.7 percent increase compared to the Fiscal 2014 Adopted Budget; includes \$300 million for Universal Pre-Kindergarten and a \$358.9 million increase in Foundation Aid over the Fiscal 2014 Adopted Budget
- \$1.72 billion in federal aid, a \$67 million or 3.8 percent decrease resulting from a reduced Medicaid revenue estimate
- \$93.6 million in other categorical aids, a \$24 million or 2 percent reduction

Department of Education Overview

The Department of Education (DOE) provides early childhood, primary, and secondary education to over 1 million pre-kindergarten to grade 12 students in 32 school districts and 1,818 public schools, and employs approximately 73,800 teachers. The DOE also provides supportive services such as school food and transportation, as well as special education services through contract schools and service providers. The DOE also offers adult and continuing education programs. A financial summary of the DOE's budget is presented in the table below.

DOE Financial Summary

| <i>Dollars in Thousands</i> | FY12 Actual | FY13 Actual | FY14 Adopted | FY14 as of FY15 Exec. Budget | FY15 Exec. Budget | *Change FY14 - FY15 |
|--|---------------------|---------------------|---------------------|------------------------------------|----------------------|---------------------------|
| Personal Services | \$12,519,484 | \$12,693,656 | \$12,877,278 | \$12,770,657 | \$13,031,921 | \$154,642 |
| Other Than Personal Services | 6,763,772 | 6,538,759 | 6,987,449 | 6,972,373 | 7,591,521 | 604,071 |
| TOTAL | \$19,283,256 | \$19,232,415 | \$19,864,728 | \$19,743,029 | \$20,623,441 | \$758,714 |
| Budget by Unit of Appropriation | | | | | | |
| 401 - GE Instr. & Sch Ldrshp - PS | \$5,505,616 | \$5,524,987 | \$5,629,360 | \$5,599,015 | \$5,625,309 | (\$4,051) |
| 402 - GE Instr. & Sch Ldrshp - OTPS | 510,245 | 508,401 | 492,424 | 570,706 | 654,104 | 161,681 |
| 403 - SE Instr. & Sch Ldrshp - PS | 1,178,384 | 1,209,572 | 1,161,020 | 1,161,020 | 1,198,053 | 37,033 |
| 404 - SE Instr. & Sch Ldrshp - OTPS | 2,876 | 2,628 | 6,825 | 6,825 | 6,825 | - |
| 481 - Categorical Programs - PS | 1,282,530 | 1,237,244 | 1,126,646 | 1,128,267 | 1,212,328 | 85,681 |
| 482 - Categorical Programs - OTPS | 909,625 | 725,981 | 790,248 | 816,842 | 1,013,524 | 223,276 |
| 406 - Charter Schools | 715,746 | 865,306 | 1,038,408 | 1,065,339 | 1,285,026 | 246,618 |
| 421 - Citywide SE Instr. & Sch Ldrshp - PS | 742,798 | 779,124 | 824,552 | 824,552 | 870,782 | 46,230 |
| 422 - Citywide SE Instr. & Sch Ldrshp - OTPS | 16,795 | 14,765 | 16,415 | 16,415 | 16,415 | - |
| 423 - SE Instructional Support - PS | 234,874 | 255,200 | 245,887 | 260,887 | 269,149 | 23,262 |
| 424 - SE Instructional Support - OTPS | 291,386 | 242,247 | 298,044 | 241,222 | 267,060 | (30,984) |
| 472 - Cntrct Sch/Carters/Foster Care - OTPS | 705,763 | 612,705 | 688,341 | 622,854 | 676,879 | (11,462) |
| 470 - SE Pre-K Contracts - OTPS | 1,008,570 | 941,746 | 1,087,688 | 992,269 | 1,052,371 | (35,317) |
| 438 - Pupil Transportation - OTPS | 1,073,697 | 1,066,958 | 1,144,073 | 1,145,038 | 1,110,206 | (33,867) |
| 435 - School Facilities - PS | 391,293 | 387,215 | 401,440 | 393,534 | 392,055 | (9,385) |
| 436 - School Facilities - OTPS | 343,591 | 353,894 | 204,636 | 222,446 | 215,367 | 10,731 |
| 444 - Energy & Leases - OTPS | 456,961 | 482,230 | 501,686 | 513,096 | 511,404 | 9,718 |
| 439 - School Food Services - PS | 199,247 | 200,556 | 195,927 | 196,044 | 196,044 | 117 |
| 440 - School Food Services - OTPS | 190,208 | 212,055 | 215,384 | 215,227 | 233,527 | 18,143 |
| 453 - Central Administration - PS | 142,212 | 146,402 | 122,982 | 123,032 | 122,984 | 2 |
| 454 - Central Administration - OTPS | 156,479 | 124,620 | 112,793 | 153,609 | 153,528 | 40,735 |
| 461 - Fringe Benefits - PS | 2,701,352 | 2,814,368 | 3,043,662 | 2,958,504 | 3,019,221 | (24,441) |
| 415 - School Support Orgs. - PS | 141,179 | 138,987 | 125,802 | 125,802 | 125,995 | 193 |
| 416 - School Support Orgs. - OTPS | 12,594 | 9,417 | 10,898 | 10,898 | 10,898 | - |
| 442 - School Safety - OTPS | 298,111 | 306,130 | 308,440 | 308,440 | 313,240 | 4,800 |
| 474 - Non-Public and FIT - OTPS | 71,124 | 69,677 | 71,146 | 71,146 | 71,146 | - |
| TOTAL | \$19,283,256 | \$19,232,415 | \$19,864,728 | \$19,743,029 | \$20,623,441 | \$758,714 |
| Budgeted Headcount | | | | | | |
| FT Pedagogical | 106,374 | 106,518 | 108,947 | 108,944 | 109,866 | 919 |
| FT Non-Pedagogical | 11,182 | 10,948 | 10,952 | 10,955 | 10,524 | (428) |
| TOTAL | 117,556 | 117,466 | 119,899 | 119,899 | 120,390 | 491 |

New in the Executive Budget

The Executive Budget introduces several significant budget actions. Some of these changes stem from additional funding included in the Enacted State Budget. The Executive Budget also reflects the Administration's priorities, which include several new education initiatives.

State Aid Increase

The State Budget for 2014-2105 provides \$9.33 billion in state aid for New York City, \$669.1 million more than the Fiscal 2014 Adopted Budget, and \$522.5 million above the Fiscal 2015 Preliminary Budget estimate. Most of the additional funds flow through Foundation Aid and Full-Day Universal Pre-Kindergarten, as well as Charter Schools.

- **Foundation Aid.** The Executive Budget includes \$6.21 billion in Foundation Aid, \$358.9 million more than Fiscal 2014. Of the increase, \$195.8 million is new in the Executive Budget. Nearly three-quarters of the funding or \$145 million would be used support middle school after school programs; new state budget legislation allows the City to use school aid revenue for after school programming. The remaining funds have been scheduled in the charter school budget to support growth.

In its Preliminary Budget Response the City Council called on the Administration to use any additional Foundation Aid included in the enacted State Budget to increase funding for school budgets. The DOE's Executive Budget does not propose to use any of the increase for school budgets. Though the Administration added \$76 million in City funds for new needs to units of appropriations that make up school budgets, excluding funds for after school expansion, it is unclear how these funds will be allocated. Generally, funding for specific initiatives is not included in principals' budgets for flexible spending, as Foundation Aid would be if it were allocated to schools through the Fair Student Funding (FSF) formula. Currently, most schools' actual FSF allocations are approximately 86.8 percent of their FSF entitlement. The DOE anticipates FSF funding will remain relatively flat next year; DOE staff is in the process of conducting the analysis.

- **Full-Day Universal Pre-K Funding.** The State Budget provides \$300 million for the expansion of full-day universal pre-kindergarten (UPK). The estimate for total state funding for UPK, including existing programs, is \$524.9 million. The total UPK budget is \$552.8 million. Of this amount, \$89 million is scheduled as an intra-city payment to the Administration for Children's Services (ACS), including \$45 million for existing programs and \$44 million for full-day expansion.
- **Charter School Funding.** The Executive Budget includes \$20.7 million in state aid for charter schools. The tuition rate for charter school students will increase by \$250 per student beginning in fall 2014, bringing the current rate of \$13,527 per student to \$13,777. The City will continue to contribute \$13,527 per student in Fiscal 2015, while the State will fund the increase. The \$20.7 million in state funding is based on a projected enrollment of 82,989 students next year. This is the first time the state has provided funding specifically for charter schools.

New Needs & Adjustments

- **After School Expansion.** The DOE's Executive Budget includes \$145 million in state Foundation Aid for after school programs in Fiscal 2015. The funds would support programs with after school academic supports and enrichment for nearly 43,000

additional students next school year, as well as enhanced summer programming for more than 21,000 students.

The DOE plans to shift \$127.8 million of state school aid to the Department of Youth and Community Development (DYCD) to implement the expansion. These funds are scheduled in U/A 402 – General Education Instruction & School Leadership and account for nearly 80 percent of the \$161.7 million increase to U/A 402. Of the \$17.2 million remaining in the DOE's budget, \$6.6 million would be used for after school programs in District 75 schools, as the DOE has greater expertise in programming specifically for special education populations. In addition, \$9.4 million is scheduled in U/A 435 – School Facilities PS to cover costs of custodial allowances for additional hours of work associated with keeping school buildings and rooms open for longer hours.

Despite the new need, U/A 435 is scheduled to decrease by \$9.4 million in Fiscal 2015. The City Council provided a \$3 million restoration for DOE custodians in Fiscal 2014, which was not baselined, and the reduction in part reflects the elimination of these funds in Fiscal 2015.

Lastly, the DOE's Executive Budget includes \$1.2 million for fringe benefits that corresponds with the increase in custodial allowances for work associated with the expansion of after school programs.

The Financial Plan also provides \$190 million for after school expansion in Fiscal 2016, which would enable the DOE and DYCD to reach a total of 51,000 additional students in after school and summer programs, as compared to the 56,000 students that are served this year. The Administration anticipates serving a total of 107,500 students in 86,000 after school slots in Fiscal 2016 and beyond. On average, each afterschool program slot can serve approximately 1.25 students.

- **Charter Schools.** As shown in the Financial Plan Summary, funding for U/A 406 – Charter Schools is scheduled to total \$1.29 billion in Fiscal 2015, an increase of \$246.6 million or 23.7 percent over the Fiscal 2014 Adopted Budget, and \$98.2 million more than the Fiscal 2015 Preliminary Budget. The City Council identified this budget risk in its Preliminary Budget Response, anticipating a significant increase in funding for charter schools in the Executive Budget. The OMB's Preliminary Budget projection accounted for growth only in existing charter schools, but did not factor in growth in charter schools that will open in the fall. Moving forward, the OMB should revise its methodology to include an estimate of growth in new schools, as well, even if the precise number of schools that will be opening is uncertain.

There are currently 183 charter schools in New York City serving 70,918 students. In fall 2014, 15 new charter schools are scheduled to open and many existing charter schools will phase in additional grades. The DOE projects enrollment will grow by 12,071 students next year and total 82,989.

The OMB also scheduled \$5.4 million in U/A 444 – Energy and Leases for the cost of leases for three Success Academy charter schools that will be opening in non-DOE buildings in the fall. According to legislation included in the State Budget, the DOE must provide free space in DOE buildings for charter schools that are new or still phasing in; pay rent for these charter schools if they are located in non-DOE buildings; or pay an additional 20 percent in tuition for these schools, which would result in an additional \$2,755 per student

in Fiscal 2015. The OMB is in the process of conducting an analysis to determine the total fiscal impact of the legislation, as well as the most efficient means of compliance.

Of the remaining funding increase for charter schools, \$92.8 million is scheduled in U/A 406 – Charter Schools. Of this amount, \$10 million is for rent or a tuition increase for the remaining new or phasing in charter schools that are or will be located in non-DOE buildings. An additional \$20.7 million in state funding would cover the \$250 per-student tuition increase. The remaining \$62.1 million increase would stem from enrollment growth, which would be funded largely with \$53.8 million state Foundation Aid.

- **Expanded Arts Instruction.** The Administration proposes a \$23 million City-funded Expanded Arts Instruction initiative in the Executive Budget, to be implemented in Fiscal 2015 and baselined in the out-years. The additional funding for arts instruction is somewhat aligned with the City Council’s Preliminary Budget Response proposal to include \$26 million for placing a certified arts teacher in every school that does not currently have one. However, though the funds are scheduled in U/A 401 – General Education Instruction and School Leadership, the DOE has not identified how the funds will be used, and the Executive Budget does not recognize a corresponding headcount increase for additional art teachers. The DOE is currently exploring various options for allocating the funds.
- **English Language Learners.** The Executive Budget includes \$13.3 million for English Language Learners (ELLs) in Fiscal 2015 and the out-years. The funds are scheduled in several units of appropriation: U/As 401 and 402 – General Education Instruction and School Leadership PS, \$4.1 million and OTPS, \$3 million; U/A 454 – Central Administration OTPS, \$5.9 million; U/A 461 – Fringe Benefits, \$314,468. The funds would be used for translation services, professional development, and new curriculum materials to support the instruction of ELLs. The Financial Plan does not show a headcount increase associated with the funding.
- **New District Schools.** The DOE provides supplemental funding for new schools, including an OTPS allocation to assist with initial costs such as furniture and technology. In addition, the DOE provides funds for schools to open at 100 percent of their Fair Student Funding (FSF) entitlement – currently, existing schools receive approximately 86.8 percent of their FSF entitlement. The DOE plans to open 26 new district schools in fall 2014 and has scheduled in the Executive Budget \$9.5 million in U/A 402 – General Education Instruction and School Leadership OTPS to cover these costs. Approximately \$4 million would fund FSF and \$4.1 million would fund OTPS startup costs. Whereas in past years the DOE shifted existing FSF funds from existing schools to provide additional funding for new schools, in Fiscal 2015 the DOE will add new City funds to cover the costs, helping to keep existing school budgets whole.
- **School Technology – Microsoft Settlement Agreement.** The Executive Budget includes an additional \$31.7 million in Fiscal 2014 and \$20 million in Fiscal 2015 for technology funding through the New York State School Technology Voucher Program (NYS-STVP). The program resulted from a settlement agreement between New York State consumers and Microsoft Corporation after it was discovered that Microsoft Corporation had overcharged for its products and services. Schools must apply for a voucher by November 1, 2014 to receive a portion of the funds, which can be used to purchase specific services and products to improve schools’ readiness for computer-based testing and create a technology-rich learning environment. To be eligible for the funds, a school must be a

public school serving students in any grades, kindergarten through grade 12, and have had at least 50 percent or more of its students eligible for free or reduced-price lunch for the 2011-2012 school year.

- **School Facilities Improvements.** The DOE's Executive Budget recognizes an additional \$10 million of revenue from the School Construction Authority (SCA). The \$10.7 million increase in U/A 436 – School Facilities OTPS primarily reflects these funds. The SCA oversees the DOE's capital plan, and reimburses the DOE expense budget for capital work completed by Division of School Facilities staff. The \$10 million increases the Fiscal 2015 SCA revenue projection to \$18 million. However, the final revenue estimate is generally much greater – in Fiscal 2013, the DOE received approximately \$63.7 million in SCA revenue. Both the Executive Budget's \$20 million revenue estimate for Fiscal 2014 and \$18 million estimate for Fiscal 2015 will likely increase.
- **School Food Expense Growth.** The DOE expects to receive an additional \$11.3 million in federal revenue for Free and Reduced Price Lunch in Fiscal 2015 and the out-years. The growth stems from a 2.5 increase in the Consumer Price Index (CPI). Essentially, the DOE will receive additional federal reimbursement to cover growing expenses, increasing the total federal revenue estimate for Free and Reduced Price Lunch to \$294 million in Fiscal 2015. The Financial Plan Summary shows U/A 436 – School Food Services OTPS is projected to grow by \$18.1 million in Fiscal 2015. The additional federal revenue will help cover these costs.

According to the OMB, the additional federal revenue would not impact the cost of providing universal free lunch in public schools, which the City Council proposed in its Preliminary Budget Response. The proposal, which would cost the City an estimated \$24 million, was not addressed in the Executive Budget.

- **Close to Home.** Close to Home is a joint initiative between the City and State that began in Fiscal 2013. Under the initiative, rather than sentencing youth to an upstate detention facility, defendants are sentenced “close to home” to settings administered by the City, which oversee their education, mental health, and other service needs. The increase in the Department's budget, \$4.2 million in City funds in Fiscal 2015 and the out-years, is for education for youth who would otherwise be sentenced to detention facilities outside the city. The funds are scheduled in U/As 401 and 402 – General Education Instruction and School Leadership PS, \$2.7 million, and OTPS, \$694,793, as well as U/A 461 – Fringe Benefits, \$857,320. The funds are associated with an increase of 43 positions.
- **Teacher Evaluation Probation Reassignment.** As per a new state Annual Professional Performance Review law, teachers rated unsatisfactory and removed from the classroom can now file an appeal. Teachers who file an appeal will remain on payroll until a decision on the appeal is reached. The DOE estimates teachers who appeal would be on payroll at least an additional six to seven months as a result, costing the DOE a projected \$17.8 million in Fiscal 2015.
- **Fringe Benefits Expense Adjustment.** The Executive Budget recognizes \$105.4 million in healthcare savings, scheduled in U/A 461 – Fringe Benefits in Fiscal 2015. As shown in the Financial Plan Summary, U/A 461 is projected to decrease by \$24.4 million in Fiscal 2015 as a result of the savings that is partially offset by year over year growth. Smaller savings are also recognized in the out-years. The adjustment aligns spending estimates for healthcare more closely with actual expenditures in recent years. Health insurance is

projected to cost \$1.88 billion in Fiscal 2015, a \$64 million increase compared to the Fiscal 2014 Adopted Budget. While health insurance costs are still rising, this 3.5 percent increase is less than growth experienced in recent years.

- **Medicaid Revenue Re-estimate.** The DOE reduced its Medicaid revenue estimate in Fiscal 2015 and the out-years by \$70 million, from \$137 million to \$67 million, to reflect a more realistic projection. This action is aligned with the City Council's Preliminary Budget Response proposal that called for a baselined re-estimate of Medicaid revenue to show a more accurate, achievable projection. The proposal also urged the DOE to settle a deal with the United Federation of Teachers (UFT) to be able to claim for speech therapy. The DOE is still unable to claim for speech therapy services, as the UFT will not allow the DOE to use its members' Speech Language Pathology (SLP) licenses for Medicaid reimbursement purposes. However, the DOE is currently exploring ways to claim for speech therapy services provided by contracted providers, who are not UFT members. In addition to recognizing the inability to claim for DOE-provided speech therapy services, the DOE has suggested that transportation claims will not generate as much Medicaid revenue as originally anticipated.
- **Savings from Rebidding Bus Contracts.** The Executive Budget recognizes \$62 million in savings to the City in Fiscal 2015 as a result of rebidding contracts for busing. The total savings account for savings achieved this year, as well as anticipated savings from new contracts that will take effect in September 2014. The projected savings continue in the out-years, though they would be shared equally among the City and State. The DOE currently is currently accepting responses to a Request for Bid (RFB) for routes that would begin in fall 2015, and the DOE plans to release a bid for the final set of routes with expiring contracts thereafter. Anticipated out-year savings from these final two bids are not reflected in the Executive Budget.
- **School Nurses.** The Executive Budget includes \$1.3 million to place 25 nurses in schools that do not currently have a nurse.
- **Lease Growth.** The cost of leases, excluding charter schools, is expected to increase by \$7.5 million in Fiscal 2015 and the out-years as a result of cost escalators that are built into many leases. The DOE currently has leases for approximately 180 school buildings.

School Budgets

The City's public schools each have an individual school budget that is funded by the Department through a variety of allocation formulas and pass-throughs. All of the funding that is allocated to schools, exclusive of District 75, to support school operations is budgeted centrally within three unit of appropriation pairs:

- General Education Instruction & School Leadership (U/As 401 & 402)
- Special Education Instruction & School Leadership (U/As 403 & 404)
- Categorical Programs (U/As 481 & 482)

Though not all of the money budgeted in these U/As funds schools' budgets, school budgets will generally be impacted by actions in the corresponding units of appropriations.

In Fiscal Year 2014, actual school budgets for districts 1-32 and 97 (citywide high schools) total approximately \$8.58 billion – approximately \$600 million less than funding included in the three U/A pairs. Of the school budget total, roughly \$5 billion is Fair Student Funding (FSF), which is essentially principals' flexible spending. FSF funds are allocated to schools through a needs-

based formula that provides varying funding amounts per student based on grade level, school type, and student characteristics, such as poverty, academic need, and special education classification. Schools are entitled to a specified amount per student, as per the DOE's formula – this level of funding is their “entitlement” amount. However, the DOE does not provide enough total FSF dollars to provide schools with their entitlement amount. Rather, schools' actual FSF funding – their “allocation” amount – is a portion of their entitlement amount. In Fiscal 2014, most schools received approximately 86.8 percent of their entitlement amount.

School Budgets by Unit of Appropriation

| <i>Dollars in Thousands</i> | FY12 Actual | FY13 Actual | FY14 Adopted | FY14 as of FY15 Exec. Budget | FY15 Exec. Budget | *Change 2014 - 2015 |
|-------------------------------------|--------------------|--------------------|--------------------|------------------------------------|-------------------------|------------------------|
| Spending | | | | | | |
| Personal Services | | | | | | |
| 401 - General Education | \$5,505,616 | \$5,524,987 | \$5,629,360 | \$5,599,015 | \$5,625,309 | (\$4,051) |
| 403 - Special Education | 1,178,384 | 1,209,572 | 1,161,020 | 1,161,020 | 1,198,053 | 37,033 |
| 481 - Categorical Programs | 1,282,530 | 1,237,244 | 1,126,646 | 1,128,267 | 1,212,328 | 85,681 |
| Subtotal PS | \$7,966,529 | \$7,971,803 | \$7,917,027 | \$7,888,303 | \$8,035,690 | \$118,664 |
| Other Than Personal Services | | | | | | |
| 402 - General Education | \$510,245 | \$508,401 | \$492,424 | \$570,706 | \$654,104 | \$161,681 |
| 404 - Special Education | 2,876 | 2,628 | 6,825 | 6,825 | 6,825 | 0 |
| 482 - Categorical Programs | 909,625 | 725,981 | 790,248 | 816,842 | 1,013,524 | \$223,276 |
| Subtotal OTPS | \$1,422,746 | \$1,237,011 | \$1,289,497 | \$1,394,373 | \$1,674,453 | \$384,956 |
| TOTAL | \$9,389,275 | \$9,208,815 | \$9,206,523 | \$9,282,676 | \$9,710,143 | \$503,620 |
| Budgeted Headcount | | | | | | |
| Full-Time Positions - Pedagogical | 92,242 | 92,396 | 94,196 | 94,196 | 94,555 | 359 |
| Full-Time Positions - Non-ped. | 4,608 | 4,588 | 4,141 | 4,141 | 3,656 | (485) |
| TOTAL | 96,850 | 96,984 | 98,337 | 98,337 | 98,211 | (126) |

*Change from Fiscal 2014 Adopted to Fiscal 2015 Executive Budget.

The DOE generally releases its preliminary school budgets for the following school year in June. As of the release of this report, it is not known exactly how much funding will be available for school budgets. However, the program areas shown in the table above can be used to calculate an estimate for Fiscal 2015.

The table shows that school budgets should total close to \$9.71 billion in Fiscal 2015, which would be a \$503.6 million increase compared to the Fiscal 2014 Adopted Budget. However, \$300 million for UPK is scheduled in U/As 481 and 482 – Categorical Programs, and \$127.8 million for after school programming is scheduled in U/A 402 – General Education OTPS. Therefore, at least \$427.8 million of the increase would not actually support schools existing programs, making \$9.28 billion a more accurate estimate for school budgets, \$75.8 million more than the Fiscal 2014 Adopted Budget. The \$9.28 billion projection is actually flat from the current estimate for Fiscal 2014. Accordingly, the DOE expects FSF funding will likely be relatively flat in Fiscal 2015, and schools' allocations will remain at approximately 86.8 percent of their entitlement amount.

The \$75.8 million projected increase compared to the Fiscal 2014 Adopted Budget can be attributed largely to various new needs included in the Executive Budget, which were described earlier. Importantly, despite \$42.8 million in new initiatives allocated to U/A 401 – General

Education Instruction and School Leadership PS, this U/A is scheduled to decrease by \$4.1 million in Fiscal 2015. Without funding for these initiatives (Close to Home, Expanded Arts instruction, English Language Learners, and Teacher Evaluations – Probation Reassignment), there would actually be a \$46.9 million reduction. The net decrease, discounting these new needs, would stem largely from revised state aid estimates totaling a \$45.5 million reduction. This projected reduction offsets the projected funding increases for the new initiatives. While these programs would support schools and students, they are considered new needs and would not address many of the existing needs of schools.

Despite the funding increase for New York City in the 2014-2015 State Budget, the state is still \$2.5 billion short of meeting its Campaign for Fiscal Equity (CFE) funding obligation. These funds owed by the State would enable the DOE to provide schools with their full FSF entitlement amount. Both the City Council and administration have urged the State to provide this critical funding, which would have a tremendous impact on schools – it would allow principals to hire more essential personnel such as guidance counselors, arts teachers, and school aides, and could lead to class size reduction through increasing the number of teachers.

Universal Pre-Kindergarten Expansion

In the Preliminary Budget, the administration's UPK expansion program totaled \$340 million that the Mayor hoped to fund with an increase in the personal income tax for high earners. The DOE's original expansion plan required the conversion of 27,241 half-day seats to full-day; the creation of 12,845 new seats; enhancements to improve the quality of 19,483 existing full-day seats in public schools and DOE CBOs; and enhancements to improve the quality of the existing 12,681 UPK seats in the Administration for Children's Services' day care centers. In the first year of the expansion, Fiscal 2015, the DOE planned to convert 11,760 half-day seats to full-day, add 11,880 new full-day seats, and bring all existing 32,164 DOE and ACS full-day seats to the new UPK quality standards. The DOE has already begun rolling out the expansion by adding new full-day seats in both public schools and CBOs (now called Community-Based Early Childhood Centers, or CBECCs). According to DOE, the expansion is on track to meet year one goals.

The Administration outlined in the Preliminary Budget an estimate of the cost of the various program components:

- contracts with CBECCs, \$251.2;
- school programs, \$40.3 million;
- fringe benefits, \$14.1 million;
- school support, \$13.6 million;
- central administration, \$14.9 million;
- school facilities, \$8.4 million; and
- energy and leases, \$2.8 million.

Though the City was unable to raise the personal income tax to increase revenue, the 2014-2015 State Budget provides \$300 million for the expansion of full-day UPK, in addition to \$224.9 for existing programs. The new funds are scheduled entirely in U/As 481 and 482 – Categorical Programs, while the existing funds are scheduled in Categorical Programs and U/As 401 and 402 – General Education Instruction & School Leadership. It is unclear how the original proposal will change given the \$40 million reduction in funding for expansion.

In addition, as highlighted in the City Council's Preliminary Budget Response, it is still unclear whether the State will reimburse the DOE for all of these costs associated with UPK expansion,

including costs of administration and professional development for teachers. According to the State budget legislation, the State will allocate UPK funding as a formula aid on a per-pupil basis: \$7,000 per student being taught by a teacher without certification in early childhood education, and \$10,000 per student being taught by a teacher with certification. The DOE and OMB are still waiting for information from the State regarding the precise funding mechanism for allocating funds to DOE schools and CBECCs. The DOE also does not yet have the clarification to determine how the UPK expansion's plan for pay parity among DOE and CBECC staff will be implemented, and it is unclear whether the City will have to supplement State funding to realize this piece of the initiative, especially given the variation in contract prices.

Preliminary Budget Response

Following the City Council's hearings on the Fiscal 2015 Preliminary Budget, the Council released a Budget Response outlining proposals for the Administration to consider including in the Executive Budget. The list of proposals for the Department of Education and the Administration's response are listed below. Additional information on the proposals can be found in the Council's Preliminary Budget Response, which is available online at <http://council.nyc.gov/downloads/pdf/budget/2015/FY15%20Preliminary%20Budget%20Response.pdf>.

- **Eliminate School Lunch Fees.** The elimination of school lunch fees for all students, coupled with increased participation as a result, would cost the City an estimated \$24 million in Fiscal 2015. Additionally, the Council recommended expanding the Community Eligibility Option (CEO), which currently operates in District 75 schools. The Administration did not include this recommendation in the Executive Budget.
- **Increase School Budgets.** The Council proposed the Administration use the State Budget's \$195.8 million increase in Foundation Aid to increase school budgets, including \$26 million allocated to provide a certified arts teacher in every school that does not currently have one. In the Executive Budget, the Administration used the additional Foundation Aid to fund after school programs and charter schools. However, the Administration added \$23 million for expanded arts instruction.
- **Fund Small Schools Athletic League.** The Council called on the Administration to provide \$1.25 million for the Small Schools Athletic League (SSAL) in Fiscal 2015 so the league could maintain operations while SSAL staff worked with DOE to reach a long-term solution to continuing the programs. SSAL was not funded in the Executive Budget, though DOE staff have proposed that SSAL be incorporated into the DOE's Public Schools Athletic League (PSAL).
- **Restructure School Support.** The DOE's Preliminary Budget included \$387.8 million for various school support structures. The Council recommended streamlining and restructuring school support to achieve savings. The DOE has not revealed any plans to restructure, and the Executive Budget does not project any savings as a result of restructuring.
- **Instructional Support for After School Programs.** The Administration included in the Preliminary Budget \$190 million for the expansion of after school programs in middle schools. The Council called on the Administration to provide \$1.3 million for the DOE to provide support to community based organizations to create high quality after school programming connected to school day learning. Specifically, the support would model

the Middle School Quality Initiative, which the Council provided funding for last year and has been viewed as a success by researchers and participating schools. Funding for this proposal was not included in the Executive Budget to accompany the now \$145 million after school expansion program.

Council Initiatives and Restorations

In Fiscal 2014 the City Council provided \$19.6 million for Council initiatives, restorations, local initiatives, and borough-wide initiatives that flow through the DOE's Budget. Though the administration has proposed baselining many Council initiatives and restorations in many City agencies, no initiatives under the DOE were baselined. Many of these initiatives have been funded by the Council for many years, and they have become critical programs to schools and DOE operations. The City Council has urged the administration to fund some of these initiatives, including but not limited to: Urban Advantage, a nationally recognized program that supports middle school science education through collaboration with cultural and science institutions throughout the City; the Anti-Gun Violence Initiative, parts of which were baselined in the Department of Health and Mental Hygiene; Custodial Operations, which the Council has restored annually since Fiscal 2010; and MOUSE, an initiative that gives students hands-on experience in computer science and technology and is aligned with the administration's push to strengthen Science, Technology, Engineering and Math (STEM) in New York City, including through a higher education STEM initiative.

| Fiscal 2014 Council Changes at Adoption | |
|--|-----------------|
| <i>Dollars in Thousands</i> | |
| General Education Instruction & School Leadership | |
| Anti-Gun Violence Initiative | \$550 |
| Bridge to Tomorrow | 1,150 |
| CHAMPS | 125 |
| Full Day Universal Pre-K | 2,250 |
| Middle School Quality Initiative | 1,550 |
| Teacher's Choice | 4,585 |
| Subtotal | \$10,210 |
| Central Administration | |
| Chess in the Schools | \$200 |
| Child Mind Institute | 250 |
| Community Schools | 150 |
| Council of School Supervisors & Admins. | 300 |
| Dropout Prevention & Intervention | 1,000 |
| MOUSE | 275 |
| Urban Advantage - Science Education | 2,500 |
| Subtotal | \$4,675 |
| School Facilities | |
| Custodial Operations | \$3,000 |
| Subtotal without Local or Borough | \$17,885 |
| Local Initiatives | \$1,705 |
| Borough-Wide Initiatives | \$16 |
| TOTAL | \$19,606 |

Budget Transparency and Accuracy

The DOE's massive budget provides many opportunities for increased transparency. Among them, the City Council has highlighted several proposals for consideration in the Adopted Budget:

- **Move networks out of school budgets.** The DOE budget currently includes funding and headcount for networks and clusters, one of the DOE's school support structures, in U/A 401. This funding and headcount should be moved back into U/A 415 – School Support, where it is better aligned with the programmatic function of the program area. Both the OMB and DOE have expressed a willingness to consider this action for the Adopted Budget.
- **Report on headcount in school budget U/As.** The DOE currently provides the City Council with quarterly reporting on headcount in U/As 401 and 403. The information includes headcount by title for networks and clusters, centrally funded positions, and school-based positions. The Council requests that the DOE also provide this information for U/A 481.
- **Create a U/A for Universal Pre-Kindergarten.** The Executive Budget includes \$552.8 million for UPK in Fiscal 2015. Of this amount, \$252.8 million is for existing programs and \$300 million is for UPK expansion. Funds for the existing programs are scheduled in U/As 401 and 402 – General Education Instruction and School Leadership, in U/As 481 and 482 – Categorical Programs, and in U/As 453 and 454 – Central Administration. The \$300 million for new programs is scheduled entirely in U/As 481 and 482. Given the size and unique function of the program, the DOE's budget should include a new unit of appropriation for UPK. While the OMB has suggested this would be difficult to do, staff has expressed a willingness to share details via reporting.

UFT Contract Summary

The United Federation of Teachers represents approximately 75,000 teachers, 19,000 paraprofessionals, as well as school secretaries, guidance counselors, psychologists and social workers, speech therapists, and 60,000 retired members. The UFT has been without a contract since November 1, 2009. In April 2014, Mayor de Blasio and the UFT reached a tentative contract agreement that would become effective retroactively from November 1, 2009 through October 31, 2018 and impact approximately 110,000 active members. The fiscal impact of the pending contract is not included in the DOE's Executive Budget, rather it will likely be included in the Fiscal 2015 Adopted Budget. The funds are in the City's collective bargaining reserve budget. The OMB estimates the new contract, if ratified, will cost the DOE \$4.3 billion. This net cost includes \$5.73 billion in expenses, which is partially offset by \$1.43 billion in healthcare savings.

Under the proposed contract, teachers would receive four percent raises for each of 2009 and 2010 – similar raises to those that were granted to other unions by the previous administration. The OMB estimates these raises will cost the City approximately \$40,000 per teacher through the end of the contract. The proposed agreement also includes one percent raises for each of 2013, 2014, and 2015; a 1.5 percent raise for 2016, a 2.5 percent raise for 2017, and a three percent raise for 2018, for a total nine percent increase.

The retroactive pay would be allocated in lump sums in Fiscal Years 2015 and 2017-2020. Teachers would have to remain active in the year in which the payment is scheduled in order to receive retroactive pay. Retroactive raises totaling roughly \$725 million for approximately 20,000 UFT members who are eligible to retire after June 30, 2014 and before July 2020 would be allocated in Fiscal 2014 in the Adopted Budget.

The tentative agreement includes various work rule changes of which the impact on the DOE's budget is not known. For example, teachers at single session schools may now repurpose their 37.5 minutes per day, previously used for small-group instruction for students, for professional development, parent engagement, and other professional work. If principals wish to continue providing students with additional instructional time, they may have to compensate teachers with per session pay. Additionally, the proposed contract establishes three new positions for teachers to attain professional growth: model teachers will receive \$7,500 in extra pay and master teachers will receive \$20,000 in extra pay to take on additional responsibilities at their schools to support other teachers' instructional practices, and teacher ambassadors will earn \$7,500 in extra pay to work in another school to share and develop best instructional practices. The UFT provides an understandable summary of the tentative contract agreement on its website at <http://www.uft.org/files/attachments/contract-2014-glance.pdf>.

Appendix 1: DOE Fiscal 2015 Executive Budget Actions

| <i>Dollars in Thousands</i> | FY 2014 | | | FY 2015 | | |
|--|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | City | Non-City | Total | City | Non-City | Total |
| DOE FY 2014 Preliminary Budget | \$9,261,103 | \$10,443,359 | \$19,704,462 | \$9,808,997 | \$10,669,424 | \$20,478,421 |
| New Needs | | | | | | |
| After School Expansion | \$0 | \$0 | \$0 | \$0 | \$145,000 | \$145,000 |
| Charter School Leases | 0 | 0 | 0 | 5,402 | 0 | 5,402 |
| Charter Schools | 0 | 0 | 0 | 15,332 | 77,508 | 92,840 |
| Close to Home | 0 | 0 | 0 | 4,215 | 0 | 4,215 |
| English Language Learners | 0 | 0 | 0 | 13,309 | 0 | 13,309 |
| Expanded Arts Instruction | 0 | 0 | 0 | 23,000 | 0 | 23,000 |
| Lease Growth | 0 | 0 | 0 | 7,489 | 0 | 7,489 |
| New District Schools | 0 | 0 | 0 | 9,518 | 0 | 9,518 |
| School Facilities Improvements | 0 | 0 | 0 | 0 | 10,000 | 10,000 |
| School Food Expense Growth | 0 | 0 | 0 | 0 | 0 | 11,300 |
| School Nurses | 0 | 0 | 0 | 1,326 | 0 | 1,326 |
| School Technology | 0 | 31,719 | 31,719 | 0 | 20,000 | 20,000 |
| Teacher Eval. - Probation Reassignment | 0 | 0 | 0 | 17,831 | 0 | 17,831 |
| Subtotal New Needs | \$0 | \$31,719 | \$31,719 | \$97,422 | \$252,508 | \$361,230 |
| Other Adjustments | | | | | | |
| IntraCity | \$0 | \$5,036 | \$5,036 | \$0 | (\$100,000) | \$0 |
| Expense Adjustment | 0 | 0 | 0 | (105,422) | (36,385) | (105,422) |
| Fuel | 7,045 | 0 | 7,045 | (734) | 0 | (734) |
| Heat, Light and Power | 4,365 | 0 | 4,365 | (2,439) | (46,800) | (2,439) |
| Mandated Growth | 0 | 0 | 0 | 0 | 16,842 | 0 |
| Medicaid Adjustment | 0 | 0 | 0 | 70,000 | (517) | 0 |
| Race to the Top Adjustment | 0 | (9,063) | (9,063) | 0 | 0 | 9,063 |
| Reduce Afterschool DOE Admin | 0 | 0 | 0 | 0 | 0 | (16,842) |
| State Aid Adjustment | 0 | (533) | (533) | 0 | (49,313) | (38) |
| Transportation Rebidding Savings | 0 | 0 | 0 | (62,000) | 0 | (62,000) |
| UPK Funding Adjustment | 0 | 0 | 0 | (340,000) | 0 | (40,000) |
| UPK Pension Transfer | 0 | 0 | 0 | 2,202 | 9,063 | 2,202 |
| City Council Member Items | (3) | 0 | (3) | 0 | (16,842) | 0 |
| Subtotal Other Adjustments | \$11,407 | (\$4,560) | \$6,847 | (\$438,393) | \$0 | (\$216,210) |
| Total All Changes | \$11,407 | \$27,159 | \$38,566 | (\$340,971) | \$0 | \$145,020 |
| DOE FY 2015 Executive Budget | \$9,272,510 | \$10,470,518 | \$19,743,028 | \$9,468,026 | \$11,155,415 | \$20,623,441 |

Appendix 2: DOE Budget Actions since Fiscal 2014 Adoption

| <i>Dollars in Thousands</i> | FY 2014 | | | FY 2015 | | |
|--|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | City | Non-City | Total | City | Non-City | Total |
| DOE Budget as of FY 2014 Adoption | \$9,285,649 | \$10,579,078 | \$19,864,727 | \$9,612,270 | \$10,815,558 | \$20,427,828 |
| New Needs | | | | | | |
| Universal Full-Day PreK | \$0 | \$0 | \$0 | \$337,798 | \$0 | \$337,798 |
| After School Expansion | 0 | 0 | 0 | 0 | 145,000 | 145,000 |
| Charter School Leases | 0 | 0 | 0 | 5,402 | 0 | 5,402 |
| Charter Schools | 0 | 0 | 0 | 15,332 | 77,508 | 92,840 |
| Close to Home | 0 | 0 | 0 | 4,215 | 0 | 4,215 |
| English Language Learners | 0 | 0 | 0 | 13,309 | 0 | 13,309 |
| Expanded Arts Instruction | 0 | 0 | 0 | 23,000 | 0 | 23,000 |
| Lease Growth | 0 | 0 | 0 | 7,489 | 0 | 7,489 |
| New District Schools | 0 | 0 | 0 | 9,518 | 0 | 9,518 |
| School Facilities Improvements | 0 | 0 | 0 | 0 | 10,000 | 10,000 |
| School Food Expense Growth | 0 | 0 | 0 | 0 | 0 | 0 |
| School Nurses | 0 | 0 | 0 | 1,326 | 0 | 1,326 |
| School Technology | 0 | 31,719 | 31,719 | 0 | 20,000 | 20,000 |
| Teacher Eval. - Probation | 0 | 0 | 0 | 17,831 | 0 | 17,831 |
| Subtotal New Needs | \$0 | \$31,719 | \$31,719 | \$435,220 | \$252,508 | \$687,728 |
| PEG Restorations | | | | | | |
| Parent Volunteer Training Restoration | \$347 | \$0 | \$347 | \$347 | \$0 | \$347 |
| Per Session PEG Restoration | 1,553 | 0 | 1,553 | 1,553 | 0 | 1,553 |
| Professional Dev. PEG Restoration | 1,220 | 0 | 1,220 | 1,220 | 0 | 1,220 |
| Subtotal PEG Restorations | \$3,120 | \$0 | \$3,120 | \$3,120 | \$0 | \$3,120 |
| Other Adjustments | | | | | | |
| IntraCity Payments | \$0 | \$20,278 | \$20,278 | \$0 | \$0 | \$0 |
| Medicaid Revenue Reestimate | 0 | (67,000) | (67,000) | 70,000 | (100,000) | (30,000) |
| Foundation Aid Reestimate | 0 | 0 | 0 | 0 | (36,385) | (36,385) |
| FEMA Adjustment | 0 | 584 | 584 | 0 | 0 | 0 |
| Special Ed. PreK Revenue Reestimate | 0 | (39,800) | (39,800) | 0 | (46,800) | (46,800) |
| Universal Afterschool DOE Admin. | 0 | 0 | 0 | 0 | 16,842 | 16,842 |
| Other Adjustments | 158 | 2,795 | 2,953 | 0 | (517) | (517) |
| HIP HMO Rate Adjustment | (20,803) | 0 | (20,803) | (144,191) | 0 | (144,191) |
| OST Funding | (7,022) | 0 | (7,022) | 0 | 0 | 0 |
| State Aid Adjustment | 0 | (48,074) | (48,074) | 0 | (49,313) | (49,313) |
| Expense Adjustment | 0 | 0 | 0 | (105,422) | 0 | (105,422) |
| Fuel, Heat, Light, & Power | 11,410 | 0 | 11,410 | (3,173) | 0 | (3,173) |
| Race to the Top Adjustment | 0 | (9,063) | (9,063) | 0 | 9,063 | 9,063 |
| Reduce Afterschool DOE Admin | 0 | 0 | 0 | 0 | (16,842) | (16,842) |
| Transportation Rebidding Savings | 0 | 0 | 0 | (62,000) | 0 | (62,000) |
| UPK Funding Adjustment | 0 | 0 | 0 | (340,000) | 300,000 | (40,000) |
| UPK Pension Transfer | 0 | 0 | 0 | 2,202 | 0 | 2,202 |
| Subtotal Other Adjustments | (\$16,257) | (\$140,280) | (\$156,537) | (\$582,584) | \$76,048 | (\$506,536) |
| Total All Changes | (\$13,137) | (\$108,561) | (\$121,698) | (\$144,244) | \$328,556 | \$184,312 |
| DOE FY 2015 Executive Budget | \$9,272,512 | \$10,470,517 | \$19,743,029 | \$9,468,026 | \$11,155,415 | \$20,623,441 |